# Passing the torch

Development of corporate succession plan tests CFO's technical and leadership skills

The effectiveness of any corporation's succession planning strategy depends in no small measure on the technical and leadership skills of its chief financial officer.

Indeed, the exercise is far more involved than simply selecting the best candidate to continue the business. As those with experience in the process will know, there are complex operational and financial implications associated with succession planning.

For example, says Michael Conway, FCA, chief executive and national president of Financial Executives International Canada in Toronto: "The CFO is often responsible for risk management in the organization, and succession planning is probably one of the most important risk management functions."

Furthermore, he explains: "The CFO often helps communicate the company's plans to its funders well in advance. Bankers like to see a well thought-out process and advance planning and continuity and security of their investment. If they think that the prime driver of the business is just going to pop out of sight, they're going to be a little bit more wary of advancing funds until they see a good succession plan to the next round of leaders."

Particularly in cases involving private company succession, the CFO assists with a valuation exercise that helps focus the firm on what it needs to do to increase its worth. "Financial executives may stick-handle a valuation strategy, helping the owners understand the valuation process, and keeping owners grounded and their expectations reasonable," says a Canadian Financial Executives Research Foundation (CFERF) study.

However this 2011 study – *Private Company Succession Planning: Where Do You Stand?* – also found that only 40 per cent of Canadian private companies currently have a clear business ownership succession plan in place. The study listed a variety of reasons for this, including reluctance by owners to face their mortality or even consider an old age where they aren't working. It also cited small staffs, few resources, and day-to-day business struggles, among others, as reasons for an inability to plan.

CFO leadership can help fill the vacuum in succession planning and avoid negative repercussions, particularly in family-owned businesses where there are both corporate and personal dynamics at work.

"In family-owned businesses, if the majority owner dies and hasn't laid out the succession plan and involved enough people, including the CFO and management in the transition, that can quite often lead to litigation," says Graham Porter, a partner with the law firm Lerners LLP, in London, Ont.

"It's a challenging role for the CFO because they not only have to be strong business and financial advisers; they also have to have a good psychological sense of the family they're dealing with," Mr. Porter adds.

A CFO can also advise an entrepreneur that it's not only in their own financial interest to tax plan effectively for succession, but also – if it's a family-run business – the importance associated with properly transferring wealth to the next generation.

Warns the CFERF study: "By not having a plan in place, owners may fail to realize the full value of their business during the exit process or may take a significant tax hit – or both."

"There can be fairly significant tax consequences on the death of the major owner," agrees Mr. Porter. "You have to plan for that eventuality whether it's through insurance, having a management buyout in place or a variety of other available tools that need to at least be considered," he says.

Succession planning for other key positions, such as the CFO, may also require extra planning and diligence in family-owned businesses.

"Family businesses are less likely to have things like very well developed compensation policies for senior people, when those senior people are the people across the dinner table on Sunday. They're going to be less likely to have things like employment agreements," notes Erin Kuzz, owner and founding partner of Sherrard Kuzz LLP, a Toronto labour and employment law firm.

"We see a lot of situations where the typical young mom and dad have started the organization and grown it," says Ms. Kuzz. "They have decided which of their children should be taking over – but that identified son or daughter maybe isn't the most talented, or maybe isn't that interested in taking over, or maybe just doesn't have any education and training to take over in what's arguably a more sophisticated business climate than when the business started.

"It's one thing to say to the CEO in a non-family owned business, 'I know you're grooming Jim to take over as CFO. I really don't think Jim is the most talented person. Here's why.' That discussion is much harder to have over the dinner table."

Another legal implication associated with succession planning in any type of organization is the importance of not making false representations to a person that they're being groomed for a position when they're not. That could be costly, Ms. Kuzz warns.

"Let's say somebody's been led to believe they've got a future that they don't have, and then they get passed over. They could actually quit; say the future position had become part of their terms and conditions of employment, and that by putting someone else in that position, they've been constructively dismissed – that by taking away something promised to them, it is as good as firing them," she says.

"That may lead to a claim for termination pay which, in some circumstances, could mean two years' compensation. However, with a proper employment agreement in place, even in a situation like this the liability could be capped at only two months, making it much less likely a key team member may quit after being passed over for a promotion."

It is not hard, or expensive, to draw up agreements with professional legal advice. However, often organizations think they are doing the right thing but draft improper agreements, which the courts can strike down very quickly, adds Ms. Kuzz.

## Boomers begin long goodbye

**Tomorrow's Gen X CFOs will assume broad mandate**

*Michael Conway, FCA, chief executive and national president of Financial Executives International Canada.*

The leading edge of the massive baby boom generation has hit retirement age, heralding a passing of the torch to tomorrow's corporate administrators in the smaller cohort known as Generation X. Included among those executives will be chief financial officers.

"A well planned organization will identify several potential candidates for important positions like the CFO, determine the skill sets those individuals need and have a development plan in place to help them strengthen in areas where they require improvement," says Michael Conway, FCA, chief executive and national president of Financial Executives International Canada in Toronto.

"We're seeing CFOs who have much more of a multi-dimensional mandate in their organizations now, both from an internal executive or leadership position, and as an external face to the markets – whether it be the investment community; their clients; [or] the social concerns of the audience out there," notes David King, Canadian direc-