For immediate release

Succeeding at succession

Research report findings trigger a call to action for private business owners in Canada

VANCOUVER, October 18, 2011 – Only forty percent of Canadian private companies have a clear business ownership succession plan in place, which could leave them unprepared and at risk in the event of unforeseen circumstances. This and other findings appear in a study prepared by the Canadian Financial Executives Research Foundation (CFERF), entitled Private company succession planning: Where do you stand? The research is sponsored by Grant Thornton LLP.

The results are a concern for a country that relies on small and medium-sized business to generate as much as half of its GDP, and is preparing for a significant shift as baby boomers retire and a new generation takes the reins of ownership in this vital area of the Canadian economy.

“The risks of companies not having succession plans in place are enormous, both for the economy and for the owners themselves,” points out Michael Conway, Chief Executive and National President of FEI Canada. “In addition to putting the businesses at risk by alienating potential successors and buyers, owners may fail to realize the full value of their life’s work. Families ties could be damaged and it may even be difficult to obtain long-term financing if lenders perceive there has been inadequate business planning.”

As company owners age along with the rest of the population, many are finding they are ill-prepared for the inevitable transition that lies on the horizon. Reasons include: lack of foresight; owners who refuse to let go; limited resources; and struggles to either manage growth or simply survive.

The research is based on a survey of more than 100 financial executives conducted in July 2011 by CFERF, the research arm of Financial Executives International Canada (FEI Canada). The survey was complemented with insights gathered via an executive research forum held simultaneously in Toronto and Vancouver. Private company succession planning: Where do you stand? was released today in Vancouver as part of an FEI Canada breakfast seminar series, also sponsored by Grant Thornton LLP.

“The study also points to specific challenges for family run businesses, which employ half of the survey respondents,” adds John Harris, a partner in the Vancouver office of Grant Thornton LLP and National Leader of the firm’s Privately Held Business practice. “In many cases, business owners hope their children will take over their companies, but it appears that this may be an unrealistic expectation. While the majority of family businesses had appointed designated successors, some of those had not gone through any training or education programs to prepare them for their future responsibilities.”
The survey also revealed:

- The lack of widespread succession strategies may be partly due to a lack of overall business planning: 30 percent of respondents said business owners did not have a five-year vision for their business, and 20 percent didn’t even have a clear overall strategy.
- More than half of respondents said the company owner had not expressed concern about the future of company employees after he/she had sold or transferred ownership.
- Of those who said they worked for a family-owned business, just over half said the current owner planned to transfer ownership to the next generation of family, but of these, only 60 percent said a specific family member had been identified.
- Just over half (55 percent) of survey respondents at family businesses said there were clear plans as to how family members outside the business would share in the profits, and less than half said there were mechanisms in place to address family conflicts.
- Most respondents (58 percent) said no formal valuation had been conducted, and that no measures were undertaken to enhance the value of the business in anticipation of a future sale.

Private businesses face an uphill battle regarding ownership transition, which could translate into a large number of businesses that may be negatively impacted. Some of this potential for turmoil might be avoided or at least minimized by following some best practices, such as:

- Don’t wait until there is a “trigger” event such as critical illness or death. Succession planning needs to be an ongoing process that is started early and revisited regularly – ideally yearly.
- Draft clear job descriptions of key responsibilities and tasks required to run the company.
- For a family business, ensure the roles of active and inactive family members are clear.
- Ensure there are appropriate successors to fill in vacancies when senior managers move up.
- Offer opportunities to train and develop internal candidates now.
- Prepare for post-succession issues.
- Involve senior financial executives in planning, and consider retaining outside help.

CFOs are well-suited to turn the company leadership’s attention to this kind of long-term planning. Succession planning is one way of forcing owners to cast their sights on the future of the organization and to look at the steps needed to get there.

Please click here to view the full report Private company succession planning: Where do you stand? The FEI Canada breakfast seminar series will also be held in Toronto (Oct. 24), Calgary (Oct. 24), Halifax (Oct. 25), Edmonton (Oct. 26) and Montreal (Oct. 27). Click here for more details.

The Canadian Financial Executives Research Foundation (CFERF) is the non-profit research institute of Financial Executives International Canada (FEI Canada). The foundation’s mandate is to advance the profession and practices of financial management through research. CFERF undertakes objective research projects relevant to the needs of Canada’s senior financial executives in working toward the advancement of corporate efficiency in Canada.
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