



Jim Molyneux, CPA, CA

You build up a family business, investing time, money and passion to see it become successful. Where you go from here depends on many factors – some are out of your control, but many you can plan for.

Business is multidimensional and so is an effective succession plan. To serve you best, your strategy needs to address the myriad of issues involved in exiting your business and lay a solid foundation to maximize the value of your business in the short- and long-term.

There are no shortcuts to planning for an effective transition. Maybe you're not ready to give up leadership yet. Or perhaps you don't know how to deal with all your family members fairly. These things take time so the earlier you start to plan for the future, the greater your chances are for a successful transition.

Transitioning to the Next Generation

More than half of family businesses in Canada do not have a succession plan in place and half of those with a plan haven't designated someone to take over the leadership of their business. As a result, only about a third of family businesses transition to the second generation. This sobering statistic can be attributed to one primary factor: a lack of succession planning.

For any business, transition planning should ideally be done over four or five years to ensure the most successful outcome. With family-owned enterprises, not only do family members need to have input into the plan to be successful, insurance agents, financial advisers, lawyers and accountants will also need to be involved. Establishing your team of advisors early will ensure you are in a position to effectively manage your transition to get full value from your business.

Family Dynamics

Relationships can be complex at the best of times and this is never truer than with family members. The dynamics of promoting, establishing salaries, distributing dividends and making decisions can give rise to conflict. Being able to call on outside advisors who are impartial and can help you view the situation objectively is often a critical success factor.

The key to securing the long-term success of your family business and an effective transition process is having the right people sitting in the right positions in the company. Reward those family members who bring strong business acumen, energy and drive as you would any other business partner. This is vital not only for the good of the company, but also your family and unrelated management team members.

Clear Communication

There is a simple rule that can be very helpful: decide what is best for the business. Then establish a normal or middle ground that works regardless of whether the main players are family or not. Document it, write it down. And communicate, communicate, communicate. As a business owner parent, you have to treat your children fairly. This requires honest conversations within a relationship of openness and respect between parent and child.

One way to address pressure and conflict between family members who are active in the business and those who are not is to have open and honest conversations in advance about matters that may end up in dispute. Working through the issues and establishing legal agreements, such as shareholder agreements, can reduce divisiveness amongst family members when circumstances change in the future.

Business Structure, Tax and Estate Planning

How your family business is structured is key to your succession plan and will influence your tax strategies. Whether incorporated or not, certain income tax legislation requires careful planning and structuring over a number of years in order for all involved to gain full benefit. Changes to existing legislation can also render your existing tax strategies moot, or worse, result in onerous tax rates.

Experienced tax and business advisors can help ensure you minimize the impact of taxes on your family, the business and your own retirement future. They will provide critical, up-to-date information and work with you to help ensure your plans unfold as you envision.

Valuing Your Family's Business

Business owners develop an emotional attachment to their companies, but it's important to remember the value of a business is not based on what you think it is worth, but on what the market will pay. Whether you want to make sure you have money to reinvest, meet your retirement goals or ensure a future inheritance for your family, it is important to obtain at least one valuation as soon as possible.

A valuation will not only give you an objective perspective as to what your business is worth; a good valuation will help you identify where changes can be made that will help you drive even greater value when it comes time to transition. This might include increasing training opportunities, developing a key employee retention program or initiating a private advisory board – all things that will help you develop and implement a growth plan designed to maximize the value of your business.



Critical Steps to Navigating the Succession Planning Process

Identify Your Objectives: Work closely with a trusted advisor to outline your expectations and develop your personal and business objectives as the foundation of your plan.

Fair or Equitable: Think about what is best for the business, be objective about family members and strive for open and honest communication.

Governance Structure: Define the principles of how your business is expected to operate by separating family, management and ownership issues so the right people are making the right decisions.

Tax and Estate Planning: You need a comprehensive strategy that addresses your tax and estate matters while considering changing circumstances and legislation.

Valuation: By obtaining a valuation you'll discover how much your company is currently worth and what the value drivers are for your business.

Planning ahead will allow you to identify strategies that will give you the biggest benefit and time to put your plan into action. To make the process as smooth as possible, consider bringing in an experienced, unbiased team of advisors willing to ask you the straight questions.

Once succession planning has been completed properly and all potential good and bad consequences have been considered, the initial complexity will look far more manageable.

To find out how MNP can help with your succession plan visit www.mnp.ca or contact Jim Molyneux, Regional Managing Partner, Peel Region at 416.641.4945 or jim.molyneux@mnp.ca