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The power to build business

Passing the torch: Too few taking action, experts say

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The issue of succession planning is about to become as important to the Canadian economy as the much-touted labour and skills shortage, says a local industry expert.

"We've made succession a top priority," says Garth Whyte, executive director of the Canadian Federation of Independent Business (CFIB). "Everyone's talking about the shortage of labour, but no one's talking about the shortage of entrepreneurs and what we've found is this is a demographic trend. Forty-one per cent of our members say that they plan to exit their business in under five years."

The CFIB succession survey, done in May 2004 of more than 4,000 members, shows that another 60 per cent of small- to medium-sized business owners are looking at selling their business in six to 10 years.

"This means a lot of jobs in play and most don't have a succession plan in place," adds Mr. Whyte. "Only seven per cent of SMEs say they have a formal plan, while two-thirds say they don't have a plan at all, yet they want to leave their business. And often for family businesses, it can be very emotional because who do you pass it on to?"

Local businessman John Baizana has been participating in an ownership transition of his father's company, Jack Baizana Insurance Brokers Ltd.

"We started it about six years ago and it's a slow transition that will be completed in a few years," he says. "For the clients it's a seamless transition where they've been working with both of us for many years now."

Mr. Baizana is vice-president of his father's firm and he's also the principal broker and owner of Baizana Insurance Brokers Ltd, which focuses on commercial insurance products.

"Succession planning is essential for any business, whether you're in your younger years or retirement age," he adds. "You should also plan in the event of your death, as well as for retirement, because the business could be lost without a plan and that would leave your employees, your family and your clients in a pretty desperate position."

Eric Klein, a partner with A. Farber & Partners, says the growing importance of succession planning is another way baby boomers are changing the country's economy, especially when it comes to family-owned businesses.

"People are getting older and many are not having as many kids, so keeping the business in the family isn't always possible," he says. "Entrepreneurs need to be proactive about the issue. It's just like planning for retirement savings because you have to make time to plan for your succession."

Mr. Klein, who specializes in confidential advisory and execution services for business clients as well as business valuation, says succession planning isn't as overwhelming as some people think, but it does take time.

"Many plans take two to three years until they are accepted by Revenue Canada and there are rules in the tax act that require holdings of at least two years," he says. "You may also have key people in management who you're looking to transition, whether they're family members or non-family members, and you give them a certain period of time to grow into a more senior role and get their financing in place."

Mr. Klein says many entrepreneurs are confident about managing their own business issues, but succession planning can be complicated and involve a host of barriers.

"If you've never done it, it can be pretty daunting and you don't want to make a mistake because there's so much at risk," he



The CFIB's Garth Whyte. (Darren Brown, OBJ)

adds. "Sometimes you're talking to competitors or other people about the fact you're for sale and it can be damaging to your business, so you really need to be talk to tax professionals, lawyers and corporate finance experts who have experience."

Mr. Klein says many owners of SMEs put off succession strategies until they are suddenly faced with an illness or they grow tired of the day-to-day operations.

"Many entrepreneurs went into business for themselves because they wanted to be in control of their careers and succession planning is the ultimate act of losing control," he points out. "But there is an aging demographic and they need to be in control over their own destiny."

Mr. Whyte agrees that retirement can be difficult for most people, but business owners and especially those involved with family enterprises have often locked their identity into their business. Many complain that it's too early to start planning or the process is too time consuming, but the baby boomers need to make it a main concern.

"If they don't find help about succession plans and we don't get on it, then it's going to be problem for Canada," he says. "Part of it is about creating awareness and about finding the right advice, but because it's such an emotional issue many people haven't asked their son or daughter if they even want the business."

The CFIB is currently working with banks, the federal government and advisors to make succession planning more top of mind. Mr. Whyte says a "think-tank" session about the issue is in the works for October.

"There's also a big opportunity here because the number one vocational choice in Canada, according to a Leger poll, is owning your own business or to be self-employed," he says. "So, how do we match those who want to sell their business with those who want to get into it and how do we facilitate that? Is it through tax policy, planning, information sessions? That's one of the big challenges right now."

