

THE THREE FEARS: ROADBLOCKS TO A SMOOTH INTERGENERATIONAL BUSINESS TRANSITION

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Fear often prevents us from taking action. We see the paralyzing effect of fear in business all the time, particularly when it comes to [business succession \(https://www.bdo.ca/Services/Assurance-and-Accounting/Business-Transition-Services/Overview\)](https://www.bdo.ca/Services/Assurance-and-Accounting/Business-Transition-Services/Overview). On November 1, 2017, we hosted our annual BDO NextGen Leaders Forum identifying the three major fears that become roadblocks to a smooth intergenerational transition.

Fear of loss of identity (or control)

It is easy to understand why the founding generation hesitates to start planning the transition of the business. Many are not ready to retire and give up their dreams for the future. While a part of them recognizes that time is running out, their instinct is to keep going, as there is so much they still want to accomplish. This business is their life's purpose and their identity is tightly woven through every aspect of the operation. It's not easy for any of us to give up our identity and become someone else.

As a result, control often passes suddenly to the second generation because of a death or disability. By this time, the successor generation might be nearing the traditional retirement age themselves. They may lack confidence in their own identity and ability to lead. Alternatively, they may be so determined and excited to finally make their mark that they too refuse to pass the baton in a timely manner.

Fear of loss of wealth

It is very common for the senior generation to harbour doubt about passing the torch to a next-generation family member who doesn't have the benefit of 30 or 40 years of wisdom and experience.

To the seasoned business owner, it's like handing the wheel of a car to someone who just received their driver's licence. They don't yet have enough experience to deal with adverse road conditions like economic turmoil, changes in regulations, or global competition.

That junior driver has lots of ideas of their own for growing the business and bringing it into the next (or current) century. When they share those ideas, or push for significant changes to infrastructure or investment in technology, fear rises in the senior generation that all their hard-earned wealth, their [retirement lifestyle \(https://www.bdo.ca/en-ca/insights/consulting/wealth-advisory/from-plan-to-retirement-how-business-owners-manage-their-wealth-lives-and-legacies/\)](https://www.bdo.ca/en-ca/insights/consulting/wealth-advisory/from-plan-to-retirement-how-business-owners-manage-their-wealth-lives-and-legacies/) and the jobs they have created for the community might be lost.

Fear of conflict

The third major fear is the recognition that passing the torch to the next generation might result in family conflict. Whether it's two parties with differing ideas regarding innovation, business direction and change, or a family member who doesn't meet performance expectations, the resulting discord can negatively impact family relationships.

In some situations, the business may not be big enough to have all next-generation family members involved. It is also likely that some won't have the skills and competencies required or the ability to take a leadership role. Parents are often reluctant to treat their children differently and that mentality spills over into the business. They fear having to choose one child over another. Additionally, some business owners have had a bad experience working with family in the past and are afraid to repeat history.

Any of these perspectives can lead to a situation where one parent supports the idea of handing the reins to the next generation while the other prefers to sell to a third party. The risk of family conflict is too great.

How the three fears become roadblocks

The majority of business owners have never before exited a business and are therefore unfamiliar with a formal business transition planning process. Whatever their fear, they are stuck in "the inertia stage." If they have no purpose in life beyond the business, or don't have confidence in the next generation's abilities to make sound business decisions, they are reluctant to relinquish either de facto or legal control. So instead, they do nothing.

And when there is no plan to relinquish either de facto or legal control, there is little emphasis put on preparing the next generation for leadership. Add to that the fear or inability to prevent or address existing or potential conflict and the result is a business without a focused transition plan and a frustrated successor generation.

Be aware of your fears

While the assumption is that people generally do want to resolve unhealthy situations, in reality we often ignore a conflict because there is a greater underlying fear. It may be a fear of rejection or criticism from a family member, or a more tangible fear like a loss of wealth or equity, that is controlling our actions and reactions. It is the perception that something greater than the conflict itself threatens our well-being.

Identifying these fears can be helpful in determining a course of action to address not only the presenting problem but also the underlying issue that is preventing us from moving forward. Just like with a medical condition, treating the symptom is a short-term fix. The preferred solution is to identify and address the root of the problem.

To successfully implement an intergenerational [transition of the family business \(https://www.bdo.ca/Services/Assurance-and-Accounting/Business-Transition-Services/Overview\)](https://www.bdo.ca/Services/Assurance-and-Accounting/Business-Transition-Services/Overview), it is important that both generations fully understand the steps in the process, and use that process to garner enough confidence in their own ability, and that of a trusted advisor, to address the typical roadblocks and initiate the critical action steps to moving through their fears.

For more information on how BDO can help with business transition planning, please [contact us \(https://www.bdo.ca/en-ca/contact/\)](https://www.bdo.ca/en-ca/contact/):

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