Survival tips for your family business

Succession in a recession

"Chance favours the prepared mind" is an especially apt motto for family business owners planning to hand the company reins over to their children in the next few years.

With recession clouds hanging over businesses everywhere, pulling your family business succession plan together can seem both urgent and extra complex. Even in a roaring economy, more than 70 per cent of family-owned companies don't survive the transition from founder to second generation.

"Creating or updating a succession plan now can help ensure your company is still standing once the economy picks up," says James Wong, Director of Succession Planning, BMO Harris Private Banking. The goal of an exit plan is to lay the groundwork for a seamless handover that won't negatively affect the value or operations of the business.

"The quicker you react to the downturn, the quicker you clean up your balance sheet and reduce costs, the quicker you could return to profitability. Therefore, your exit strategy can hopefully hold firm. That's a message for everybody, but in particular for owners looking to transition within two to three years."

After the downturn is over, buyers will be searching for lean and recession-tested acquisitions. While there's no magic defence against economic downturns, owners can assert control to keep their businesses strong, James says. As value investor Warren Buffett wrote in the Berkshire Hathaway 2001 Chairman's Letter, "you only find out who is swimming naked when the tide goes out." With nowhere to hide, operational efficiency becomes paramount.

Since last fall, James has been fielding many calls from concerned clients. For some, the joy of ownership has diminished; leaving the business seems like an attractive option.

"Even the best companies did not expect this recession to hit with such severity and speed. Indecision around what to do has cost some of my clients valuable reaction time. We can't afford the luxury of a wait-and-see attitude."

In reality, taxes or family discord, not recessions, are the leading causes of transition failures. (See our sidebar story on how to avoid family conflict.)

> *"When it's time to act, you'll be ready."*

As for taxes, the recession actually delivers good news from an estate planning perspective for owners whose businesses have lost value says Sean Foran, Vice President, Succession Planning at BMO Harris Private Banking.

"An economic downturn is a terrible thing to waste. Business owners should take advantage of the opportunity to re-examine the value of their business and, where that value has decreased, lock in the lower value for capital gains tax purposes using an estate freeze or re-freeze."

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He adds that a good estate plan offers flexibility that can accommodate changes in circumstances. Neither Sean nor James thinks the overall message for family businesses should be gloom and doom.

James says: "We really need to reassure business owners who are planning their exit or succession. A recession just calls for a lot more diligence and patience."

Given that chance really does favour the prepared mind, as scientist Louis Pasteur observed, owners who plan now will benefit.

James concludes, "When it's time to act, you'll be ready."

To begin the conversation about a succession plan of action, ask to speak to one of our BMO Harris Private Banking wealth consultants, or your private banker.

Five Steps to a Happy Handover

Quell Conflict, Boost Communication

A breakdown in trust and communication is often the culprit when a family business doesn't survive the transition to the next generation[1].

"Transition is a very emotional time on every level, so if there are simmering problems, they will come out. The recession may heighten issues of trust," says Ruth Steverlynck, Wealth Services Vice President in the BMO Harris Private Banking Vancouver team. "Effective communication is the antidote to conflict."

A lawyer and mediator with management and ownership experience in her own private, family-owned companies, she now helps families prepare for transition.

"We find the best format is regular family meetings where families can enhance their communication skills and build the strengths they will need to be effective heirs to the business."

Ruth suggests the following steps to foster harmony in the family room and the boardroom.

1. Never assume

Families tend to communicate based on old assumptions that may no longer be valid. Abandon burdens from the past. Allow individuals to communicate their thoughts as if for the first time.

2. Understand the other perspective

Hearing only what you want to hear is limiting. Showing appreciation for another viewpoint opens the way for appreciation of your viewpoint.

3. Adopt a neutral stance

Remove emotional or value-laden words from discussions on family business, which can seem like battles. Ruth says, "We call this "trench wordfare."

4. Drop the blame game

Focusing on blame hinders problem-solving. To resolve key issues, start with ones that are less central and controversial. This creates confidence and momentum.

5. Problem-solve together

Start by offering options that address each side's most important concerns. Ask for input. Go back and forth to reach a stronger base from which you can resolve more complex differences.

Conclusion

Conflict offers opportunities to be creative and strengthen relationships. Shared problem-solving can produce transformative change for your company and your family.

*To receive a copy of Ruth's article **Five Steps to Better Communication in Family-Owned Businesses**, which outlines the process for improving family communication, please email Lorelei Canderan at Lorelei.Canderan@bmo.com and include "five steps" in the subject line.*

[1] *Preparing Heirs: Five Steps to a Successful Transition of Family Wealth and Values, Roy Williams and Vic Preisser, 2003*

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