

Succeeding at succession: establishing your goals and objectives

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What they don't know might hurt you. Flexibility. Nimbleness. Creativity. These are the traits that differentiate many privately held businesses from their larger competitors.

Surprisingly, these same traits can mask a critical weakness. Very often, owners and managers of privately held businesses, which include family enterprises, investor and entrepreneur-owned businesses and professional firms, base their decisions on personal experience and intuition. While this may foster innovation, it also inhibits transparency. As a result, you don't leave only your competitors guessing about where you plan to go next, you also leave your management team in the dark.

When it comes to succession planning, this "lone wolf" tendency can wreak long-term havoc. In some cases, owners may assume that their partners, management, staff, shareholders and family members understand their intentions for the future even if they have not been articulated. In other cases, owners may rely on their personal judgment to such an extent that they implement succession plans unilaterally, without consulting with the affected parties. In either case, this failure to establish clearly defined and measurable

goals that take the needs of all your stakeholders into account can lead to disputes and business disruption.

To avoid these consequences, you need to create well framed succession planning goals and objectives, align them with your business strategies and goals, and communicate them with both your business and personal stakeholders. By focusing everyone's activities on reaching clearly defined targets, you do more than motivate your leaders and managers. You also establish a basis for evaluating the success of your ongoing activities. Only in this way can you ensure that your successors have the knowledge they need to maintain your legacy.

Different leaders, different goals

Many privately held business owners fail to engage in formal goal setting because they believe their stakeholders share their vision of the future. In truth, this is rarely the case. An entrepreneur, for instance, may place primary importance on ensuring continued employment for key staff—an objective that may conflict with the intention of investors or potential purchasers. The managing partner of a professional services firm might hold the goal of expanding internationally, while his or her partners are more interested in building community roots.

Similarly, as the owner of a family business, your primary goal may be to maintain ongoing family control of the company. Your lenders may think your family successors lack the skills required to maintain or enhance business value. For their part, your intended successors may wish to engage in other pursuits entirely and may not be interested in assuming the reins of ownership.

Notably, these examples are just the tip of the iceberg as owners of privately held businesses often struggle to reconcile conflicting personal and commercial objectives. This challenge becomes particularly prevalent in succession planning because a retiring owner's financial welfare frequently hinges on the company's financial success. If ensuring sufficient cash flow in retirement leaves the company with inadequate resources to fund expansion, this does more than compromise your ability to provide for future generations. It also can prevent you from safeguarding the jobs of key staff members and even can put the company's survival at risk.





“When it comes to succession planning, privately held businesses must set goals designed to reconcile potential conflicts between their business needs and their personal/family needs. Only in this way can they facilitate a smooth transition.”

David White
Grant Thornton, United Kingdom

Goal setting challenges

One would imagine that privately held businesses would be eager to articulate their goals and resolve any conflicts that arise. At the very least, business owners should take the time to define where they would like to take the business, what personal goals they hold and how to reconcile their own objectives with those of their key stakeholders, such as employees, shareholders, outside investors, lenders, management and family members involved in the business. Too often a range of barriers hinder owners from engaging in this process.

In some cases, owners are simply hesitant to retire, despite stated intentions. Perhaps they have failed to build a life outside of the business and fear losing their social network, or their identities are meshed too closely with the business and they are struggling to surrender control to their successors and staff. Perhaps they have too much of their wealth tied up in the business, making retirement financially unfeasible. Whatever the cause, these factors can hinder business owners from honestly sharing their plans for the future.

Family businesses face particular challenges of their own. If family members perceive the business as a family heirloom to be preserved for future generations, they may object to an owner’s goal of bringing in professional management, attracting external investors or retaining capital by reducing shareholder distributions. If too many stakeholders are involved, owners of

privately held businesses also frequently worry about the personal repercussions if they fail to treat both current and future generations in a way that is perceived as fair. All of these scenarios can make it exceptionally challenging for privately held business owners to set clear succession planning goals.

Keep in mind that the goal-setting process itself can create obstacles if it is not approached effectively. According to Dr. Marshall Goldsmith, best-selling author and global leadership authority, people tend to give up on goals when they:

- lack buy-in or commitment to change
- underestimate the time needed to reach targets
- realize how much work is required to effect change
- become distracted by competing priorities
- fail to realize short-term “rewards” (higher profits, greater recognition, etc.)
- approach goal setting as a onetime project rather than a lifelong process

Ultimately, it will likely be harder than you expect to define and articulate your succession planning goals. Navigating competing priorities, confronting your stakeholders and your own potential fears, engaging in honest self-evaluation and addressing complex financial and emotional issues requires real work. However, these types of efforts tend to produce the best long-term results.

Embarking on the goal setting process

Despite the challenges inherent in setting succession planning goals, it is critical for privately held business owners to engage in this process if they hope to avoid conflicts that can result in deteriorating business value. Although there are no hard and fast rules for establishing effective goals, certain best practices exist.

1. Involve all stakeholders

As they begin to plan for succession, it is essential that owners keep their managers, customers, suppliers and other stakeholders informed of any changes that may affect them. Owners of closely-held businesses should consult with both their business partners and shareholders to brainstorm ideas, gain agreement and resolve potential conflicts. It is also generally recommended that owners of privately held businesses consult with their family members—even if those family members are not involved in the business. An owner's succession planning decisions very likely will affect the financial welfare of their spouse and children, which is why it is important that they share their intentions. This is particularly critical for owners of family businesses, whose decisions ultimately may dictate their children's career paths. Finally, in gaining buy-in to their objectives, executives should ensure their stakeholders go beyond tacit agreement and fully accept the stated goals.

2. Plan for contingencies

One of the most effective goal setting methods involves answering the following question: if you had died yesterday, how would your business be doing today? This exercise frequently helps the owners of privately held businesses uncover critical gaps in their succession plans. Perhaps you lack key person insurance. Perhaps your processes are not sufficiently robust to enable your successors to assume the reins of control or your share ownership structure will lead to family rifts in your absence. Perhaps your successors require more extensive training. Uncovering these process gaps enables you to do more than strengthen your succession plan. It can also help you better clarify the vision you hold of your company's future.

3. Frank and honest dialogue

Many privately held business owners fail to establish effective succession planning goals because they hesitate to engage in honest communication with their stakeholders. This is particularly problematic in family business settings where business stakeholders fear hurting each other's feelings. Rather than telling an elderly founder that his role has become redundant, a business may expend significant resources, and engage in uncomfortable subterfuge, to create a false position for him. Rather than advising a family member that her job has been automated, a business may allow her to create lengthy manual reports that it ultimately plans to ignore.



“A lot of business owners are unfamiliar with the process to take in setting their succession planning goals. Working with a trusted facilitator can provide them with the perspective they need to align their personal and business objectives.”

Bobby Stover
Grant Thornton, United States

To overcome this challenge, it is imperative for business stakeholders (and, where relevant, family members) to come together to discuss their roles, intentions and plans for the future. This includes admitting to successors that you don't plan to retire or that you don't feel they are ready to assume control. Only by broaching these challenging topics can you hope to obtain buy-in for your succession plan. Admittedly, this process often can be fraught with the potential for conflict. For this reason, it is important to adopt a conflict resolution process that allows you and your stakeholders to work through the rough spots without damaging long-term relationships.

4. Consider your personal needs

To ensure the success of their corporate succession planning goals, owners of privately held businesses need to align those goals with their personal objectives. This includes considering a wide range of issues related to your exit strategy, your desired retirement lifestyle, your pension planning and your plans with respect to passing on wealth to your heirs. It also includes ensuring that you have access to sufficient funds to support your retirement without depleting corporate assets. Setting goals around these issues in advance and communicating those goals across the organization can help you avoid significant hardship following your succession.

5. Make your goals measurable

Once you go through the effort of defining your succession planning goals, it makes sense to ensure they are being adhered to effectively. In addition to attaching specific timelines to the accomplishment of each goal, consider identifying specific actions or behaviours that your stakeholders should adopt to encourage the realization of your stated objectives. Although the metrics you adopt will vary depending on the goals you are trying to achieve, good performance measures should be explicitly defined in terms of owner, unit of measure, collection frequency, data quality, expected value (e.g., targets) and thresholds. This will allow you to measure actual accomplishments, not just work performed.



“Open and honest communication with all stakeholders, especially early on in the planning process, is critical to ensuring that the right succession plan is put in place.”

Grant Popowich
Grant Thornton LLP, Canada

Asking the right questions

Although setting goals for succession is a highly personal exercise, the process can be streamlined by answering some of the following questions:

- How long do you want to stay active in the business?
- Do you want to remain involved in the business following your formal exit?
- In how many years do you plan to transfer management and/or ownership control?
- Is it clear who your successor(s) will be?
- At what age would you like to retire?
- What annual income will you require during retirement?
- How do you plan to finance your retirement?
- How significant of an asset is the business relative to your overall net worth?
- Do you want to contribute to charitable or philanthropic causes?
- How much money do you plan on transferring to your children?
- Do you have predetermined criteria for selecting a business successor?
- Have you mapped out career paths for your key executives?
- Do you have any shareholders who are not involved in the management of the business?
- Is your will up to date?

- Have you taken steps to reduce estate taxes?
- Do you have sufficient health and/or life insurance?
- Do you have a process for resolving partnership conflicts?

Owners of family businesses should consider an additional range of questions:

- Does the family have an agreed statement of principles (or a family creed) regarding the operation of the business?
- Is equity ownership considered a birthright?
- Do family members working in the business have the necessary skills to assume control?
- Do you even want your children (or other family members) to work in the business?
- Do you know your children's aspirations or plans?
- Is there an education policy for family members?
- Are you prepared to treat your children "fairly" upon succession— even if that doesn't mean treating them equally?

Simplifying the goal setting process

There is little doubt that goal setting can be an exercise fraught with tension and discomfort. This is especially the case for privately held business owners who fear disclosing their true intentions to their managers, successors, family members and other stakeholders. Yet, in this process above others, honesty is unquestionably the best policy. To ease the discomfort, resolve potential conflicts and arrive at a consensus, however, it is critical to work with experienced specialists who can help you put programs in place to achieve your succession planning goals. Grant Thornton LLP can help. From estate and tax planning to transaction advisory and wealth management, we can help you build an effective transition strategy. With our global reach, proven track record, integrated suite of services and in-depth knowledge of privately held businesses, our practitioners truly act as your trusted guides to help you navigate the succession planning process.

To find out how our professional advisers can help you establish and articulate your succession planning goals, contact your local Grant Thornton LLP succession and estate planning specialist.

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