



CFIB Survey Results Raise Concerns Due to Lack of Succession Planning

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CFIB Survey Results Raise Concerns Due to Lack of Succession Planning

If it seems to you that every time you read about family-owned businesses there's a report of survey results, you're not alone. And, if it seems to you that most of the survey results are raising concerns about the fact that a large number of Canadian family-owned businesses don't seem to be doing much succession planning – you're right about that too.

Results from a Canadian Federation of Independent Business (CFIB) survey were released last June and, unfortunately, the results are not particularly surprising: according to the CFIB, four out of 10 small and medium-size (SME) Canadian business owners plan to exit their business within the next five years, and within 10 years that number jumps to seven in 10 owners.

A Three-Pronged Study

The CFIB's study was quite large (over 4,300 CFIB Members responded) and fairly extensive. It focused on several key issues, including:

- ◆ When owners expect to exit their business;
- ◆ How owners are preparing for succession; and
- ◆ The barriers owners face in implementing succession plans.

Preparing for Succession

The CFIB's survey shows that only about 35% of owners of SMEs are currently planning for their succession. You might think that just over one-third isn't too bad. But of that amount, the majority report that their "plans" are informal and unwritten – and in about a quarter of the cases the plan has not been shared with the intended successor. Rather troubling when you put it in that context.

The reasons cited for not having a formal succession plan are pretty standard. By

far the most common reason for not engaging in succession planning is the belief that there's still time (60% reported it's "too early to plan"). More than one in four report that they're too busy running the business to devote time to succession planning, while others simply expressed reluctance to choose an heir. Another reason given for why fewer family businesses may have a formal succession plan is because owners may assume they are "on the same page" as their successor, implying that planning is not needed.

Interestingly, about 37% of SME owners exiting the business report that they plan on selling outright to a non-family member, while 26% plan to transfer or sell their business to a family member. And there is a clear indication (60%) that a significant number of owners intend to participate in the business even after transition. The main reason

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for this is to allow for a graduated reduction in dependence on the current owner. The second most common reason cited for continued involvement is personal attachment to the business (44% indicated this).

The Plans that are in Place

The CFIB survey shows that business owners who have begun succession planning typically have dealt with technical issues, such as the legal transfer of ownership, the tax implications of transferring the business, financing the transfer, and the division of profits. Typically very little planning is reported regarding so-called “soft issues” – things like identifying long-term personal and family goals and the vision for the business, the anticipated role of various stakeholders after succession, and the processes for selecting and training a successor.

Barriers to Succession

The most commonly identified barrier to succession planning (chosen by 46% of current owners) is financing for the successor. The next most significant barrier – a close second according to current owners – is finding a suitable buyer or suitable leader.

Another significant barrier identified is access to cost-effective professional advice (12% of current owners cited this), while 32% of current owners specifically singled out valuing the business as a barrier to succession.

It’s worth noting that, according to the survey, most barriers identified by professional advisors relate to far more squishy things (officially referred to as “soft issues”), such as the owner avoiding dealing with the issue because he or she is personally attached to the business and conflict among family members.

Not all negative

Though much of the CFIB’s survey results are worrisome, there were some

positive signs. One of the most interesting statistics is that the majority of the small business owners noted that post-succession their businesses are performing very well. Over half the successors reported that they had increased the total employment of the business since the transition, while only 11% reported decreased employment. As well, the majority have experienced increased profits (68%) and increased market share (60%) and are offering a greater number of goods and services to customers (67%).

Impact on Canada

Aside from the very personal impact each and every succession plan (or lack of) has on the individual businesses in question, survey results like the CFIB’s are often used to project the potential impact on society as a whole. In this case, Catherine Swift, President and CEO of the CFIB has been quoted as saying that as many as two million Canadian jobs could be impacted if 40% of the small and medium-size business owners retire by 2010. As a result, the CFIB is urging all “stakeholders” (we take it we’re included in that category) to mitigate the risk of massive job loss by ensuring that the urgency of planning is made clear to business owners and to help facilitate the succession planning process.

Benefits of Succession Planning

Perhaps the most interesting set of questions asked in the survey related to the benefits of succession planning. More than four out of five owners surveyed (82%) who have a succession plan indicated that having a plan assisted in providing for their family’s future. Other benefits resulting from succession planning cited include minimizing tax, improving the financial stability of the business, and maintaining family harmony.

Significant benefits of succession planning were also reported by owners who recently acquired their businesses

through succession. The survey summary reports that “the most striking benefit” reported by recent successors as a result of succession planning was the preparation it gave them to become business owners. Improved financial standing, an increase in the value of the successor’s investment, harmony fostered between employees, and family harmony, were other important benefits reported by recent successors.

The Time is Now

As the survey results show, if you haven’t started thinking about succession planning, you’re not alone. But hopefully that’s not the only message you’ve picked up on. The survey also highlights the very real benefits of succession planning – in terms of your family’s financial future and in terms of ensuring family harmony. In reporting on the survey results, the CFIB has emphasized its view – which we agree with wholeheartedly – that business owners should start to plan early for succession because succession planning takes much longer to implement than other types of business plans.

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Recognizing Financial Warning Signs

Most businesses face financial problems from time-to-time. Whether a family-owned business survives its financial problems will depend, in large part, on how well the family members recognize financial risk warning signs and how quickly they react to them.

The response to financial difficulties

A number of factors come into play when it comes to the responses business owners have when facing financial difficulties. Things like the owner's personality, the relationships among family members, and the particular nature or quantum of the financial difficulties, will no doubt all have an impact. For example, at the first sign of financial trouble some owners may be inclined to shut down the business, fearful of further financial loss. Some owners tend toward over-optimism and continue to forge ahead even when doing so may be foolhardy. And others are either too ignorant (or perhaps inexperienced) to assess the true financial risk or are in denial, so they continue along until someone else comes along and forces them out of business.

Though it's true that any business can run into financial trouble if those in management let their egos get in the way, in a family business the owner's pride and power relates not just to his or her position in the business, but also to his or her position in the family. If the business runs into financial trouble, admitting shortcomings in financial acumen, for example, may be especially difficult for the founder because he or she may be feeling inadequate both in terms of running the business and in terms of supporting the family.

And, to the extent coping with a financial problem might require collaborating with others in the business, if the owner has flown solo, so to speak, meaning they pretty much built the business on their own, they may not be particularly used to collaborating and learning to do so is difficult in the best of

times, much less in the middle of a financial crisis.

General ways of dealing with financial difficulties

Though the type of financial problems a family-owned business can run into are many and varied, there are some simple ways of avoiding many of the most common problems, as well as ways of ensuring that relatively minor financial problems don't escalate into unmanageable ones. In "Keeping the wolf from your door", by Patricia Olsen, **Family Business Magazine (Autumn 2005)**, Ernest A. Doud, Jr., of Doud Hausner & Associates, family business advisers in Glendale, California, is credited with a number of suggestions for handling difficult financial situations. Here are some of Doud's ideas, along with some of our own:

- ♦ **Don't wait.** As Doud points out, a declining sales trend, for example, could be the signal of something that you should pay attention to early on. Always take time to analyze financial information – whether its trends or hard numbers – as soon as you get the information. Time spent doing so up front could make the difference between staying afloat and sinking. (Besides, if you're business is taking the time and spending the money to produce financial information, why not use it?).
- ♦ **Consider getting short-term financial help.** If you need someone with more financial acumen than you have, get help. There are all sorts of agencies that specialize in placing financial professionals – both permanently and on short-term contracts.
- ♦ **Strengthen your internal systems so that you have an early-warning system.** Rarely do financial problems pop up overnight. Most problems simmer and grow over time, so the key is

to have systems in place that help alert you to problems that may be brewing. Time and money spent implementing such systems, though costly, will pay off in the long run.

- ♦ **Don't waste time pointing fingers.** Time is better spent identifying causes and coming up with solutions than on playing the blame game. (Of course, once a problem is resolved, if it becomes apparent that the problem could be traced back to a particular group, system or person, take steps to ensure the same problem doesn't occur again.)
- ♦ **Get help from others, including suppliers, landlords, and customers.** Too often, out of fear of looking weak, business owners are reluctant to discuss financial problems with those who may help them solve the problem. But, if you have a reasonable recovery plan, suppliers may be willing to grant more generous payment terms while the business' finances turn around; landlords may also be willing to give a temporary break on rent, especially if that means they won't end up with unoccupied space; and customers may even accept modifications to terms of delivery for the short term.
- ♦ **Be creative.** As an entrepreneur you probably pride yourself on thinking outside the box. Facing financial problems is no different. Since there is no single right way of solving any particular financial dilemma, be creative when tackling financial problems.
- ♦ **Be proactive.** While this may sound like just a variation on the first point (Don't wait), its subtly different. Being proactive involves taking action and developing interest in all aspects of your

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business, not just in those aspects that come naturally to you. So, if you don't feel knowledgeable in financing, for example, make it your business to become knowledgeable. You don't necessarily have to become an expert, but you do have to have enough understanding to know whether the people you've hired as your expert are up to the task. As well, you'll need enough knowledge to be confident you can make sound decisions based on the advice of others, rather than simply deferring to them.

Supporting each other

We don't mean to imply that family-owned businesses necessarily run into more financial troubles than other businesses. Instead, our aim is merely to highlight some simple (almost obvious)

methods that can be used to help avoid financial difficulties or help lessen them. And, it's worth noting that family-owned businesses have one particularly powerful thing going for them that other businesses don't have: the ability of family members to pull together to get through a financial crisis. Often, after the initial shock and concern over the issue, because of the built-in commitment to the business, family members are able to bolster each other and adopt a "whatever it takes" approach to work through the problem. When that happens, there's no reason a family-owned business can't come out of financial difficulties stronger than ever.

Rarely do financial problems pop up overnight. Most problems simmer and grow over time...

Taking Time – Taking the Plunge

Though the need to take a break from work is important for everyone, many business owners admit they fail to do so. Some owners simply get too caught up in running their business to take time off. Other owners forgo time off because they are uncomfortable leaving their business in the hands of others – even for a short period of time.

Easing into It

There are many ways a family business owner who has never taken an actual vacation can ease into the idea. If the idea of a full-out vacation seems out of the question (or is not in the budget), the owner should still consider taking time off. Keep in mind that the time off need not be weeks long – it could be just one day a week, or perhaps one long (say, four-day) weekend a month, each quarter. And, it should be remembered that taking time off doesn't necessarily mean having to go anywhere in particular – staying home is fine. The key is simply being physically away from the business for a set period. The trick is for the owner to "get comfortable" with the idea of taking time

off, and then to get in the habit of doing so.

Another coping mechanism that is especially useful for owners who find it impossible to forget about work while vacationing, is to set aside time every day for the owner to check in with the office and respond to matters that might have come up. But, everyone involved (the owner on vacation and the folks left back at the office) must agree to abide by the pre-set time limits – otherwise the vacation will cease to be a vacation and the fact that the person is away from the office will only be seen as an irritating inconvenience.

The Family Vacation Alternative

If many family members are involved in the business, consider taking a family vacation. Family vacations can provide a great opportunity to build connections between members of different generations who might not normally have time to get to know each other, or who may not have the chance to connect on a personal level. As well, a portion of the family vacation can be set aside for a bit of a business retreat whereby family

members who are not active in the business but who are shareholders can learn more about the business.

Don't do it for you – do it for the business!

If you're not the type of business owner who thinks they "need" time off – the other way to look at it is to consider the potential benefits to the business. For example, your being away may enable others in the company to practice decision-making. Also, being away (even for a short period) will give you the opportunity to assess how smoothly the business runs (or doesn't run) while you're away. Such an experience will likely be instructive for all!

So go ahead – take the plunge and schedule some time off!

...a portion of the family vacation can be set aside for a bit of a business retreat...

Q & A

In this section, we offer food for thought – based on our experience (and what we've gleaned from others who may have faced similar issues) – about specific situations you're facing or questions you may have.

Question

Talk about uncomfortable topics – any suggestions for what to do if you think a family member involved with the family business may have an alcohol problem?

Answer

First off, sorry to hear that you may be facing this kind of problem. But, hats off to you for asking, as it is a very difficult topic for most people to raise.

Before answering, it might be useful to comment on alcohol abuse and alcohol dependence. According to Ellen Frankenberg, Ph.D., in her article "How alcohol can dilute your family business", **Family Business Magazine (Summer 2005)**, alcohol abuse is defined in the diagnostic manual used by clinicians (*DSM IV*) as behaviour that is "characterized by failure to fulfill major role obligations at work, school or home; interpersonal, social and legal problems; and/or drinking in hazardous situations." Alcohol dependence, which is also known as alcoholism, is "characterized by impaired control over drinking, compulsive drinking, preoccupation with drinking, tolerance for alcohol and/or withdrawal symptoms."

If you are in doubt about whether someone fits the criteria, there are some telltales that you might look for. For example, the following actions or behaviors can indicate alcoholism:

- ♦ An otherwise unexplained increase in relationship problems.
- ♦ Unexplained reclusive behavior, for example, uncharacteristic cutting off of contact with others.

- ♦ A failure to communicate that has a negative impact on the business (for example, failure to discuss important business decisions).
- ♦ Blackouts and sudden loss of recent memory.

Assuming you have observed behaviour that you think constitutes alcohol abuse or alcohol dependence, Frankenberg advises that the first thing you should do is tell that person what you have observed and urge that person to get help. It's important, as you might imagine, to have this discussion at an appropriate time.

Of course, because it's likely to be an uncomfortable discussion, it's easy to use the justification of it being "the wrong time" as an excuse. But, given that you've had the courage to raise the question here, we're confident you'll work hard to find "the right time" and that you'll do so sooner rather than later. If you should have second thoughts about raising this issue, keep in mind that, according to Frankenberg, studies have found that the most effective person to suggest treatment is the alcoholic's boss. So, using the fact that the person works for the family business may provide you with additional motivation to raise the subject.

However tempting it may be to ignore alcohol problems in a family business, doing so is dangerous to the person with the drinking problem, to family members, and to the business itself. The dangers to the person are fairly straightforward and center mostly on health problems that can arise, such as liver problems. The problems that alcoholism can cause between family members can range from being verbally abusive to being physically abusive. And the business can suffer in a variety of ways, ranging from poor work performance of the alcohol abuser to manipulation of business funds to help finance or cover up the abuser's addiction.

Another important thing for you to do if you suspect someone in your family has problems with alcohol is to learn more

about alcoholism. Alcoholics Anonymous is a great source of information and support in these situations.

On a business level, it's a good idea to provide information and training for managers and other staff so that they can recognize substance abuse problems and so that they feel confident intervening, as necessary. It's also a good idea to provide additional treatment benefits through employee assistance-type programs. And finally, the business may also consider seeking legal advice on whether it might be appropriate to have random drug screening of employees.

Frankenberger said it best when she concluded,

"Substance abuse is maintained by secrecy and denial. It is treated effectively with honesty, compassion and understanding of this complicated and relentless disease."

We hope this information helps. Substance abuse of any sort is a difficult topic but ignoring it only casts you in the role of enabler. So, do yourself and the person you believe has the alcohol problem a favour, urge them to get help now because both their life and your family business are at risk.

Families Vital in Building New Canadian Companies

A COMPAS web-survey sponsored by BDO Dunwoody and the Canadian Chamber of Commerce offers proof of the vital role families play in the creation of new businesses in Canada, as well as proof of the unsettling reality that passing control of family businesses from one generation to the next has not proven particularly successful.

Drawing Conclusions

The COMPAS survey of CEOs and business leaders (a hand-picked group of CEOs, leaders of small, medium and large corporations, and executives of local and national Chambers of Commerce) was conducted last August.

The survey results are summed up by the following response from one person surveyed:

“First generation family business have played a major role in the development of the Canadian economy; however subsequent generations lose the focus and do more harm than good due to family infighting.”

The sections that follow set out some of the survey results.

Benefits of running a family business

Participants were asked to score the following statements regarding possible benefits of family businesses on a scale of 1 – 7, with 7 representing a major benefit and 1 representing the opposite:

Possible Benefit	Mean Score
Keeping control over the business	5.6
Income splitting or other tax planning	5.4
Making sure money flows to the family	5.3
Ensuring the business has people who really know and care about it	5.0
Teaching family members a work ethic	4.9
Getting the family truly committed to the business	4.9
Providing work for family members	4.8

Disadvantages of a family business

Participants were asked to score the following statements regarding possible disadvantages of running a family business. (The same 1 – 7 scale was employed.)

Possible Disadvantages	Mean Score
Conflict over who'll take over when the leader steps down	5.8
The problem of family members who don't contribute enough or are asked to leave	5.6
The frustration of employees who are not family members	5.4
Conflict over money	5.3
Conflict over in-laws in the business	5.3
The impact of the business on family life	5.2
Conflict over which family members will work for the business	5.2

Given the above results, it's obvious succession is the biggest single topic of conflict in family businesses, but it is by no means the only source of tension.

Challenges to Harmony

Participants were asked to score the following statements regarding possible challenges to family harmony or stability. (The same 1 – 7 scale was employed.)

Possible Challenges to Family Harmony	Mean Score
Conflicts between generations	4.9
Conflicts among adult children from a single set of parents	4.7
Conflicts arising from a male founder having more than one spouse, or children with more than one spouse	4.5
Conflicts between spouses	4.5
Conflicts involving in-laws	4.2

Participants were also encouraged to provide additional comments. With regard to what leads to the downfall of family businesses, the overwhelming sense from these comments is that companies do not normally remain under family control very long. It's also clear that each family has a distinctive character, which could explain why family control sometimes doesn't survive within a single generation, much less beyond one generation.

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Joining the Family Business

And finally, participants were asked whether the firm had formal, written rules for the entry of family members into the business. Again, the fact that by far most firms do not have formal, written rules for entry into the family business doesn't come as much of a surprise.

Here are the specific results:

	%
No rules	48
Yes, informal rules	21
Yes, both informal and formal/written rules	12
Yes, formal or written rules	7
Don't know/No opinion	13

*First generation family business have played a major role in the development of the Canadian economy; however subsequent generations lose the focus and do more harm than good due to family infighting.” –
Compas/BDO Dunwoody Survey Participants*

When Do You Need a Business Psychologist?

Though many business owners are used to hiring “traditional” professional advisors like accountants and lawyers, they often don't realize there are times when other professionals may be needed. **Family Business Magazine (Winter 2003)** outlined the following situations where a family business might benefit from the services of a business psychologist.

- ÿ If family members (in or out of the company) are constantly fighting or bickering.
- ÿ If communication between family members is minimal (or non-existent).
- ÿ If a crisis, such as a blow-up among family members, prompts one member to walk out on the business.
- ÿ If family members lack the skills or experience needed to run the business.
- ÿ If one or more family members is having personal difficulties, such as substance abuse or marital problems, that affect the business.
- ÿ If growth of the business causes problems. (Often everyone gets along fine when the business is small and not much money is involved, but watch out when the money gets big and lots of folks want their fingers in the pie!)
- ÿ If the business is not doing as well as it could because of conflict or because of non- or under-performing family members.
- ÿ If there is no succession plan and the younger generation is anxious to take over but the older generation won't give up the reins (even though they may be getting on in years).
- ÿ If family members refuse to cooperate with each other.
- ÿ If hiring and promotions are not being carried out effectively.
- ÿ If the family wants to take a pro-active approach and develop a family or business plan or strategy.