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Succession Strategy

Managing the All-Important Family Component

Who Says the Family Business Won't Make It to the Next Generation?

KPMG LLP

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"It seems surprising in the age of Oprah and Springer, where people will spill the intimate details of their lives on national television, to find that communication is still a major impediment to harmony and balance for many business families.... Whatever the reason, that 1960s cliché, 'a failure to communicate,' is probably the biggest stumbling block family businesses face."

(Lynch, A., All in the Family Inc., 2001)

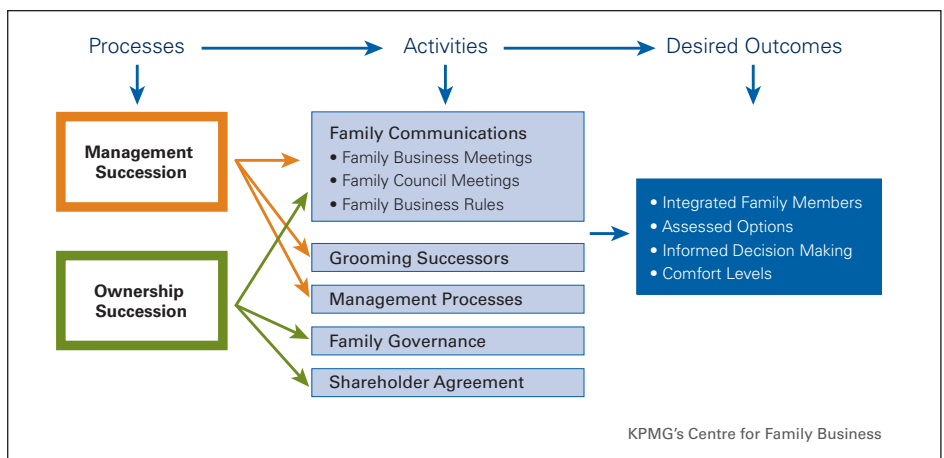
So what is going wrong with family businesses and the succession process?

Surely, the owners of family businesses cannot be held solely responsible for these alarming statistics. Far too much attention continues to be paid to the technical component of succession (tax minimization, estate freezes, family trusts, buy-sell agreements, wealth management, etc.) with far too little attention being paid to the people or non-technical component (family communication, family expectations, family values, family competencies, family dynamics, etc.) of the succession process.

Some family businesses successfully manage their management and ownership succession plans while preserving family and business harmony. There is no reason others cannot achieve similar outcomes. There are well-established approaches to family business succession planning that can help enhance results.

1) Family Business Is Different and That Can Be a Good Thing

Family businesses are different and what makes them different is the family component. History has proven that the influence of the family (active and non-





active family members) on the business is too important not to make it one of, if not the major component of the succession process. The family component brings with it a number of unique management challenges as well as opportunities. The ability of a multigenerational family business to effectively deal with these unique management challenges and opportunities can play a pivotal role in its short and long-term success.

As a result of the ongoing research and the experience gained from family business practitioners, a number of well-established family business succession strategies have emerged to help family businesses effectively manage their family component. Family businesses may need to modify and, in some cases, discard conventional business thinking in favour of customized strategies, in order to incorporate/accommodate their family component. If a family business can effectively manage its family component, it has the opportunity to not only enhance the use of existing best business practices, but also enhance the unique benefits provided by its family component. Those who have successfully done this tend to dominate their markets and continue for many generations.

2) A New Family Business Succession Model: Managing the Family Component

The new family business succession model focuses on the all-important family component during the succession process. It outlines management and ownership succession activities that

involve family members with the goal to help family members make informed decisions about their individual and collective futures in the family business. The succession activities also focus on providing sufficient comfort to the current and future owners of the family business to help the succession process to unfold in a manner that is better suited to the family members.

3) Management Succession: Integrating the Family Component into the Management Succession Process

Management succession and the need to formalize management processes is an essential stage in the transition of a family business. The family component can have a determining impact on the ability of the family business to transition its management and formalize its management processes and, as such, family businesses can look to incorporate this dynamic into the succession process. Opening communication channels and establishing guiding principles to help steer the succession process are examples of several leading practices that can be adopted.

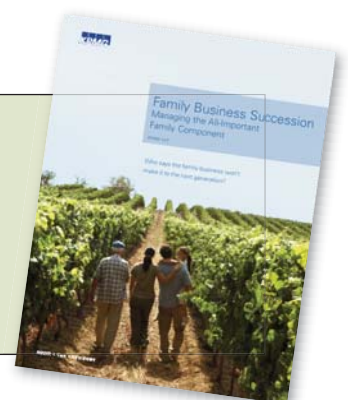
4) Ownership Succession: Integrating the Family Component into the Ownership Succession Process

Similar to the management succession activities, establishing the family's communication activities is the key element for a successful ownership transition. Integrating the family members into the ownership succession process and establishing the family business rules to guide the ownership succession can provide much of the comfort required for a successful succession.

5) Putting it all together

By addressing the family component in each of the key areas outlined in the new family business succession planning model, sufficient comfort can be provided to the parties involved to help the transition to take place in a timely and orderly fashion. The level of detail required to plan an effective transition may at times seem overwhelming. However, if a family business commits to applying several of the family business best practices outlined in KPMG's *Family Business Succession: Managing the All-Important Family Component*, they stand a very good chance to beat the family business succession odds.

Grant Walsh is the Director of KPMG's Centre for Family Business. To receive a complimentary copy of the 65-page Succession Planning Booklet, go to: www.kpmg.ca/enterprise/successionplanning.



About KPMG

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