Putting the "success" in succession: Addressing the silent barriers

Case Study

By Francine Carlin

The CMA seated across from me looked concerned. We were both listening to his client, the owner of a successful mid-sized wholesale business, express anxiety about the future of his company. The client — let's call him Charles — had started the firm out of his garage 40 years ago. Now in his early 60s, Charles was starting to think about retirement, but was uneasy about his succession.

"My two kids have worked in the company for years, but I'm not sure they have what it takes to run the place," Charles worried. "They think they do, and so does my wife, but I have my doubts. Besides, even if they're right, how would we ever figure out who would take the lead? They each have different strengths, and they can't both be the boss."

I disagreed with that conclusion — I've seen plenty of siblings take on co-leadership roles after their parent retires from the family firm — but I held back any comment as Charles continued. "It would be so much easier to sell the company to an outsider who I know will carry on operations like I have," he said. "In fact, I have someone in mind, and we're meeting next week — in your office, if possible." He directed this at his accountant with a meaningful look. "I don't want anyone at the firm, including my kids, to know I'm thinking about exiting the business before I have this deal nailed down. You know how quickly rumours can fly."

The CMA, Ben, and I exchanged knowing glances. We both belonged to a network of professionals involved in family business succession, and we encountered scenarios like this before.

For most entrepreneurs like Charles, deciding to let go of one's business and move on is a complex decision and a significant life event filled with emotionally charged issues. Uncertainty about the right time to act, poor communication between the retiring owner and his or her family, entitlement expectations of offspring, uneasy long-time employees and customers, personal conflicts about life after a handover — these are just some of the issues that can become silent barriers — undercurrents of conflicting attitudes and behaviours — to a smooth family business transition to an internal or external party.

Ben had called me into the meeting because his experience told him Charles and his prospective buyer were headed down a rocky path if Charles didn't sort through his successor options and the issues involving his adult children before going much further.

Identifying and addressing silent barriers is a best practice on both sides of a sales deal — for the seller, a vital part of succession and transition planning, and for the buyer, an essential component of the risk assessment and due diligence process. Unfortunately, it is seldom a formal step in the succession process because many people think personal matters shouldn't mix with business. The cost of ignoring silent barriers, however, can be high. Sorting through charged issues on an ad-hoc, reactive basis can unnecessarily prolong the succession process. Worse, silent barriers can capsize a transition altogether and threaten the longevity of the company as customers get the jitters, employee morale suffers, future internal leadership walks out the door, or prospective outside buyers run out of patience.

CMAs have a good reason to be familiar with how silent barriers can cripple an otherwise technically sound business transfer. The largest business transfer in Canadian history lies ahead — and accountants will be on the front lines. According to a survey by the Canadian Federation of Independent Business, over 90 per cent of exiting business owners look to accountants as their primary advisors in the succession process.

Although each organization's unique needs influence program specifics, here's a proven approach for exposing and addressing silent barriers in the family business succession process:

1. The owner should consider the impact of family and non-family succession options on family members, customers, employees, and one's personal retirement plans, using a questionnaire like the one presented in the sidebar.
2. To begin a careful discussion about the sensitive emotional issues underlying the succession process, family members need to organize a meeting. An experienced family business facilitator can assist in this step by organizing a safe group setting where people feel open to explore their thoughts and feelings. Acknowledging the legitimacy of family members' feelings is critical groundwork for financial and legal advisors to work out the details of the ultimate succession solution chosen in the next step.
3. An experienced team should be assembled to evaluate succession options with respect to the family and the business, and to arrange the financial and legal details for the chosen option.
4. The owner should regularly check in with each family member to ensure the family business ownership/management transition stays on course. Questions to ask: Are you still pleased with the succession decision(s)? Is there anything that would make you more comfortable with the process? It is important that family members be clear and candid about their needs, and that the group find positive ways to mitigate concerns in the details of the transfer.

Charles nodded as Ben and I pointed out the possible pitfalls of ignoring his children in his succession deliberations. "Whether or not they become my ultimate successors," he finally said, "they are valuable to the business and I don't want to take their livelihoods away. I admit I'm anxious about having a family meeting, but I'm convinced it's important. I was trying to avoid the emotional issues involving my family, but the issues are there and we have to deal with them to make sure the succession process goes smoothly."

By encouraging clients like Charles to identify and address emotional issues before they undertake a business transfer, Ben was going beyond the financial and technical role to serve as a strategic advisor, forging what would most likely be a win-win-win scenario for Charles, his family, and his business. ■

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Identifying silent barriers to the succession process

By considering the following questions, an exiting family business owner will be better able to identify potential silent barriers to a smooth succession process, and will be better prepared to make informed decisions among various succession options:

1. Are any of your family members employed or do they expect to be employed in the business? If so, what are your intentions for including them in your exit plans?
2. Do you believe your adult children are interested in and capable of building upon your hard work and carrying the business to the next level?
3. What is the role of your spouse/partner regarding decision making in the business?
4. If you are considering a non-family member as your successor, what will be the impact on your family?
5. Have you considered how long-term employees, customers, and other stakeholders will react to your exit plans? What are your intentions for communicating with them?
6. Have any of your family members or friends invested in the business? If so, have you made any commitments to these investors regarding profits from a future sale of the business?
7. Is your estate planning and business planning in alignment with your succession plans?
8. Do your estate plans allow for the different needs of each of your heirs?
9. Are there any legacies or business values that need to be retained as a condition of the succession process?
10. Have you considered what you will you do with your time once you exit the business?