Building your legacy: creating a strong succession planning roadmap
Managing any business involves many challenges. But managing a family business brings with it a unique set of challenges, many due to the close emotional relationships involved. One of the most difficult issues for a family business owner to consider is the succession of their business and the long-term success of the company.

Succession planning is not always the top priority for business owners to consider. There is a natural hesitation for owners to deal with succession issues because they associate it with negative connotations of retirement and death. Considering your own mortality can be a frightening thought, and there is a propensity for family business owners to avoid unpleasant considerations. Add to that the perception that succession planning as a lengthy process and you may find it easier to postpone making difficult decisions than making them.
Starting the succession planning conversation early on is the key to understanding the realities of what’s involved in the planning process. Here are some key concepts that you should consider when embarking on your succession planning journey:

Preparing for what’s to come

A prepared, written succession plan outlines the way your business should be managed after your retirement, death or disability. It also entails the effective transfer of management of the business, along with its core values, culture and traditions. Embarking on this process can help you determine if you should sell or retain the business, and if the business has the potential to support family members into the next generation. A strong plan will maintain your family’s financial interests in the business, and with careful tax planning can help to reduce future taxes on the business.

Succession involves much more than just picking a family member as the next CEO and training that person to take over the business. It should be broad in scope and involve all family members, including those who are not actively involved in the business. This means that when the time comes to implement the succession plan, there are no surprises to any members of the family.

The goal is to design a plan that will meet your family’s expectations and hopes, so it’s critical to include these important stakeholders in the process. Sometimes when stakeholders are excluded, they won’t support the outcome. Thus, an oversight in the process can cause an otherwise good plan to fail. Key non-family management should also be included in the process, as their role may be impacted by the succession.

Clarity for the future

A well-defined succession plan sets out clear expectations and roles for all family and non-family members in the business. This reduces the potential for future conflict between active and non-active family members, as the transparent nature of the succession process brings to light any sources of contention or ambiguity that can be managed in the early stages of the planning.

Knowing that the long-term strategic objectives of the business are being considered creates confidence among employees, customers, lenders and suppliers. It demonstrates that the business will continue to be managed in a professional manner, and that the future leadership of the company will be left in good hands.
Succession planning timelines

There is no set amount of time to create a succession plan. Documenting a well laid-out plan can take over a year to develop, and implementing the plan can take three to five years to execute. The length of time depends on reaching agreement of all parties involved in the process. The key to a smooth transition is starting the planning process early enough to account for all stakeholder concerns and addressing any areas of family conflict that may arise.

Clear timelines for succession are a great way to identify the amount of time required to train a successor for a smooth transition. Not all leaders are created equal, and some successors will require more time than others to really get a handle on the role and requirements. Setting realistic timelines helps set up successors for success and maintain the longevity of the business.
Estate planning considerations

An essential and integral component of succession planning is estate planning. Though estate planning and succession planning are different tools with unique goals, when considered together they can better prepare business owners for their eventual exit from the business. Estate planning will help reduce tax on death, defer tax as late as possible and provide certainty of tax to allow for pending life insurance. This can protect the company’s assets and identify tactics required to meet the unique needs and circumstances of the business. Some of these tactics may include family trusts, holding companies, an estate freeze and wills.
Family trusts, holding companies and wills

Estate planning often involves an estate freeze, which allows the current value of the business to be “frozen” at today’s value. Future growth can be passed on to the owner’s children. It also freezes the company’s tax liability today, providing an important measure of certainty for future tax liability. Typically, an estate freeze involves creating a family trust or holding company to enable the business owner and their family to get the most value from the company.

Succession planning is about devising a strategy to ensure that the benefit of an owner’s assets passes to the right people at the right time, and that the right controls are in place when that happens. Developing a will in the context of overall estate planning can provide a clearer, more comprehensive succession strategy that maps out your instructions and protects your estate. It should designate a clear power of attorney and may incorporate spousal and testamentary trusts. In some cases, it is advisable to create both a primary and a secondary will to avoid probate costs.

When it’s time to let go

When it comes time for you to make the final decision to exit the business, there are a number of options available. You need to look objectively at whether the business should be passed down to the next generation, transitioned to a third party or sold altogether. Factors such as age, desire, skill sets, management experience, family dynamics and the current state of the business should all be considered when making the decision of how the business will be led when you make the final decision to exit the business.

Starting the succession planning journey early on provides you with the knowledge that allows you to drive the exit process and determine what’s best for the future of the business. Then, as you formulate your exit strategy, build the business team and support system and manage the process, you’ll be in a better position to let the business thrive for generations to come.
We can help you

We support the entire lifecycle of a family business. No two companies are the same, nor do they take the same path. However, having a practice focused solely on private companies, we’ve learned that there are many common challenges companies face on their road to growth and profitability.

Whether you’re at the beginning of your journey, find yourself at a crossroads or simply want to maintain the right direction to success, we’ll support you with our experience and advice.

Please learn more by visiting us at ey.com/ca/pmm and contact us at privatecompanyinfo@ca.ey.com
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