

## **Does it have to be *shirtsleeves to shirtsleeves*?**

The world over, in virtually every culture, there are maxims just like “from rags to riches to rags”, “wealth doesn’t pass three generations”, or “from the barnstalls to the stars back to barnstalls!” As a member of a business-owning family, you are likely all too aware of the statistics around the survival rates of businesses attempting to thrive through to the next generation. While some 80% of all businesses in Canada are privately owned, less than 1/3 make it through the second generation, and only 1 in 10 make it through the third.

While you contemplate the future of privately owned enterprises in Canada, just like your own, you may ask yourself, “Why do some family business owners fail to plan effectively for business succession?” Read through this list. Perhaps you’ll recognize some of these 6 reasons for what many are calling a succession planning crisis:

1. **Difficulty delegating.** Business owners tend to have strong personalities that make it difficult for them to relinquish control or delegate key responsibilities. The business owner may be performing several key functions that should be delegated. The owner is just too busy, and succession planning is relegated to the back burner. An effective succession plan will allow others to slowly assume responsibility for key functions and to become future leaders. Delegating important functions may be threatening to the business owner, making it difficult for him or her to hire and mentor successors.
2. **Fear of change.** Any change in the owner's leadership role may represent a reduction in the owner's perceived significance to the community, the organization, customers and suppliers. Change is resisted because the owner cannot accept doing anything differently.
3. **The 'Superman' problem.** Business owners often perceive themselves as invincible and view discussions regarding succession planning as premature.
4. **Concerns about ability to maintain lifestyle.** Business owners often reinvest their profits in their business. Therefore, much of their net worth and income is directly tied to the business, making the business owner dependent on the business to maintain lifestyle.
5. **Fear of conflict over choice of successor.** Owners are reluctant to make difficult decisions regarding the selection of capable future leaders. Selecting key family members -- or an outsider -- may create so much intrafamily conflict that the owner avoids the decision altogether. Delaying these decisions may have the unintended effect of causing one or more family members to leave the business. The family member who leaves the business may actually be the most qualified person to run it.
6. **Concerns about treating children fairly.** The concept of dividing one's assets equally among children often conflicts with the idea of distributing assets equitably. Dividing an owner's interest equally among children may seem like the right thing to do (and what children

may be expecting). However, if such a division does not provide for a structure that will allow the business to prosper, the business may fail, and the company as well as the family's future livelihood may be put at risk. Reluctance of the owner to address the prospective inheritance issues (and possible differences) of children working in the business vs. children outside the business is a significant impediment to succession planning. (Source: "Family Owned Businesses -- Succession Planning Crisis," by David C. Krock in "Succeeding Generations," the newsletter of the University of Toledo Center for Family Business, Summer 2006.)

Each of these presents some very real challenges to many of you and can result in such things as broken communication, sibling rivalry, unmanaged conflict and so much more. Be aware of your key issues and ask yourself if the status quo is acceptable. What are you trying to achieve? How are you doing? Is there a gap? What is that gap costing you, your business and your family?

There is help for business families who want to create choices and have control over their future and that of their business! There is a constantly growing body of knowledge, increased skills and higher levels of experience in advising business families. Members of CAFE's own Registry of Family Business Advisors have been selected for their holistic approach to advising on succession issues. Such professionals can help you to create an integrated succession plan that will greatly increase the likelihood your family and your enterprise not only survives, but thrives through the next generation.



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