

## Business Succession Planning in Atlantic Canada

### *What is Succession Planning and Why is it Important in Atlantic Canada?*

Atlantic Canada has a high percentage of family and owner-managed business, and these enterprises are set to undergo significant transition over the next few years. In a recent survey conducted by Canadian Capital Magazine, 94% of respondent business owners felt it was important to build a succession plan, but only 38% had a succession plan in place. Further, 43% said they planned to sell or pass on the business in the family and 34% expected their transitional event to take place within the next 5 years. In Atlantic Canada, owners and entrepreneurs tend to stay active in their businesses longer, making the succession issues somewhat more challenging.

Succession planning is broader than estate and tax planning. It involves the identification of an appropriate exit strategy for the owner which addresses the management of the business, the financial situation of the owner and the personal/family concerns of the owner and other family members. For most owner-managers, their largest asset is their business and an appropriate succession plan can preserve that value. Regrettably, studies have shown that only about 30% of businesses successfully transfer from the first to the second generation and only about 10% survive to the third generation.

### *The Succession Planning Process – A Multi-Step Approach*

A formal business succession planning process usually involves working with a succession planning consultant who acts as a facilitator. The consultant focuses on fact-finding and family issues rather than on estate and tax planning issues. The consultant's role is to meet with the owner to understand the structure of the business, with family members to learn their goals and concerns and with the owner's advisors (such as the corporate lawyer, accountant and banker) to identify potential succession, financing, estate and tax planning issues, and to then to prepare the succession planning deliverables and review them with the owner and his or her family. Those deliverables should include the following items:

- Contingency plan – this takes effect in the event of an unanticipated death or disability of a key stakeholder to stabilize the business and give the family peace of mind. For example, the plan could identify who would immediately assume responsibilities, what external support is available for the successor, who the key contacts are, and where important documents are located.
- Issue identification summary – this is a personalized document that summarizes the issues identified through individual meetings and the consultant's experiences with other families in business and can serve as the foundation for a facilitated

family discussion. Key issues might include the short and long term objectives of the stakeholders, ownership and management succession planning objectives, and what governance structures are in place.

- Family participation plan – this provides guidelines and manages expectations for family employment in the business. For example, it can outline who is eligible to join the family business, what experience or education is required, and how family members will be compensated.
- Forward work program – this flows from the issue identification summary and follows the facilitated sessions by identifying specific actions and the persons responsible to address those items.

### ***What Are the Succession Options?***

A true succession plan involves naming a family member or members as a successor. This is generally the preferred outcome of the process. To the extent that certain family members will be participating in the business on a go-forward basis and others will not, the owner will likely consider estate equalization through other assets for those non-participating children. Other outcomes to a succession planning process when no family member is identified as successor include appointing a professional manager (whether through a management buy-in or as a non-equity manager) or sale of the business in whole or in part (which creates immediate results, but which caps the owner's financial interest in the business and eliminates the possibility of future family involvement).

### ***What Can Business Owners Do About Succession Planning?***

The most important thing business owners can do is to start planning early. The sooner the process starts, the better the outcome will be. Owners should encourage intergenerational teamwork, involve family and colleagues in their thinking and in the process itself, take advantage of outside advisors, establish a training/development process for family members, plan for retirement and decide on a retirement date and stick to it. As the Canadian Capital survey found, 86% of respondents thought it was important to leave a lasting legacy. A formal, written succession plan encompassing all these issues can help business owners in Atlantic Canada achieve that goal.

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