Supporting Family Businesses

A comprehensive guide to helping your business succeed for generations
Growth DNA of family business

EY understands what keeps you busy during the day and awake at night; we appreciate the difficulties you face trying to balance the concerns of the family and the intricacies of your business. We know what makes a family business successful.

Our ongoing in-depth research and work with companies similar to yours provides us with the basis to give you advice based on the leading practices of other successful family businesses around the world.

The EY approach is anchored in our “growth DNA of family businesses” model: our bespoke services support both the personal and company performance agenda of family business leaders, and aim to help you succeed for generations. The growth DNA of family business our bespoke services support both the personal and company performance agenda of family business leaders, and aim to help you succeed for generations.

Each family business is unique, yet each successful family business has much in common. Understanding these success factors and taking advantage of that knowledge underpins what we call the “growth DNA of family business.” We know that an aligned family and business strategy secures both your family’s and your company’s values on a long-term and sustainable basis – it also forms the foundation for the planning of ownership and management succession. The practical assistance and professional advice we offer your business can help you unlock your company’s potential to enhance your business performance: the highly personalized services we offer will enable you and your family to plan successfully for the future.
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Private Family Business Landscape

Family companies are characterized by their unique combination of dynastic will, family ownership and professional management: this connection produces a dynamic that offers competitive advantages, but it also harbors potential risks. Managing this complexity is a balancing act between the strategic issues related to your family and those connected with your business; it also means steering the company successfully between the forces at work in the marketplace and within the family.

The strengths of family businesses

Family businesses, in general, are better placed to ride the turbulence of the volatile financial markets due to their longer-term perspective and planning, their flexible and focused governance, their talent management and loyal employees, and their customer focus and strong relationships.

Since family firms are in business for the long haul and may have less external pressure of paying dividends to shareholders, they often manage to avoid the short-term pitfalls of “quick fixes” like drastic price cutting, shrinking innovation budgets, staff reduction and abandoning unprofitable markets. We have found that they are more inclined to invest during testing economic conditions, picking up great personnel and taking advantage of opportunistic acquisitions.
Family businesses have unique needs in comparison to corporate business operations. When your company’s main stakeholders are your family, one of your major concerns will be to secure the long-term existence of the business so that you can hand over a better business than you inherited.

Having a detailed succession plan for the family business means looking forward to the future of the business and mitigating potential issues that may arise at the time of transfer. This means being cautious, but at the same time investing wisely in the future.

Family relationships and interests are often diverse; some family members may not be interested in continuing the business – while others may wish to change it fundamentally. Managing succession planning is one of the most complex aspects of running a family business, especially due to the inherent complexities. Yet our research indicates that half of family businesses don’t have succession plans in place.

A family business needs to consider not only the business itself, but also the personal wealth of the family, ensuring the security and growth potential of the family wealth for generations to come.

As an organization focused on entrepreneurship, with a dynastic will to build a stronger business generation after generation, our Private Mid-Market practice relates to and understands your issues. We offer your private company the hands-on, personalized service of a boutique-style firm coupled with the breadth of service offerings and brand only a global network can provide.
Balancing Risk

Risk is an important part of business: without taking risks, growth will be impossible. However, the leading companies are not those that take more risks, but those companies that understand and control the risks they are taking. Good risk management leads to increased confidence, better decision-making and sustainable growth.

Balancing risk and opportunity

The demands on family businesses have changed dramatically over recent years and the need to be able to react quickly to market developments puts additional pressure on your businesses’ flexibility and adaptability — necessary components to meet today’s challenges. Increasingly complex client requirements, a growing variety of products, ever-shorter product life cycles, rapidly advancing internationalization, complicated technical solutions, along with external factors in the business environment will influence a company’s ability to manage their risks.

Decision-making

Risk management is becoming increasingly important for companies as well as increasingly influential in management decisions. Practical risk management would help you evaluate the gross value at risk (both in a qualitative and quantitative way) and then identify the optimal mix of risk treatment measures to manage the strategy within an appropriate band of net value at risk.

Good company management and transparency (corporate governance) are particularly essential for family companies; they form important elements in securing the company’s sustained existence and the family’s interests. To balance risk and reward, you need to manage value at risk to a level aligned with your risk capacity and corporate strategies.
We confront the growing complexity of protecting your family business from risk, through a suite of strategic solutions that help you evaluate and enhance your risk function, including helping you with:

- Strategic, operational, financial and fiscal risks
- Legal requirements and operational security with regard to risk management
- Creating an effective internal control system
- Identification and management of IT-related risks
- Risk and expenditure in connection with an audit
- Review of contractual agreements
- Corporate governance (family governance)
Culture and Responsibility

There is a strong business case to be made for taking a sustainable approach to business. Factors such as regulatory change, changing consumer preferences, and the rising cost of energy are causing many types of business to rethink their supply chain, manufacturing and service delivery processes. Companies looking for longevity need to consider these impacts a decade away – and family businesses are uniquely placed to be able to plan ahead and make preparations to give them an advantage.

Corporate and social responsibility

There is a growing emphasis on corporate and social responsibility for family businesses. Social responsibility is a self-regulating determination to apply corporate conscience, good citizenship, social performance and sustainable responsibility to your business – the very fundamentals on which many family businesses were built. The goal of corporate and social responsibility is to embrace responsibility for a company’s activities and encourage a positive impact on the environment, consumers, employees and affected communities.

Customers and employees alike are often attracted by a company’s ethical commitments: e.g., using local products, sourcing from renewable resources, hand finishing products and providing excellent after-care services. The popularity and growth of “Fairtrade” products that meet agreed environmental, labor and developmental standards, is an encouragement for all companies to review their international policies and supply chains.
Corporate culture

Family businesses are hugely different to large corporations - they are normally strongly underpinned by the values of the founding family. The family have placed generations of energy into making the business a success; they have an emotional connection to the company, meaning much more to them than a purely financial concern – they take it personally when times are hard, and do their utmost to prevent their loyal members of staff suffering consequences.

Culture building tip

Your business should build the maintenance of ethics and values into your performance strategy, and align it with the achievement of company goals with respect to growth, market positioning and optimizing internal processes. If you see your company vision wavering, you may consider introducing internal change programs that enhance the vision and values in the way your staff do their job every day - especially important for customer-facing positions. You can then promote the company’s unique values as a competitive strength in a crowded marketplace.
Effective Tax Management

The ever changing tax landscape has a significant impact on strategic planning for family businesses. Whether the focus is on investments, financing and liquidity, or plans for growth or expansion, tax law factors heavily in the decision-making process. With tax authorities across the globe seeking to maximize revenues, it is more important than ever to ensure that your executives understand the tax implications of all business decisions they make, as well as the structure, processes and policies related to tax controversy and risk management.

Personal tax

The tax and legal issues facing you and your family are extremely complex. Personal taxation has never been so multi-faceted, and failing to consider all the elements could prove costly to your family and your business. A holistic approach to your tax planning will help mitigate problems, both now and for future generations.

EY can work with you to help reduce your tax burden with approaches tailored to your lifestyle and family circumstances. Our professionals evaluate all the relevant commercial, legal and financial factors and constraints in light of your unique circumstances, giving you peace of mind and letting you concentrate on improving the potential of your business.
Proper structuring of your tax function can free up working capital and allow you to take advantage of market opportunities and maximize your asset portfolio. Whether you are restructuring the business, making an acquisition, refinancing or simply focused on mitigating risk, you will need to identify the most efficient tax structures.

The creation and implementation of tax-efficient business structures needs a proactive approach. We will work with your company executives to identify appropriate tax planning opportunities, point out potential areas of exposure and recommend ways to improve the returns on investment portfolios. Our tax professionals draw on their diverse perspectives and skills to give you seamless service through all the challenges of planning, financial accounting, tax compliance and maintaining effective relationships with the tax authorities.

How we can help you manage your tax effectively

Our extensive experience with family and entrepreneurial businesses enables us to develop and implement approaches for effective tax management:
- Help in determining your requirements
- Surveying the current situation, including tax functions and legal policies
- Developing tailored approaches, models and policies
- Jointly selecting and helping to implement measures
Future Management Structure

No one can see into the future, but sometimes you need to take steps to ensure that your business is able to evolve and strengthen, especially if your company is growing at a rate which mandates a more corporate approach to manage complexity.

Contingency management

If serious illness or death entails a sudden change of leadership – would your business be ready?

Business continuity planning means the family business owner appointing a team (usually from within the business, but often with the addition of an external advisor) who have the capabilities and inclination to take over the mantle of running the business in case of an incident, and who are clear about the roles they need to play.

Mergers, collaborations and acquisitions

Proactively identifying acquisition opportunities and forming partnerships is critical for companies wishing to deliver sustainable growth and aiming to become a market leader. Exceptional family businesses will be able to identify win-win situations and utilize their business networks to unlock the doors for value adding partnerships; ensuring that these are aligned to business strategy, focused on customer satisfaction and actively supported by investors.

Understanding the right window of opportunity to make strategic acquisitions or divestments will maximize your long-term value and returns. You should also evaluate the benefits of licensing, franchising, joint venture opportunities, etc.

Exploring collaboration opportunities with complementary companies can drive innovation and knowledge acquisition to keep both companies ahead of the competition – it might also be beneficial to merge parts of the organizations to create an entity that will retain customer loyalty and build a successful brand.

To ensure there are no expensive mistakes, companies should place a great emphasis on detailed financial and commercial due diligence, risk evaluation and post-merger
integration of systems, people and cultures – keeping employees informed about major changes and reassuring them about potential overlaps, so that you retain their understanding and commitment.

**Succession planning tip**

It is advisable to make important succession decisions known and legally documented, long before they need to be implemented. Any succession will be an extremely emotive time, even without disputes over power and equity shares, but careful planning can ensure a smooth transition. If the person leaving is the driving force behind the business success, it may also be a good time to decide to sell the company, or arrange for a management buyout, alliance or merger with a similar company.
Managing Capital

Prioritizing your capital management issues and needs

Increasingly, family businesses are being faced with a more complex set of challenges in terms of effective management of capital – particularly in relation to accessing or freeing up capital to make longer term investments in the sustainable growth of the family business.

Traditionally, family businesses have been known for their careful management of cash and their ability to fund growth plans without debt or equity fund-raising. But, as competing for growth becomes a key business strategy relating to new markets, new product development and opportunities for acquisitions and expansion, what options exist that allow family businesses to maintain control while ensuring they have capital at their disposal to execute key business initiatives?

Given this, many family businesses are realizing that a strong capital agenda needs to be at the heart of all strategic boardroom and management decisions. Your capital agenda should be aligned with your overall corporate goals and initiatives and will impact on key business drivers such as growth, finance, operations. While strategies and approaches will vary by company, one point is compellingly clear – relying on traditional sources of capital may provide your competitors with an advantage.
To address our clients' capital agenda needs, EY has developed insights around what we see as the four key dimensions of the capital agenda.

These four dimensions allow for a strategic discussion of the options available to you and the family business so that you can make informed strategic capital decisions both in the short and longer term that will sustain the healthy growth and performance of the business.

**Four key dimensions of capital agenda**

- **Preserving capital**: reshaping your operational and capital base
- **Optimizing capital**: driving cash and working capital, and managing your portfolio of assets
- **Raising capital**: assessing future funding requirements and evaluating sources
- **Investing capital**: strengthening investment appraisal and transaction execution
Managing and Retaining Talent

To achieve excellence, a company is only as good as its employees: this principle applies even more in our globalized world. Increased cost consciousness, market volatility, international assignments, legal requirements, tax complexities and the necessity to retain top performers, present a whole host of challenges to family businesses.

Trusting outsiders into the family circle

Although it is often seen as an ideal to keep the management of your business within the family circle, sometimes the company requires competent and experienced management members from the wider business community; people who bring new talents, strategic insight and the ability to drive positive change.

You may wish to consider separating family ownership and management and invite non-family executives and non-executives onto the board, re-evaluating your business model and operational structure and seeking strategic hires to fill skill gaps.

Motivating through incentives

To maintain success, you must place a high level of importance on proactively identifying and rewarding the rising stars and core top performers within your organization and making sure that you retain them within the company.

Many family business employees are less enticed by annual compensation and bonuses than employees in non-family businesses. A frequent challenge, therefore, is to devise reward structures that properly motivate managers and executives outside the family. To do this successfully, you should establish competitive benefit plans and incentives tied to key performance benchmarks.
Managing Managers

It is vital to select the right people with the right skills as your managers. Each manager’s role needs to be defined precisely, so they fully understand their responsibilities and your expectations; this can also mean introducing training to improve interpersonal effectiveness by learning about their personal behavior and its impact on others. Managers can’t just be good at doing their own job – they also need to be a team player, show leadership and generate trust; they need to help others when they recognize help is required, learning the style and preferences of each of the colleagues they support, and they must make sure that everyone in their team understands the implications of each other’s actions.
Next Generation Planning

Generational change in family businesses is a highly complex process and often constitutes a real balancing act for everyone involved – family, company and owner. The issues to resolve always have an emotional component in addition to practical, objective and technical aspects; alongside fiscal, legal and financial questions, the very personal aims and values of the entrepreneur and family members will always form a major part of the picture.

Succession Planning

Despite succession planning being acknowledged as a high priority issue, many family businesses admit that they have no detailed handover plan in place to maintain the business, find the right person to take the lead and deal with the complex tax and legal environment. The internal and external communication and introduction of the successor is of critical importance in maintaining a trusted relationship with important stakeholders such as employees, customers, vendors and banks. For the owner of the company, succession planning is a unique and once-in-a-lifetime process: in order to organize successfully generational change in your company and secure your life’s work, a suitable plan must be developed and established at an early stage.

Various alternatives for leadership need to be considered; including searching within the family circle, among existing managers in the company and, possibly, external candidates. Appropriate attention must also be given to international aspects and the resulting tax considerations that are playing an ever-growing role in light of ongoing globalization.

It is important to involve the next generation in succession planning and strategy development: evaluating the key skills of management against changing business needs; and consider secondments to overseas locations or alliance management as ways to involve family members in the wider business.
To succeed for generations, family businesses need an entrepreneurial spirit that enables the pioneering mind-set and values that established the business to flourish. It must also create future opportunities to deliver innovation and financial and social value. However, when planning for business succession, potential business leaders may benefit from a little encouragement. The next generation is sometimes unsure whether following their parent’s path is right for them. In a world full of opportunities, they have to find a balance between their own interests and dreams, and the expectations of their family.

With the EY Junior Academy Program, we have established a range of unique and exclusive one-week training events that help the next generation to explore their potential and introduce them to the challenges of running a family business. The highly enjoyable activities give young adults the chance to pursue their interests and give voice to their own needs for the future.

For more information please visit ey-junioracademy.com
Sustaining Growth and Profitability

Long-term objectives

The long-term perspective of family businesses enables a more cautious approach: it may also encourage investment during difficult times and allow you to focus on the future health of the company rather than on short-term survival. Strong central governance provides continuity and the entrepreneurial vigor to look for opportunities ahead. Lasting success will depend on seeing the risks as well as the opportunities, and having a sustainable strategy for competing for a share in the world’s markets.

Optimize your market reach

Customer trends are affecting the established routes to market and require new ways of thinking. To extend your market reach, you must optimize your potential in both current and new markets; and broaden your product or service mix to exploit opportunities, achieve optimum returns and mitigate risk. This may involve pioneering innovative entry strategies; leveraging your cash flow and long-term investment perspective to invest in research and development (R&D) ahead of your competition, explore key markets and find new market opportunities for existing assets such as intellectual property, patents and licenses.
Diversification options

Our work with clients has indicated that, to sustain a successful business, companies must embed innovation and constantly challenge their existing business models to broaden their product and service offering. Family businesses have several options and advantages when considering the following:

**Developing new products**

Without external pressure for short-term goals from stakeholders, you can allow yourself sufficient time for research and manufacturing, only entering the market when the product is ready; embracing new technologies to communicate with and serve your customers.

**Migrating into new markets**

By leveraging your unique family business ability to make and act on decisions quickly, you may be able to secure competitive advantage in new markets. You may need to re-evaluate your pricing strategy and leverage transfer pricing cross border to ensure competitiveness.

**Entering new sectors**

Seeking alternative customers and ways to diversify. You may also want to consider new horizontal integration strategies to buy up weakened competitors and expand market share in new sectors or geographies.

**Acquiring new capabilities**

Hiring different skills or training up employees and exploiting new technologies to satisfy changing customer needs. You should also evaluate the impact of offshoring on your customer experience and brand.

**Developing new collaborative processes**

Leveraging long-term customer and supplier loyalty to introduce more flexible and efficient processes, or co-develop new products and services.

To expand successfully, you will need to understand the window of opportunity for strategic acquisitions and divestments to maximize transaction value. This means developing an accelerated transactions process that enables you to grasp that opportunity, while making a thorough assessment of the potential opportunities and risks, due diligence and operational integration considerations.
Taking care of all of your family business needs

EY cares about your family and your family business. We know that the two strands can’t be separated – if your family isn’t happy with your personal financial situation, your business may suffer; if your business isn’t flourishing, your family may feel the pain.

We will give you independent and practical advice to help you strengthen and grow your business. We have industry and subject-matter professionals in key business sectors who understand the specific issues you face every day, and can give you informed counsel and advice on how to leverage international leading practices. We will be proactive on your behalf at all times – sharing with you new developments that may affect your business, aiming to suggest options before a problem even arises.
How EY 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 have 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 crossroad, or simply want to maintain the right direction to success, we’ll support you with our experience and advice.

Please learn more by visiting ey.com/ca/private

Or visit our Global Family Business site at familybusiness.ey-vx.com
About EY
EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

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