

Success and Succession 2

Time ticks. Money drips. Succession tricks.

As an 18-year-old I played in a Christian men's league on hockey team full of guys who were well past their prime, although I wasn't quite at mine yet. "Christian" might have been a bit of a strong word for what occurred on the ice, but nevertheless, at least in name, we played by the book.

Our team's goalie was a successful architect, originally from Newfoundland. (He later designed one of the prominent buildings in downtown Prince George). We all looked up to him, not only for his leadership, but for his never-ending supply of Newfie jokes.

"Hear about the Newfie that went ice fishing? He caught 450 pounds of ice! His wife drowned trying to cook it."

"Hear about the Newfie who was playing hockey on the frozen St. Lawrence River? He got a breakaway and they haven't seen him since!"

Occasionally this successful businessman also sponsored the team for such things as jackets, socks, or team dinners, and we admired him for his generosity. One time he arrived at the game, barely in time to get dressed. As he sat down to put on his gear, he remarked: "I was at a business meeting, and had to leave early. This hockey game cost me \$1000." He shrugged it off – he had made his choice, although even for him it still stung a little.

I was impressionable at that age and grateful when he offered me a job tearing down an old garage at his house. When I had completed that task, and hauled away the refuse, he apparently still had some money in his make work project budget for me, so he had me dig a hole in the yard and then fill it in.

I needed the work even more than he needed the amusement of watching me work, and I still indebted to him, not just for the money, but for the lessons about money and priorities.

Each of us have decisions to saw off between money and time. At some point the scarcity of money is overshadowed by the grains of sand leaking out of the hourglass. In retirement, there is a constant tension between spending the funds on travel, gifts, and so on, juxtaposed with the penchant for thrift, and in some cases, the need to work in order to feel alive. But in the case of business owners, the decisions faced as the career winds down are even more complex.

Business Succession: The first succession planning issue many face is perhaps the most obvious conundrum: whether or not your children will be worthy and able successors, or whether the business should be sold to a third party.

It is not uncommon for owners to have a natural desire to pass on their business to successive generations. However, the proverb "shirt sleeves to shirt sleeves in three generations" is well-earned among once successful business families, and is in fact a worldwide phenomenon. This decision is more complex than the genetic aptitudes we blithely pass through our loins. The assumption that the child has had some sort of similar life experience to the successful adult should be more obviously wrong than it is. This is a common blind spot amongst entrepreneurial families.

Hire an Outsider: Some families use external facilitators to moderate family business meetings with stated objectives in mind, helping ensure that these meetings are principally "business-matter" meetings and that extraneous family matters are brought forward in private family meetings instead. This sort of "church and state" idea helps. You still have the more tender family meetings as well, but try not to mix the two.

Desires & Aptitudes? It is often assumed that children want to participate in the business. This may not be the case and it is therefore one of the first matters to be flushed out. The more difficult step is assessing whether the offspring have the aptitude for the business. It's sometimes impossible for parents

to assess their own children, but independent firms can help. As sensitive and emotional as this type of assessment can be, it needs to be done.

Assess the future viability of the business. From an analysis of the broader industry down to the intricacies of the business itself, this assessment should examine threats such as future competition, and opportunities such as those presented by shifting demographics. What are the “tools” that the business has or should have to ensure long term viability – that is, what are the company’s strengths and weaknesses?

Valuation. A business valuation is a very useful exercise. The valuation not only will help owners determine transfer cost, but also puts a financial context to their succession and sheds light on the viability of retirement for outgoing owners.

A Hybrid Solution? Families should not be boxed into feeling it is an “all or nothing” decision. It is fine to explore combinations of family retention and partial sale of the business. Granted, a partial sale can be more complicated to implement but the outcome can be very rewarding.

While provided in good faith, this article is not meant as tax, legal or consulting advice. Readers should consult their own professionals before implementing a strategy.

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