

# Transition planning considerations for the business owner

*Business and Family Advisory Services, Scotia Capital Inc.*

As a business owner, you have likely spent a significant amount of time and resources building and growing your business. You understand that your personal and business finances are closely intertwined. Transition planning should be a top priority in order to help you achieve your overall business, family and personal goals and should be started as early as possible as it can often take 5-10 years to fully achieve all of the benefits of a well-designed and executed plan.

To help in evaluating your transition preparedness, consider the following common business owner planning concerns:

**Business continuity:** Have you considered how to continue to successfully run the business with the goal of eventually stepping away (your Plan A)?

- < Are you thinking of transitioning in the next 5 to 10 years?
- < Are you deeply rooted in the running of the business?
- < Would you consider eventually selling the business or have you already been approached by an external buyer?
- < Are you certain about the current market value of the business?
- < Do you know how the management and ownership transition of the business will take place?
- < Are your children interested and prepared to take over leadership of the business?

**Contingency:** Have you assessed all the potential “what if” scenarios to determine your Plan B if your intended Plan A does not work as planned?

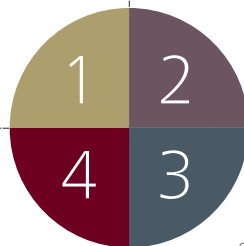
- < Does a shareholders agreement or corporate Power of Attorney exist?
- < Are your wills and powers of attorney up to date and in alignment with corporate documents?
- < Is there a formal contingency plan for business operations should the unforeseen happen?
- < Is there adequate life insurance currently in place to both protect the family and create needed liquidity?

**Legacy:** Do you have a clear understanding of how the distribution of your personal and business assets will occur upon retirement, death or sale of the business?

- < Do you want to pass ownership or future growth of the business to family members?
- < How will you distribute shares between children who are involved in the business and those who are not?
- < Have you explored family trust options to preserve wealth for subsequent generations?
- < Is providing a lasting legacy for your family and/or for your community important?

**Financial security:** Have you planned how to maintain current lifestyle in a tax efficient manner after the transition of the business occurs?

- < Is your family financially dependent on the business?
- < Do you have sufficient personal wealth outside of the business or will you need to rely on the business to fund your eventual retirement?
- < Do you have a pension plan?
- < Are you taking advantage of potential tax planning opportunities to maximize cash flow while minimizing tax?



If you would like to discuss any of the business transition planning concerns identified, please contact your Scotia Wealth Management advisor today who can connect you with a member of the Business and Family Advisory Services Team.

## Family enterprise considerations for the family business owner

Communication and trust issues within a family are the most leading causes of transition failures for generational wealth transfers amongst families. The three-circle model below provides a lens to better understand the complexities involved when working within a family enterprise. It illustrates that all three components – business, ownership and family are equally important within a family enterprise and all intersect, indicating interdependency and the dilemmas that can arise. Working together often intensifies interactions and can exacerbate family problems, making it difficult to share ideas, discuss issues or make decisions effectively.

A tool that is often used to illustrate the interaction of business and family is the Three-Circle Model of the Family Business System<sup>1</sup> (the “Three-circle model”), developed by Harvard Business School professors Renato Tagiuri and John Davis. This model views the family business as a system comprised of three domains: the Family, the Business and the Ownership. The Business and Ownership circles are common to all businesses, whereas the inclusion of the Family circle makes family businesses unique.

In assessing your family’s transition preparedness, consider the following concerns for each component:

### Family:

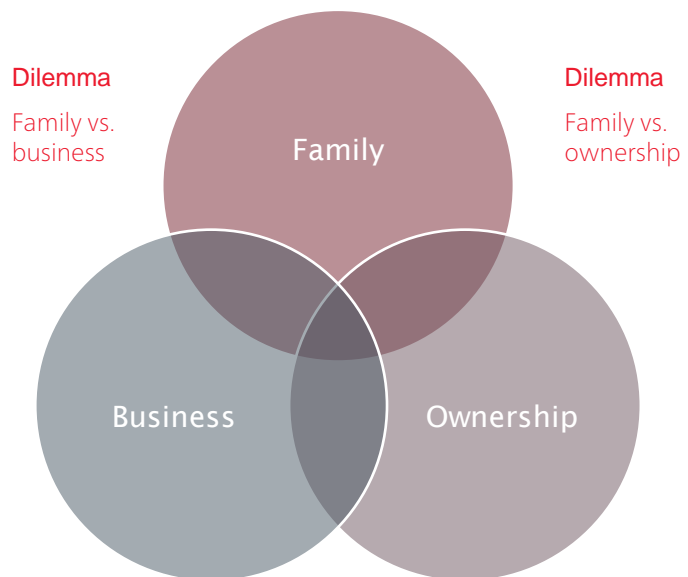
- < Has the family clarified and communicated their goals and values for a shared vision?
- < Are there underlying family dynamics issues like sibling rivalries, difficult family relationships, unresolved conflicts, or blended families?
- < Do family employment and family hiring policies exist?

### Business:

- < Is there a common vision for the business?
- < Is there a process in place for communication and decision making?
- < Does both a clear and communicated management succession plan exist?

### Ownership:

- < Is there agreement over the ownership goal (growth versus harvest)?
- < Is there a program for teaching effective ownership to the next generation of owners?
- < Do ownership policies exist to address dividend redemptions, transfer of shares, and insurance?



Finding appropriate balance amongst family and business objectives is key. Creating a personal financial plan without first assessing what is required by the business will not address the opportunities or constraints that have very real implications for the family. If the focus is on the business exclusive of understanding the family dynamics and family needs, strategies get created that have little chance of being implemented because what is required by the business may not always align with family priorities and goals. Parallel planning is needed which integrates and balances both the family’s and the business’s interests in the overall strategic planning process.

1. Three-circle model adapted from Tagiuri & Davis’ 1982 working paper “Bivalent Attributes of the Family Firm.” Harvard Business School, Cambridge, MA.

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