

Fair Equal Business

The legacy of a family business is worth the mountain of time and planning to get succession planning right.

We had never been up this hike before, and the written description we had was about as legible as stereo assembly instructions. With frazzled nerves, and semi-certain directions, we started the hike a few meters from the river valley and meandered through some swampy lowlands and forested foothills before beginning the aggressive ascent. The mosquitoes were hungry and we were tired, our nerves edgy. Every step was a fight against encroaching darkness, fatigue and hunger. Somehow in our hasty departure we hadn't calculated for time to stop and eat dinner. And like every hike ever, it was further, longer, and harder than it appeared during the planning stages.

About 3 1/2 hours in, just as mid-summer light was beginning to fade, we paused to catch a glimpse of beautiful river valley below. The paradise that is British Columbia was in its glory, the mighty Fraser giving no hint of its fury from this stunning vantage point. Another 3 or 4 kilometres to go, and 90 minutes of light left, meant we had to push past the burning pain in our legs. I really wanted a hamburger and a lawn chair, but there was no time to daydream. Anything short of a stiff pace, and we would be groping for the cabin in the dark. Just at this moment we heard a great terrifying noise in the thick bush next to us. They say the area is frequented by grizzlies, and although we made no visual contact, the audible was all we needed to get seriously worried. And worse, my conscience. I had lead four of the most precious people in my life, all of them young ladies, in to a hungry bear den at dinner time.

We pulled in tight, strategized, and decided that our best shot at surviving, if there was to sound formidable. My daughter started in, with a full belting impression of Freddy Mercury: "Is this the real life! Is this just fantasy? Caught in a landslide, no escape from reality!" We all chimed in whole heartedly, and the rest of the way we walked briskly, carrying sticks, and belting all kinds of British rock tunes to keep our audience confused, (and maybe toe tapping just a bit), until just as dusk was completely shrinking away, the welcome sight of a mountain cabin came in to our view.

We benefited enormously that night from the decades of hard work and planning by those who created and maintained that lovely cabin. Although dinner was delayed until well after dark, we spent a cosy evening and morning, in the peace, warmth and comfort of enabled by the work of others who not only hiked that same trail, but brought tools and supplies, lumber and so on.

And, as we have been discussing, the legacy of delivering business assets creates complex wrinkles to the already intricate processes of intergenerational planning.

Fair vs. equal for family businesses

Given the fact that approximately 80 percent of businesses in Canada are family owned, ranging in size from small all the way to large-scale corporations, the importance of thorough and detailed succession planning cannot be understated. A commonly identified fear among family business owners is creating family disharmony during succession, and there are strategies to consider which could ease this stress.

Succession planning process

One of the first steps in family business succession planning is understanding your goals through inclusive intergenerational discussions -- family meetings in a business setting. These meetings provide a forum to talk about overall family values and an opportunity to gain better insight into the next generation's viewpoints regarding the business. Initially, this can be an open, exploratory discussion.

When it comes to the business, every member of the family may have his or her personal agenda depending on individual circumstances, and most importantly, the level of engagement in the business for each member. From the child's point of view the range of involvement with the business could include:

- That place where my parents go (there is sometimes even resentment – jealousy);
- My casual job;
- My full-time job and possible career;

- My part-ownership in our family business;
- My future majority ownership in the business.

Options to consider to promote fairness

In accounting for all factors of a business, regardless of the situation or complex circumstances, there are succession planning tools that effectively address all parties. Such as:

- Using non-business assets to equalize for other child(ren)
- Using life insurance as an equalizer for children not involved or sharing in the value of the business
- Leaving a child in the business, but without voting rights or shares
- If there are no other usable assets, establish that one sibling has to buy other siblings out

All the while, try to strike a balance that adequately addresses level of contribution to the family assets.

Much like personal estate planning, succession planning for family businesses also hinges very strongly on open communication with all family members. This holds especially true when the business itself is not being passed in an equal manner. Children need to understand the decisions and the structures behind them, and their context and reasoning. If children are not receiving an interest in the business but are being equalized in another way, it's crucial to explain how fairness has been preserved through other means that were more appropriate for their situation.

Mark Ryan is an Investment Advisor with RBC Dominion Securities Inc. (Member–Canadian Investor Protection Fund). This article is for information purposes only. Please consult with a professional advisor before taking any action based on information in this article. Mark can be reached at mark.ryan@rbc.com.