

Navigating the Murky Waters of Business Succession by Andrew Pigott



With high profile stories of successions gone awry, feuding families duking it out in court, and legions of adviser's saying what to do, is it any wonder why a business owner's eyes glaze over when hearing a pitch about succession planning? They must feel like I did about diving into the lake after watching Jaws for the first time:

Adviser: 'Mr. & Mrs. Smith, would you care to consider succession planning?'

Mr. & Mrs. Smith: 'Actually...no. We'll stay right where we are and work on our tans...'

Admittedly the topic of succession can intimidate. So let's wade in slowly, shall we? To start, how does one define succession planning? Google provided me with a few pat answers:

- *A process for identifying and developing [internal people](#) with the potential to fill key business leadership positions in the [company](#).*
- *The process of preparing to hand over control of the business to others in a way that is the least disruptive to the business's operations and value.*
- *A process that aims to ensure that when you retire or die...your heirs won't be saddled with a huge tax bill for carrying out your plans.*
- *A document that provides for the continued operation of a business in the event that the owner...leaves the company, is terminated, becomes incapacitated, retires, or dies.*
- *Transferring the leadership of the family business from one generation to the next to ensure the ownership of the business remains within the family.*

Apparently, the definition of succession planning depends on who you ask. So let's dive a little deeper to see who is swimming around and why...

Human resource professionals talk of succession in terms of grooming future leaders. Bankers concern themselves with how to fund the next generation's purchase and maintain adequate security on their loans. The company's auditor will advocate tax efficient corporate structures while the founder's lawyer will seek to protect the interests of the retiring generation. Meanwhile estate planners will focus on creating investment plans that maximize returns without undue risk. For a business owner, sorting out and prioritizing these different agendas can be a challenge.

Speaking of business owners, how do they define succession? They might think of it as retiring in comfort while leaving the business to the kids so that they have careers and financial security. That seems fair and equitable, but are all the kids on the same page? They may have their own agendas when it comes to leadership, control and their role in the business. And do they have what it takes to run the business successfully? Further, how will they pay for the business if the retiring generation needs capital for retirement? These are pretty weighty questions.

Business owners can also be daunted by the laundry list of things they are told to do to be succession ready: advisory boards, family councils, valuations, freezes, tax planning, insurance strategies, not to mention mentoring the new leader. Hardly surprising then that business owners rank succession planning right up there with malaria, hemorrhoids and root canal in the list of things they prefer to avoid.

Advisers in this field are often heard to say 'succession is a process, not an event'. Which begs the question: 'What is the process?' As outlined above, the answer to this question depends on who you ask. Call it the 'Profession of Origin Bias', or POOB. I believe that POOB is one of the main reasons that succession advisers are sometimes prone to offer a solution before fully grasping the opportunity or challenge facing the client. Hence we offer a solution based on what we know and understand, hence the existence of POOB.

My POOB arises from the years I spent as an intermediary where I advised business owners on the purchase and sale of companies and related succession issues. So, lots of spread sheets, and DCF's and IRR's and all that. Call it true confessions of a reforming deal jockey. Well, along the way I came to realize two things. First, when it comes to families and business, it isn't just about the money. Second, you need to deal with the interpersonal or 'soft' issues first in order to make good choices about money, ownership and how business and family will co-exist in the future.

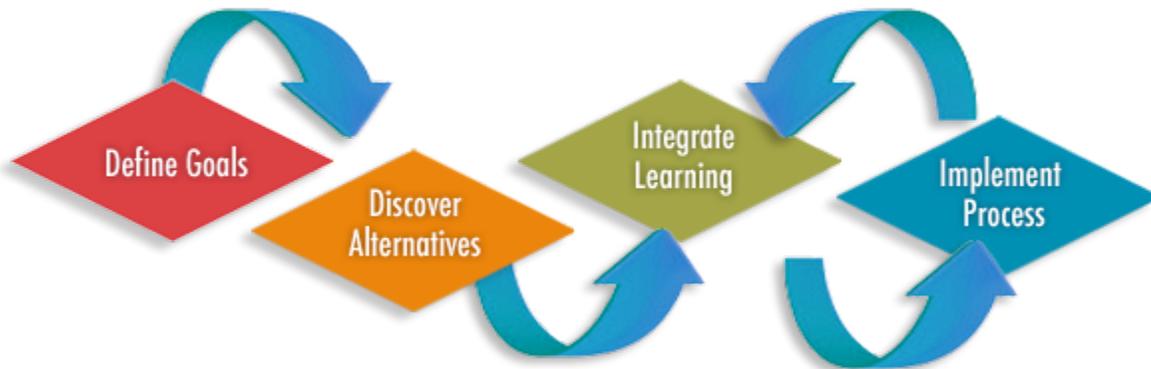
So there you have it, POOB and all.

Biases aside the importance of succession planning is hard to ignore. Small business (defined by Stats Canada as one with fewer than 100 employees) number 1 million in Canada and account for 30% of GDP and 48% of employees. Industry Canada reports that just 51% of small and medium size businesses (under 250 employees) survive 5 years or longer. Being lousy at succession destroys wealth, cost jobs, and is a burden to the economy.

But succession doesn't have to be complex, acrimonious or prohibitively expensive. For many small businesses a simple, intuitive approach to succession, transition or exit – whatever you care to call it - can be entirely sufficient to create the needed frameworks and understanding to get a handle on business continuity. It simply requires the business owner initiate the dialogues needed

to develop a sense for what succession options exist and put in place a process and a plan that makes sense for their situation.

Think of succession in terms of four interrelated steps:



When it comes to succession, there is no standard playbook. Each process will be unique and unfold according to the nature and culture of the business and its owners. As a business owner this means taking the time to do a proper inventory of what needs to be done so that you will have the information and context needed to choose a path and process that makes the most sense. This also means being sure that your trusted adviser(s) bring a balanced approach that puts aside their POOB in helping to decide on the best way forward.

Hopefully, when done this way, wading into the succession waters won't be all that scary, no matter what kind of fish story you may have been watching on late night TV.

Andrew Pigott is the Founder of The Succession Bridge (www.TheSuccessionBridge.com) where he assists business families as they navigate the ownership succession process. He is a director and member of CAFÉ Central Ontario and is a CAFÉ trained family council facilitator.