

## How Ready Are You to Transition Your Family Business? A Succession Checklist



By **Deborah Stern**, CA, Partner Audit and Advisory, Family Business Services (SuRE)

### What is succession planning?

Many people think succession planning is estate planning (i.e. transfer of ownership). Instead, it is a formal statement of what will happen to the management of the business when the owner/manager is no longer running it. Consider it to be a “will” for the business. Succession planning in a family-owned business is often challenging, because of existing family dynamics which can make it more emotional.

### Most family businesses are not ready

The statistics are sobering. Of most family businesses:

- 70% do not survive transition to second generation;
- 90% do not survive to third generation; and
- 95% don’t have a succession plan.

All too often, business owners are caught up in the day-to-day pressures of running their businesses and put off planning for the future of their businesses. However, succession planning is a process - *not an event* - which can take one to two years to complete.

In fact, three to five years may be needed for the actual transition in order to build the successors’ skills, and gain stakeholders’ confidence, for instance your business’s bank, customers and employees.

The most important thing is to start early and don’t wait until you are ready to retire, since your planning should be in place in case there is an unexpected death or disability.

Below, we have created a “succession checklist” so that you can better understand the steps in the process.

## Succession checklist

- Decide whether the business should continue as family-owned entity. A business won't succeed if the leader doesn't have passion for the company. Ask your children if they want to work in the business. Ensure the next generation is committed to the business and not staying for the wrong reasons. Don't be afraid to consider outside sale.
- Determine whether your family competently cope with the various issues and decisions which will have to be made (i.e. aging, death, inheritance, competencies of the next generation)?

You must be very honest in assessing whether your children are capable of running the business. Do they have the competencies that are required to ensure the success of the business?

- The business leader must agree to manage the process and the transition of leadership to the next generation. The leader has to decide on a date of when he/she will step down. The leader should progressively reduce his/her involvement, and be able to 'let go'. The leader needs outside interests, but may continue on as a 'goodwill ambassador' for the company.
- Establish a series of family meetings (i.e. a family council) which all family members, including spouses, will participate. Ensure they all reach consensus of key issues (i.e. who successor will be and timing of the transition). Is the family willing and able to talk openly and honestly?
- Agree on who the successor will be and other key management positions and develop a plan to ensure they are properly trained:
  - Identify skills required for each key position;
  - Evaluate potential candidates objectively (i.e. with the Birkman test of key attributes); and
  - Prepare an organization chart – present, during transition and after transition.
- Successors must earn respect amongst family members, employees, customers, bankers, etc. Ensure successors are introduced on a timely basis to reduce any uncertainty about the future of the business. Bankers often state that the number one risk in a family-owned business is whether there is a succession plan and whether the successors are capable of running the business.
- Communicate. It is important for the next generation to understand the decisions made, for instance, why non-active family members may not be owners in family company. In order to minimize sibling rivalry, you want to ensure all children feel they are treated fairly, since you cannot always treat all children equally.
- Ensure that all family members understand the distinction between ownership and management with respect to their rights and obligations.
- Determine who will be allowed to own shares, and have voting control. For instance, should children who are not active in the business be allowed to own shares?
- Assess whether your priority in your family business is family or business first? (The following table may help you clarify your answer.)

## Priorities chart

Family First	Business First
<ul style="list-style-type: none"> <li>Do whatever avoids conflict with the family.</li> </ul>	<ul style="list-style-type: none"> <li>Do what works for the business and manage the consequences.</li> </ul>
<ul style="list-style-type: none"> <li>Pay family members equally and higher than market</li> </ul>	<ul style="list-style-type: none"> <li>Pay according to performance and responsibility</li> </ul>
<ul style="list-style-type: none"> <li>Avoid family reporting relationships through informality.</li> </ul>	<ul style="list-style-type: none"> <li>Family members report to other family members, where necessary</li> </ul>
<ul style="list-style-type: none"> <li>Decision making done by family.</li> </ul>	<ul style="list-style-type: none"> <li>Decision making shared with non-family. Non-family hired where family doesn't have competencies</li> </ul>
<ul style="list-style-type: none"> <li>Accountability of family to itself.</li> </ul>	<ul style="list-style-type: none"> <li>Family reports to an outside Board of Directors/Advisory Board.</li> </ul>
<ul style="list-style-type: none"> <li>Give family members the right to employment.</li> </ul>	<ul style="list-style-type: none"> <li>Hire on the basis of skills and expertise.</li> </ul>
<ul style="list-style-type: none"> <li>Base promotions and titles on family members.</li> </ul>	<ul style="list-style-type: none"> <li>Base promotions and titles on competency.</li> </ul>
<ul style="list-style-type: none"> <li>Value family employment above outside experience.</li> </ul>	<ul style="list-style-type: none"> <li>Value talent and experience to grow the business</li> </ul>

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## About the Author

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Debby is a partner in Crowe Soberman's Audit & Advisory Group. She provides auditing, business advisory services, cash flows, personal and corporate tax planning and tax compliance to a wide variety of clients. Her specialties also include succession and estate planning. Debby has developed a succession planning process to assist families in the transition of their business to the next generation, becoming the trusted advisor of many prominent Canadian business families.

Debby has been interviewed on *TV Ontario*, *CBC News*, *Rogers Cable*, and has appeared in countless business magazines and newspapers including the *National Post*, where she was quoted in a three-part series on succession planning. She has written several articles for the *Globe and Mail's* “Report on Business” and other business magazines on succession planning and various related topics.

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