

# Family Business Succession Planning: Bridging the Knowledge Gap and Empowering the Next Generation

**Author :** Rhonda Johnson

You have worked hard to build your business. Through years of sacrifice and sometimes learning the hard way, you have amassed considerable wealth. Along the way, you have made sure that your kids have had every opportunity possible, but now it is time to hand over the reins and let them continue what you started. Maybe they aren't quite ready to "snatch the pebble from your hand." This is a very good reason to start thinking about family business succession planning early. If you need some additional incentives, take a look at [Four Incentives to Start your Family Business Succession Planning](#).

## **Sometimes Mother (and Father) do Know Best, at Least When it Comes to the Family Business**

We often meet with business owners who are getting ready to hand over control of the family business to their adult children and pass along considerable wealth. Frequently, and understandably, they have reservations about the kids inheriting a large sum and significant responsibility all at once. Their fears range from worry that unscrupulous people will take advantage of them to wanting to protect the business so that it continues to produce revenue for future generations (e.g. the grand kids).

## **Trusts and Family Business Transitions**

One way to bridge this gap and give the parent some comfort while also supporting the next generation is to use a trust mechanism. In Alberta, you can set up a trust to hold the shares in the business, and the parent(s) would work with the children to gradually pass along not only wealth but also financial literacy and acumen. The intention is to provide additional support to empower the next generation to continue along a successful business path.

In our experience, using this kind of trust vehicle has been an effective method for one generation to pass along wealth in a positive way but with controls in place to provide safeguards until the adult children are comfortable (and fully ready) to take on full responsibility for the family wealth and business operations. We understand that you don't want to "control from the grave," but at the same time you want to make sure the next generation can take the wealth you've built and do something constructive with it, and they may not be knowledgeable enough (yet) to do that.

Our [Estate Solutions](#) group frequently works with business owners to provide these "walk before you run" trust structures. What we do is help the parent/business owner to set up a family meeting where we explain to the children why the parents want to use a trust as a transition vehicle. This

may include outlining the potential pitfalls and a process for learning how to navigate them properly.

Next, we explain how the trust is designed to work and answer any questions. We also help the family members discuss and mediate difficult issues. By providing a supportive structure to brainstorm creative solutions for sticking points and being available to answer questions as they arise we have found this helps everyone see the benefits of the process. We also provide what is called a Memorandum to Trustees that sets out how the trust works and outlines some of the parents' philosophy of wealth stewardship. This document gives the adult children a reference they can return to if future questions arise. Further, our role does not fall away as soon as the ink is dry on the trust. We remain available to provide support.

Transitioning wealth using a trust is a powerful tool that lets you set up a structure to deal with what can be difficult issues. When coupled with the family meeting concept it allows for transparency and can help the adult children realize that they aren't being "told what to do" as much as being given an opportunity to learn the ropes with a safety net in place. In other words, the intent is to be helpful, not controlling and to create a situation that builds trust and responsibility that allows the next generation to succeed while the old guard steps back. We have found this method very satisfying for our "parent" clients because it has the benefit of safeguarding the family wealth and the children's well being.

Another benefit of this method of transitioning wealth in this way is that it does not dictate to the next generation what their future plans must be. Instead, it allows flexibility for a change in focus, if that is what the children want. For example, a family fortune built in the tire business could well morph into a property development company or franchise. The advantage of using this trust vehicle is that the next generation will have learned business basics and management skills that can be applied to whatever venture they choose.

If you think a succession plan involving a trust may be useful in your situation, we invite you to come and talk to our [Estate Solutions](#) group. We are happy to answer your questions and explain how the structure might work to your benefit.

[Rhonda Johnson](#)