

## Plan for Business Succession

BY: DOUG ROBBINS



Many business owners dream of the day their sons or daughters will follow in their footsteps and assume control of the business. The owner has spent years, maybe even decades, building up the company. He or she is convinced it should, and will, remain in the family.

As business intermediaries – a firm who sells a business on behalf of the owner - we see this kind of "succession planning" frequently. On the surface, it sounds very simple and natural, but the reality is much more complex.

We would estimate that handing down a family business fails at least 50 per cent of the time. There are a number of reasons why:

- The owner forgets how much he or she knows based on years of experience - experience the next generation doesn't necessarily have;
- The owner has run the business in a very hands-on manner and hasn't appropriately trained the successor;
- The next generation isn't as motivated to make the necessary sacrifices that running a business demands;
- The next generation doesn't have the temperament suitable for business leadership.

Other family dynamics can come into play. The retiring business owner may find it hard to break away and may sabotage - probably unintentionally – the next generation's efforts to assume control.

If more than one child is involved in business leadership, situations may arise in which sisters and brothers are battling among themselves. Sibling rivalry can be particularly problematic if control goes to a child who is not the oldest in the family.

It is important to note that none of these problems is necessarily a deal-breaker. It just means that a little extra planning and managing are necessary up front.

One of the tools available to assess skills, aptitude and motivation is psychological counselling. At Robbinex, we work with an industrial psychologist that tests both the older and younger generations in a family transfer situation.

The goal is to determine areas where strengths exist and where extra support is needed.

We worked with one family where testing revealed that the son was very skilled in the areas of marketing, community relations and promotion, but less comfortable in areas such as purchasing and accounting.

His confidence in assuming ownership was compromised by his lack of confidence in those areas. We recommended that a "number cruncher" be hired to manage the purchasing and accounting functions. This then allowed the son to assume the leadership role successfully.

Another pertinent case was a family with which we worked recently. The mother owned the business and had devoted many hours to its development and growth. The daughter was expected to take over, but testing revealed she was not motivated to work day and night to do so.

Although she wanted to please her mother by assuming ownership, the daughter had witnessed first-hand the sacrifices her mother had been obliged to make to be successful, and wasn't sure she wanted that kind of life.

We worked with this family to create a new management structure and a new distribution method for their product, both of which required less of a time commitment from the daughter.

In this and other small businesses, it is important to ensure that, if more than one family member will be involved in the ownership of the business, the infrastructure can withstand the impact to the bottom line. While the business may have operated successfully for years by Mom and Dad, it may not be able to support two separate families' financial needs.

It is also very important to have a clear delineation of responsibilities and authority established if there is going to be more than one owner working in the business.

The secret to a successful intergenerational transfer is a structured plan for the takeover. Once the potential trouble spots are identified, a plan can be put in place to overcome them.

Such a plan might include a management transition period, special training for the incoming owner and definitions of appropriate roles for the family members involved.

In addition, we strongly recommend psychological testing when a business is being transferred within a family. It's a constructive step toward managing the complexities of keeping things "in the family".

Handing a business down to a son or daughter can be a positive move for all concerned - if it's managed correctly.

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**Phone/Email**

905.523.7510 or 1.888.ROBBINEX  
[robbinex@robbinex.com](mailto:robbinex@robbinex.com)

**Website**

[www.robbinex.com](http://www.robbinex.com)