

## Root Causes

### *Getting to the Bottom of Issues Brings Returns to the Top*

*A Series of Thought-Provoking Position Papers for Owners of Family and Closely-Held Businesses*

*by Stefan Voswinkel*

### **Why Succession Planning is about much more than Succession**

***Uncovering the best options to keep your business successful, your family prosperous and yourself happy.***

"Succession" – the buzzword that's on all our lips but yet everybody runs away from it. Why? Because it is misunderstood and raises all kinds of fears in owners:

- This is my life's work, and "they" want to push me out and over the cliff.
- If I give up control, everything is at risk.
- I am not sure if I even have or can find capable successors.

In this paper, "successor" means everyone who could take over management and ownership: Family, a non-family manager or an outside buyer.

As you will see below, succession is a complex and sensitive issue that goes way beyond the run of the mill recipes at large.

### **Excuses I am hearing**

- Our success tells me I am doing something right.
- My company is my life – there is nothing after it.
- My kids are not ready yet to take over.
- Why burden myself worrying about the future if there is so much to do today?
- So you are suggesting a strategy that makes me obsolete?

**Bottom line: There will never be a good time to tackle succession planning.**

### **Consequences of not planning for Succession**

- Family and closely held businesses are facing an unprecedented succession gap. You will be in fierce competition to find capable successors. 70% of all family businesses don't make it into the third generation. Don't be one of them.
- People are not clear what long-term role you have in mind for them. Have that conversation.
- Tax consequences could be dire – plan ahead.
- It is inevitable that the day will come that you will hand over management and ownership. Plan now for that day to avoid surprises for you and your family.
- Do you know what your purpose in life will be after that? Think about what you always wanted to do and whose lives you would like to enrich (that could include philanthropy).



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## The Key question

If an opportunity came along to sell your company - even if it is not for sale, is it in the kind of shape that would fetch the best price? Because if it is not, you should start implementing all possible improvements - on a continuous basis. This will keep the business in shape to be sold or taken over by your successors at any time. It will do three things for you:

1. Your business will be innovative, competitive and more profitable. You have people and mechanisms in place that will uncover and deal with the weakest links in the chain.
2. In order to achieve no. 1, you need to have the attitude and processes to develop capable successors on a continuous basis. You can't wait until your old guard with all the expertise retires. You can't wait until a competitor offers your best talent including your successors a better deal.
3. You will have what I call the "Ongoing Exit Strategy": If something happens to you, your family or your business (such as your biggest client leaving or a competitor's game-changing product), you already have
  - The people in place who are enabled and empowered to run the business well enough without you.
  - A structure and processes that are clear, resilient and flexible to deal with an unforeseen situation – including sudden growth!
  - With this "Ongoing Exit Strategy", your company will be ready if that one-time opportunity comes along.

Building this kind of resilience into your company is the best you can do to make it successful beyond yourself and ensure your family's continued prosperity and happiness.

**You can also call it prudent risk management or contingency planning!**

## What to watch for

- When have you last reviewed your org chart and the people in it in terms of succession?
- Do you have a career development plan for your best talent – family and non-family?
- Is there a plan for the transition of management and ownership? Your lawyer and accountant need to be involved.
- You have spent a lifetime building the business – will you take the time to make that legacy last?

## The Family Business Magic

Are you aware of the ingredients that make your business successful? Have you ever written down your recipe for success? It may not be that obvious and hard to define. In many family and closely held businesses, the business magic was created by the founder generation. How to continue it when you don't know exactly what it is? You need to ask yourself, your family and your managers what they think is your company's edge. Then you can write it down and "intentionalize" it for continued success.

**Transfer of the Family Business Magic needs planning, effort and time. This transfer is critical for your company and successors to be successful in the future.**

## What you can do

- Be honest to yourself and your family:
  - Admit if this difficult for you.
  - Does your son or daughter really have what it takes? Would you consider non-family successors?
  - Do you know what you would do with your time after handover? Proactively plan for that time, with your spouse.
- Ask other business owners how they do it.
- Give your business a check-up: Look at all aspects, identify improvements and implement them. The outside perspective of a consultant could be useful here.
- Include your management team in the discussion – they are the experts and better solutions will come of it.
- Draft a transition plan for transfer of management and ownership that you and your successors can live with – before it becomes a contentious issue or circumstances beyond your control force it. You will need your trusted advisors' support for legal, tax and estate planning. You may also want to get help with the family dynamics and communication around this complex and sensitive issue that affects all.

## Pitfalls and how to avoid them

- This isn't about "retirement", which is an outdated concept. You can stay involved and be professionally active as long as you want. This is about enjoying life while you can, spending more time with family and friends.
- The "Success Trap": Things are going so well right now that you cannot imagine it not to continue.
- Succession is contentious in your family: Expectations, status, entitlement, taking sides, competition to be the next leader - all this can be overwhelming. Get outside help to facilitate this process!

## Count on it

Dealing with succession in this way will

- Be a great relief for you and your family, freeing up a lot of productive energy.
- Have people who are engaged and loyal
- Ensure the continued success of your business.
- Ensure the continued prosperity and happiness of your family.

**Most and foremost, it will give you clarity, purpose and fulfillment beyond handing over the reigns.**

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**What does this mean for you? Tell me what you think: [stefan@voswinkel.ca](mailto:stefan@voswinkel.ca)**

For a discussion about your own business situation and how I may be able to help you, please contact me.

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