

SUCCESSION IN FAMILY BUSINESS



Managing the transition of
ownership and management

CHAPMAN EASTWAY

What is succession?



Succession is the process of ensuring the continuity of a business beyond its current management and ownership structure. Succession planning enables a sense of unity between family members, as well as clarity in regards to the business and each individual's place within it. It acts as a platform for ensuring the business' continued strong performance and long-term sustainability. Effective businesses view succession planning as an intrinsic part of business strategy and general business management. For small-medium sized enterprises, succession planning provides the perfect opportunity to consolidate your business position, streamline operations and position the business for future growth.

Ask yourself the following questions:

Family Goals

- What would constitute a 'successful' succession outcome for your family?
- Who should be eligible to benefit from the success of the business and how?
- How is the financial ownership of the business structured? (shares, participation certificates etc.)

Expectations

- Are family members aware of each other's expectations with regards to the future?
- Does your business have a contingency plan? Is the next generation ready to take over the business?
- When and where do family members want to retire? Do they have enough money to do so?

Values of the family

- What are the particular sources of pride for your family in respect to the business?
- How important is it that your business stays within your family?
- Do you have a family council and/or hold regular family meetings? Who is involved in decision-making?

If you are unsure about the answers to these questions, it is time to start the conversation regarding succession.

What does the succession process involve?

Family succession planning can be complex and needs to align with a range of highly variable and constantly evolving family and business dynamics.

For this reason, our highly experienced professionals can work with your family to gain a holistic understanding of your family circumstances, as well as personal and financial goals. With this deep understanding, Chapman Eastway collaborates with you to develop a broad-based business strategy that aligns with your family and business vision, and also achieves your business objectives.

An external advisor provides the necessary guidance for families to work together by establishing structures to separate family from business.

This facilitates constructive family communication and effective business decisions, and eases the tension on family relationships, which can be compromised when business and family intersect. When family members are part of the decision-making process and understand the reasons behind why a decision is made, the likelihood of future contestation is greatly reduced.

The Succession Process

1. Analyse – *The process starts with a comprehensive analysis and review of the financial and operational performance of the business including:*

- Existing systems, procedures, governance mechanisms, decision-making procedures etc.
- Current superannuation, retirement plan and funding capacity, taxation and review of alternative and more beneficial options as well as opportunities for taxation concessions
- Reviewing the strengths and weaknesses of the current ownership structure
- Business performance: Conducting a 5-year diagnostic of current and expected performance to ascertain the business' ability to meet the family's financial requirements, i.e. retirement, education and housing
- Identifying areas of legal and financial concern
- Interviewing all family members to ascertain individual wants, needs and expectations in order to develop a Family Charter and Business Plan

2. Strategise – *This stage involves strategising and developing a plan for the future that meets the requirements of both the family and the business, including:*

- Developing a realistic and flexible succession plan for the operational exit and/or retirement of the current owners from the business (including timing of key handover events) with consideration of taxation and financial factors
- Defining roles and responsibilities of decision makers and levels of delegated authority
- Reviewing options regarding appropriate business structures with consideration to taxation, estate planning, superannuation and retirement funding
- Where an active business is involved, developing an effective business strategy and plan including reporting systems, policies and procedures, and contingency plan, as well as a realistic set of KPI's to ensure the business keeps ticking over during the succession process

3. Formalise – *Converting your preferred strategic options into a logical set of written plans and support documents, creating structure and clarity for the family*

- Clearly defined goals, objectives and timeframes, capturing alignment of interests
- Creating a Family Charter that establishes a set of universally applicable guidelines
- Developing a Wealth Statement
- Developing or amending Estate documents
- Formalising business strategy into a business plan
- Tax Planning documents
- Tailored transition plan for sequential roll-out of your succession plan including timeline of known or forecast key events
- Comprehensive confidentiality documents as required

4. Implement – *Once you have developed a plan, the next step is to implement it. This includes:*

- Implementing the first stages of the business plan
- Ensuring key actions are taken in order for the plan to proceed
- Implementing a system of governance, risk management and establishing effective reporting systems and a contingency plan to provide security for family members and employees
- Structuring the business in the most tax effective way i.e. company, trust and/or partnership
- Taking the necessary steps to secure funding for retirement, education, housing and other family requirements

5. Monitor – *Chapman Eastway is committed to ensuring the continued success of your succession plan. We do this by supervising the process and being available at any time to mentor and guide your family. Monitoring is an ongoing process that involves:*

- Conducting annual family meetings to assess whether the plan needs adjustment to align with changing family circumstances and requirements
- Providing guidance at critical junctures and in exceptional circumstances, e.g. divorce, family conflict
- Ensuring KPIs are at a satisfactory level
- Reviewing and monitoring key milestones to ensure the right steps are being taken to ensure your family's financial security
- Ensuring the family's short and long term objectives are being met and there is enough liquid cash to achieve your family's financial requirements
- Adjusting the plan for any unforeseen circumstances

How can Chapman Eastway help you?

Chapman Eastway's team of professionals will help you integrate succession planning into your overall business strategy to ensure every member of your family is prepared for the next stage, that business operations are not compromised in the process, and that family relationships are protected.

Chapman Eastway specialises in:

Shaping and supporting plans for the future

- Planning and preparing for retirement and future income requirements
- Facilitating management/ownership transition
- Sale of business
- Due diligence
- Structured realisation of assets
- Employee/management buy out
- Putting formal arrangements in place to reduce the possibility of future conflict

Ensuring business preservation and growth

- Maintaining business value throughout the succession process
- Identifying and developing growth and equity opportunities and strategy
- Forging strategic partnerships using our extensive business network
- Developing a tailored plan for future ownership and management structure
- Tax advice and compliance
- Identifying critical business areas for improvement

Managing the needs of the business and your family

- Developing a shared vision between business owners, family members and stakeholders
- Developing a family charter that suits all needs
- Investment and dividend policy
- Superannuation and retirement planning
- Acting as an advisory board



About Chapman Eastway succession planning

Chapman Eastway has been helping families manage the process of succession for over 100 years. We know that doing so requires a holistic approach that combines sound financial and business advice with an empathetic and considered approach to handling family expectations and relationships. We will help your family throughout the entire process to ensure that everyone has clarity and confidence about the future of the family business.

It's never too early to start. To learn more about how Chapman Eastway Succession Planning can ensure your family and your business is ready and prepared for the future, call (02) 9262 4933 or contact us at mail@chapmaneastway.com.au

This document is not considered to be financial advice. To the extent permitted by law, this should be considered general information only and no action should be taken based on the above. Should you require specific advice to rely upon, please contact Chapman Eastway.

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