



Grooming The Successor In A Family Business

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The vast majority of businesses in Canada are classified as family businesses. A family business is any business where a majority of the ownership or control rests within a family. It might be that just one member works in the business while others serve as “silent” owners or directors. Or there could be multiple family members working in the business.

Succession in a family business context generally involves the process of transferring leadership to another family member. The transfer isn't a single event – rather a planned series of actions that prepare the future leader to take over the responsibilities of heading the business.

Family business succession often begins when the children of the owners learn about the business from their parents. Growing up with the business, they subconsciously learn a lot about the business from the behavior of their parents. They also learn from their own experiences working in the business part-time or during school holidays. Eventually, the children may want to run the business someday. Or they may not.

The process of selection begins

At some point in time, one or more members of the next generation may express an interest in taking over the business. Then the process of selection will begin to take place. *Selection* is the process of choosing who will be the firm's leader when the owner retires or steps down. The choice can be made on the basis of age, qualifications, abilities and interest. For a family it's an understandably sensitive and delicate process because, in selecting a future leader of the business, the issues of merit and entitlement often come into play.

Identification of the future successor is clearly an important step. But the process of successful transition only *begins* there. Once the identity of the successor has been determined, steps need be taken to prepare that person for future leadership and control of the business. The transfer of leadership and control from one family member to another without creating problems can be accomplished – but only if those involved have done sufficient planning well in advance.

Training, educating and grooming the future successor can be a challenge. The younger person may need extensive training and/or education to succeed in the position; a parent may not be suitable as the best source of this knowledge. To work effectively, the process demands in-depth consideration. It also requires ensuring the successor is truly ready to take on the leadership role when the time comes.

Sometimes an alternative trainer may need to be found, either within or outside the business. This person should be committed to the task and be action-oriented. In their role as trainer and mentor, they will need the background support of a results-oriented educational and training program designed to produce a





well-prepared future business leader.

The concepts of MBO and TBO

Many businesses dealing with succession matters look to the methodology and concepts of *management by objectives* (MBO). Within the MBO concept, there is a further methodology component referred to as the *training by objectives* (TBO) concept. TBO can be an effective method for providing the training and the evaluation of successors within an objective and goal-driven framework.

In the TBO process, the trainer and the trainee collaboratively work together to define:

- what the trainee will do
- what the timing of each phase of the action will be, and
- how the evaluation process will take place.

This system will often place the successor in a responsible position in the business. They will have well-delineated objectives. TBO encompasses steps of increasing responsibility as the training and business goals are met and more rigorous goals are established. This enables the successor to enter the firm in a well-defined position with a specific job description to build on.

The business owner's knowledge and experience in the business will enable them to determine the necessary criteria for good training and mentorship. Usually an owner will look to assess a successor in the areas of decision-making, leadership, risk management, ability to deal with people and how they handle stress.

It is important for the successor to learn and understand the culture of the family business. During the training period they are not there to impose their style on the organization; rather to learn the way "we do things here." If the business requires cultural change down the road, such change will occur under the auspices of the new owner – not during the training period.

Meeting the owner's network of contacts

While undergoing training the successors also need to be introduced into the owner's outside network of contacts. These can include the firm's customers, suppliers, bankers, accountants, lawyers and other business associates. Introducing the successor will give these important business contacts time to get to know that person. And perhaps to create some opportunities for the successor to spend time in those other businesses.

Often outside formal education may be needed for the successor to manage the business going forward. They will often find courses in business management, accounting, law and other topics related to the owner's role to be beneficial. The successor may also need formal educational training, which highlights the need for long-term planning well before the owner intends to retire or leave the business.

Families are emotional, their members determined by birth. By contrast, businesses are essentially





unemotional and conducted within a framework of contracts and legislation. To function effectively at the head of a family business, the designated family member will have to learn how to manage the delicate balance between the emotional aspects of the family and the needs of the business.

For this reason, their education and training must be a good fit with the requirements of the position. To be successful, the process of grooming the successor in a family business will take careful planning.

As a family business owner you have an opportunity to plan the process and to significantly impact the eventual outcome for you and your family. Recognizing the need for proper process, inter-active communication amongst the family and formal documentation of your plans will give you and your family the greatest chance of a successful transition.

If you are thinking about or currently working on your business succession plan and are in need of assistance, please contact Rick Gendemann, one of our business succession leaders. We look forward to the opportunity to connect with you to discuss your transition planning issues and address how we may be able to work with you and your family on developing and implementing your successful business transition plan.

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