Simeen Gaidhar-Bhanji, Financial Expert Columnist

Simeen Gaidhar-Bhanji, CA is a Partner of Simeen Bhanji Chartered Accountant that offer a variety of services to corporations and individuals ranging from tax planning and consulting, compilation, reviews and audits of financial statements, corporate and personal tax returns, GST/PST services, and consulting for internal control, financing and tax.

Family stress adds pressure to perform

In my practice, I have encountered many family businesses that come in all shapes and sizes and through my consulting experience have realized there are common traits that differentiate the successful ventures from the less successful ones. As most of my clients are privately owned businesses, there is always the desire to pass the family legacy to the next generation.

What makes a family business successful?

The strongest indicator of a successful family business is the degree to which members educate themselves about operations. For example, one of my clients, a successful service company, has their son and daughter heavily involved in the operations. The children want to see the business as a viable future, so they are actively encouraged to participate in the day-to-day processes and decision-making.

Communication is another key to success. Effective communication helps each family member understand their defined role, resulting in autonomy and a greater sense of accomplishment. A company I am familiar with has four main partners, all related, who purchased a franchise. Before entering into this opportunity, I helped them understand, who would draw a salary, decisions regarding compensation, and who would take on key roles in the organization, such as accounting and management. Looking at their business today, it is evident that they have a clear chain of command regarding who does what.

A third key to success is strong accounting information that will lead accurate and on-the-spot decision-making. Keeping financial information transparent among family members is an essential by-product of clear communication and can help avert crises involving money.

A local family business that I have consulted for continuously works to improve in these three areas and has enjoyed success as a result. For example, one of the family members has a marketing background and has assumed responsibility for their marketing efforts. Another family member has bookkeeping experience and can issue financial information at any point – this is especially useful when big decisions need to be made under the pressure of time constraints. This company has consciously defined their roles and maintained excellent communication backed with strong accounting practices. Now it has annual revenues that exceed $15 million a year with strong growth.

What makes a family business less successful?

When a family is dependent exclusively on the income from its business, it can lead to financial pressure, which can blur the line between business and family.

The twin financial pressure from family and home can affect objectivity and cause members to fall into survival mode instead of looking forward strategically. One such business owner was in this very predicament of panic. His business was not generating enough cash to pay for its operations and was in a downward spiral.

After investigating, I found he was willing to accept any price for his services. His priority was bringing in cash because he was in survival mode, and money coming in the door was needed to cover their bills, even if it meant taking a loss on a job.

After analyzing their cash-flow projection for their monthly needs, I advised him to apply for a line of credit so that he would not be hostage to unprofitable projects.

Tax incentives for family business

From a tax perspective, family businesses can save money in a number of ways. Family businesses that are Canadian-controlled private corporations enjoy a small-business deduction tax rate on the first $400,000 of taxable income.

Also, family members can determine the type of compensation they draw – such as salary, dividends, management fees or commissions – which will allow them to save on taxes through write-offs, income splitting or a reduced tax rate. For example, a member of your family might be paid a management fee and is therefore able to write off all expenses related to the management of the business, such as a vehicle.

This column is intended to provide general information. Please consult your accountant for advice specific to your business.

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