

Succession Planning

June 2006, by Charles Davies (VISA)

Perhaps no issue is more sensitive for small businesses than the matter of succession planning. Aside from the accounting, financial and legal complexities that are involved, succession planning is a wrenching psychological exercise. It's often all about family dynamics, relationships between owner-operators and employees, the deeply ingrained work habits of a lifetime and a growing sense of one's own mortality. "People become so emotionally attached to their businesses that they just don't want to let go," says Michel Bergeron, director of strategic and business solutions at the Business Development Bank of Canada. "If they start the succession planning process, it means implicitly that they're starting to let go. Most business owners see this as the beginning of the end for them."

This may help explain why so few small businesses do a good job of succession planning. A 2005 study by the Canadian Federation of Independent Business found that while 41% of small and medium-sized business operators say they plan to leave their companies within five years, only about a third have done any succession planning. And of those who have, most don't bother to write them down. The majority of owner-operators prefer to concentrate on today's problems, reasoning that they'll worry about tomorrow when it comes.

But given the high stakes, the tendency of small business owners to defer planning their exit strategies is worrisome, says CFIB research director, Doug Bruce. The very survival of a business is at risk, with implications for employees, the economy as a whole and for the owners and their families in particular, he says. "A lot of the time the business represents a good chunk of the retirement savings of the business owner so there's a vested interest in ensuring that the business continues successfully. We've also found that when there is a succession plan in place, the business has in fact grown quite successfully."

While there's no one-size-fits-all template for succession planning, there are some basics that both Bruce and Bergeron think you should consider if you own a small business. In logical order, they go like this:

Plan early and often

Ideally, you should begin succession planning three to five years before the event. In theory, a team of outside planning consultants could help you put together a plan in a matter of months, but it's better to allocate a few years because of the challenges a business faces when making such a major transition. For example, you may need to set up a family trust or create a holding company, actions which can literally take years to do properly. If yours is a family-owned firm, you'll likely need time to bring your children into the business and, assuming they're interested and capable, expose them to different aspects of the operation and train them to take over. "Management transfer takes time," says Bergeron. "You have a person who has been in place for 30 years with all that accumulated knowledge and you bring in a new individual who's fresh. While the newcomer may have some experience, they're not going to catch up to 30 years of experience in six months. Nobody is able to do that."

Bergeron argues, in fact, that succession planning should be incorporated in the normal business planning process, in part because it anticipates what might happen if you were to die accidentally or were incapacitated for a long period and unable to work. "It should just be part of proper human resources management," he says. "It's contingency planning that you should have in place so that you can deal not only with short term things, but face issues such as how you will transfer knowledge and how you can protect your assets, especially in an age when a lot of your competitive advantage is your human capital."

Figure A:
Existence of a Succession Plan
(% respondents)

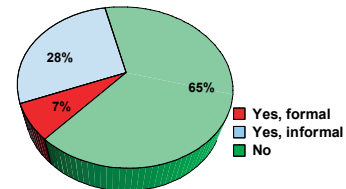
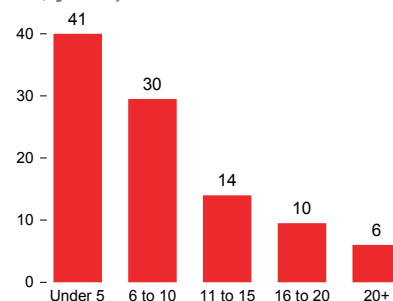


Figure B:
When SME (small and medium-sized enterprise) Owners Plan to Exit Business
(% response, years)



Highlights:

- Only one third of businesses have a succession plan – the majority of these plans are informal.
- 41 per cent of SMEs want to exit their business within the next 5 years
- SMEs with succession plans are not adequately addressing “soft” issues and are providing little time for the training of successors.
- Recent successors cite significant benefits from the succession plan of previous owners.
- SME owners also cite significant benefits to succession planning—well in advance of their succession.

Canadian Federation of Independent Business