

BUSINESS SUCCESSION

Don C. Sihota, K.C.



More Critical Issues for Business Owners 2023 – VOL 2

In my last newsletter, I discussed some critical issues business owners need to consider in respect of business succession. The following are some additional thoughts to ask yourself in order to gain further understanding of this complex topic.

1. Are there any alternatives to the four business succession options?

In my last newsletter, I mentioned the four options available to business owners for business succession. While these four options have numerous variations, there is another option that deserves special attention. Many business owners don't realize or take advantage of the option called the "staged buyout." The staged buyout can allow the business owner to "run the business from the golf course" while maintaining access to the income the business generates. In fact, in some cases the business owner may actually realize more money by implementing this option than they would if they had simply sold the business outright! The best way to explain this option is in a personal meeting with me.

2. Are children the natural successors to the business?

They certainly should be included in the process, but business owners must also consider the possibility that their children may not be the best people to run the business. An owner's objective is to use the business to look after and provide for children and even grandchildren after they are gone. If a child is not interested or is not capable, it makes no sense to install a child as President. The unintended consequence of this will be the destruction of the business and maybe even the family unit – the exact opposite of the owner's desired objective. I urge you to consider this point carefully because passing businesses to children is fraught with danger. As the business owner, it is up to you to make sure the unintended consequence does not happen.



This newsletter contains general information, not legal advice, and may not apply to you. Examples are purely fictional and any similarity to persons living or dead is merely coincidence. Legal advice is imperative in Business Succession Planning - inquiries or comments should be directed to Don Sihota.

3. What can go wrong?

The ultimate result of a bad business succession plan (or no plan) can be the destruction of the business, whether through poor management, lost vitality, infighting or even litigation. Again, this is clearly an unintended result but can be the likely outcome of a plan that did not consider all the issues involved. Yet it doesn't have to be this way. There is a better way where proper resources are brought to the table to structure a business succession plan that works. Only with a workable and flexible business succession plan will the business continue for generations after the founder is gone.



4. What are the biggest mistakes business owners make regarding business succession?

Failure to plan is right at the top of the list of big mistakes. Another mistake is not realizing how complex business succession planning can be. Failing to get sophisticated professional advisors involved in the process very early on is also a mistake. Business owners are adept at running their business, but not at business succession planning.

5. Why don't business owners plan for succession?

Most business owners focus on what is urgent, not what is important. It may be trite to say, but what is urgent may not be important, and what is important may not be urgent. Business succession planning is critically important, but it is not urgent. It is ignored until it becomes urgent: when a crisis arrives. You have too much at stake to let circumstances control your destiny. You must break free from what's urgent and pay attention to what's important. The survival of your business depends on it.

Business owners are adept at running their business, but not at business succession planning.

For further information contact:

Don C. Sihota, K.C.

Partner

Tel: 604.643.3123

Fax: 604.687.6314

dsihota@cwilson.com

Clark Wilson LLP

800 - 885 West Georgia Street

Vancouver, BC V6C 3H1

CLARK WILSON