OVID-19 has shown how transitions of family values, business and wealth deserve thoughtful attention now more than ever.

In brief
• Understanding the detailed composition of your business and family assets right now is fundamental to effective transition planning.
• Listening to family members and implementing robust family governance is key to bringing through the next generation.

Critically acclaimed HBO TV program Succession picked up the Golden Globe award for Best Television Drama Series in January 2020 and the Emmy for outstanding drama series in September 2020. The hit series is rife with family conflict, betrayal and drama as it follows the lives of the Roy family amid a generational transition and the prospect of the patriarch stepping back from his media conglomerate.

Succession is, admittedly, an exaggerated (and fictional) example of what can happen when parents and children clash over family business and wealth transfer, and the related impact that it can have on the community and employees that benefit from successful family firms. But real life can sometimes prove equally, if not more, challenging.

Two months after the Golden Globes, the world was changed beyond recognition as the COVID-19 pandemic hit, countries went into lockdown, markets were disrupted and many businesses, including those that are family-run, had a unique need to rethink their plans and operations. Nine months later, the need for those plans and operations to adapt to the changing business landscape continues.

“It’s common for families to consider wealth transition only during times of conflict or on the death of the patriarch or matriarch,” Desmond Teo, EY’s Singapore-based Asia-Pacific family enterprise leader explained. “But the one thing that the pandemic has shown is a real need for families to get on top of their transition plans now, so that when inevitable events out of your control arise, you are better positioned to deal with them.”

According to Knight Frank’s The Wealth Report 2018, only 26% of families have a full wealth transfer plan in place. Resilient families and businesses are taking the opportunity to regroup and refresh around their generation transition intentions.

There is no one-size-fits-all solution when it comes to family wealth and business succession. However, whether you are starting your transition planning from scratch or reviewing your existing plans in light of COVID-19, there are some practical steps that...
you can take to ensure your transition plans support your ambitions and legacy.

1. Take stock of your plans and legacy

Knowing where you stand right now creates the foundation for effective and robust planning.

While it makes perfect sense under any circumstances to take stock of your business and wealth position, there are even stronger incentives to do so now.

As Tom Evennett, EY UK&I family enterprise leader, EY Private Tax, UK&I, highlighted:

“When you take into account properties and assets held, investment portfolios, trusts and foundations and so on, your personal holdings may present a complicated picture. And that’s before you factor in the family business value creation and preservation, which can add another critical dimension.”

It is highly likely that your holdings will have been affected in some way by the pandemic. Your investment’s value and risk profile may have changed, or your business may have faced profound disruption. It is only by understanding the full picture that you can start to devise a plan, which could possibly include looking for new opportunities as well.

As Marianne Kayan, manager, individual global tax planning, personal financial services, national tax, EY Private Tax, Americas, noted:

“There are many reasons why families don’t have a proper transition plan in place. As the head of the family, you may fear that you are somehow relinquishing control and, having built up a business, don’t want to hand it over. Similarly, you may think it only makes sense once you are ready to retire. While this is, perhaps, understandable, a lack of planning can put you in a vulnerable position.”

By developing and implementing a wealth transfer plan, you can ensure that a range of short-, medium- and longer-term objectives are addressed. This may involve assigning both family members and advisers to create, deploy and execute the plan. It will need to consider a range of factors that are addressed in the following sections.

2. Consider family and business as separate parts of the whole

Understanding the disparate parts of the family wealth picture will help with comprehensive planning.

While there will be a natural crossover between family and business considerations, a distinctive succession plan to support the transition needs of the business is critical.

Leading practice business transitions often happen while current owners, founders and leaders are alive and active. One of the key considerations is clarity on the options and intentions for what is going to happen to the business itself. Will it be sold, or will the next generation assume leadership, management and ownership? Having those conversations now is really valuable.

If your family has one or more businesses as part of your asset base, you should consider the performance of that business as an important component of your family wealth transition plans as well. Your family will want to ensure the key performance indicators for business performance are working as intended to support and protect value across generations.

Family offices are increasingly playing a strategic role in facilitating a smooth transition of wealth from one generation to the next. Not only can a family office support you with traditional wealth management considerations, it can also play a key role in supporting family continuity, legacy, philanthropy, impact investing and other endeavours of importance to the family at large.

3. Do not lose sight of the changing tax landscape

Staying on top of shifting tax regulation can help ensure you remain compliant across jurisdictions.

The global tax landscape has become increasingly complex and important for families of all profiles. Tax policies are often central in government, social, and economic considerations, impacting business-owning families and their business interests. These strategic tax considerations only amplify for multi-jurisdictional families with business and personal interests in multiple locations.

The tax landscape of the locations where you and your family live and conduct business plays a significant role in a well-thought-out wealth transition plan. There are the traditional tax concerns—inheritance taxes, business taxes, transfer taxes, individual taxes, country tax schemes—all of which you must consider.

“Wealthy families are becoming more international and will need to consider the associated complexities, or there could be a risk of underestimating the implications,” Dr. Christian Steger, head of private client services, EY Private Tax, Germany, explained. “Issues around dual residency, exit tax and general tax compliance in multiple jurisdictions definitely need to be taken into consideration early and regularly.”

Many countries are making changes to their tax regimes in response to the COVID-19 pandemic. Now more than ever it is critical to ensure personal and business tax positions are central to any strong succession plan.

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4. Understand and consider all family stakeholders

Recognising the hopes, plans and expectations of family members will drive future planning.

Family is complex, and an important part of your wealth-transition plan is defining actually whom you consider ‘family’ in the context of your planning. On a simple level, this can boil down to who the beneficiaries will be and the practicalities of estate or inheritance planning, such as ensuring a proper Will is in place and

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the establishment of appropriate trusts and foundations. That being said, as much as there are financial implications, there are also non-financial matters that you want to address.

Generational ambitions and priorities may well differ significantly. Often, the next generation may be more international in its outlook, perhaps living or being educated in more than one country. They may prioritise social or environmental priorities in different ways. It is also possible that they may have family structures or lifestyles that differ meaningfully from the prior generation.

“When it comes to participating in the family business or any philanthropic endeavors, it’s really important to consider family capital,” Heather Greatrex, EY Oceania family enterprise leader, EY Private Tax, Australia, explained. “This concept is discussed by Dr. Lee Hauser in her book The Legacy Family [co-written with Douglas K. Freeman] and involves human capital, intellectual capital, social capital and financial capital. In other words, what skills do the next generation of family have that they can bring to the table?”

It is no longer a given that children will enter the family business—indeed, it might not even make sound business sense for them to do so. Likewise, you may no longer dictate the role of the next generation in family affairs. As such, leading families are asking themselves questions such as:

• Would the next generation like to be actively involved in the business or managing family affairs, and would they have a preference?
• Do family members have expectations or their own personal ambitions?
• Do they share the same vision of the future?
• Are children qualified, prepared and willing to assume a future leadership position?

Talking to and, critically, listening to the next generation is really important right now because their attitudes and priorities may have changed in light of the pandemic. Finding out where they stand now can be important in avoiding future conflict.

5. Educate the next generation
Teaching future family leaders about business and wealth management lays important groundwork.

One of the challenges you may face during family wealth and business succession is whether the next generation are actually ready to assume the roles and responsibilities that they are or will be taking on. “Studies show that many succession failures were caused by inadequately prepared heirs,” Todd Angkatavanich, principal, National Tax Department, EY Private Tax, Americas explained. “Not only might the next generation have insufficient business acumen, they also might have limited understanding about the management of wealth generally.”

As a result, education is critical to ensuring a smooth transition. This is something that can be put in place very early on—whether that is learning leadership skills, the fundamentals of running a business, or the basics of how investment markets operate. In the current climate, crisis management may well be something you want to build in for your future leaders.

6. Create and sustain a high-performing governance structure
Implementing cohesive family, wealth and business governance creates a solid future-facing framework.

As much as it is crucial for a business to have proper policies and procedures in place, the same can be said for family governance. The larger and more diverse your family is—including geographic diversity—the greater the need for proper protocols. Understanding where family governance fits within the three buckets of the overall governance structure is necessary to ensure you have a process to manage communications and both shared and divergent interests with family members:

1. Family governance—including oversight of the family’s shared vision and values, who is part of family, and formal structures such as a family council or family assembly.
2. Wealth governance—can be thought of as who controls distributions of the wealth, such as trustees of a trust, managers of an investment entity or executives of a foundation.
3. Business governance—including oversight of investments, business and investment companies, formal boards and advisory boards, and selection of executive management.

The required governance structures can cover a broad range of areas. It is important that the governance systems work in parallel with each other and that boundaries are set between the business and the family to avoid possible confusion and subsequent conflict.

A starting place for family governance is the creation of a family council, which can make decisions on behalf of the family as a whole, oversee family voting on key family governance issues, as well as managing and resolving family disagreements. Families with business concerns need to consider how to integrate the family governance with existing corporate and wealth governance structures.

“Having these structures in place helps improve governance and family cohesion,” Jean-Marie Hainaut, partner, business tax advisory, EY Private Tax, Switzerland, explained. “It gives you a point of reference to say this is what was decided as a family. It makes dialogue so much easier.”

Conflicts can arise from a lack of education, a lack of communication and a lack of clear vision.

“When you consider that a high percentage of failures fail because of a breakdown in trust and communication within the family unit, the importance of proper governance for family, business and wealth can’t be overstated,” Bobby Stover, EY Americas family enterprise and family office leader, EY Private Tax, Americas, said.

7. Make sure your plan is agile, relevant and sustainable
Building in flexibility means your succession plan can move with the times and as the world changes.

A succession plan is a living thing. Tax and business rules will continue to shift, family relationships will change, and birth, death, marriage, and other life events will alter the dynamics of the family. And, as we have experienced in the COVID-19 pandemic, and previously in the 2008 financial crisis, global events can come from nowhere and have an impact on your best laid plans.

Being proactive is the best way to manage your family’s transition planning. In our experience, families that formalise and agree [on] responsibilities for succession, and who renew and revisit generational and wealth transition planning on a regular basis fare the best. Establishing a process to review your plan regularly—ideally annually—is critical.