



Family Business Succession Managing the All-Important Family Component

KPMG ENTERPRISE

Who says the family business won't
make it to the next generation?





Family Business Succession Managing the All-Important Family Component

Written by Grant Walsh

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Introduction

While the majority of family business owners would like to see their business transferred to the next generation, it is estimated that 70% will not survive into the 2nd generation and 90% will not make it to the 3rd generation.

Family Firm Institute
www.ffi.org



These alarming statistics beg the question:

What is going wrong with family businesses and the succession process?

Surely, the owners of family businesses cannot be held solely responsible for these succession failures. It is the author's contention that professional advisers to family-owned and -operated businesses need acknowledge that they are in part responsible for the dismal performance experienced by family businesses at succession. Far too much attention continues to be paid to the technical component of succession (e.g., tax minimization, estate freezes, family trusts, buy-sell agreements, wealth management, etc.) with far too little attention being paid to the people or non-technical component (family communication, family expectations, family values, family competencies, family dynamics, etc.) of the succession process. We will refer to the "people" or "non-technical" component of the family business succession process as the "family component."

The most critical issues facing business-owning families are family-based issues more than they are business-based issues.

Ward, J., *Perpetuating the Family Business*, (2004).

The existing literature and ongoing research on family business continues to promote the need to address the family component in the succession process. It is recommended that a significant or major portion of the succession activities focus on managing the family expectations and the family dynamics. This is achieved by actively integrating the family into the process. Professional advisers tend to be more comfortable working through the technical components rather than the family components of the family business succession process. Even though it may be viewed as more challenging, it is the people component that is the most important since it is the people or family members who will ultimately decide if the succession works or not. It is the inability to effectively manage the family component that has proven to be the major stumbling block for family businesses in the succession process.

Professional advisers to family businesses need to incorporate into their advisory services proven strategies to assist family business owners and their successors in managing the all-important family component. It is no longer sufficient to inform them of the need to do this. They need to be advised on *how to do it*. This will be the overriding theme of this family business succession book.

Some family businesses successfully manage their management and ownership succession plans while preserving family and business harmony. There is no reason more family businesses cannot achieve similar outcomes. There is a proven approach to family business succession planning that produces better results. By applying this proven approach, we hope to reverse the alarming succession statistics.

How the Book is Organized

The book is organized in five sections.

Section 1: The Business of Family Business

Why family business is different from non-family businesses and its impact on the succession process.

Section 2: A New Family Business Succession Model

Based on the traditional Three Circle Model, this new model focuses on managing the all-important family component during the succession process. It outlines the family activities and desired outcomes during the management and ownership succession processes.

Section 3: Management Succession

Activities that integrate the family members (active and non-active) into the management succession process. Who should take the lead? Family communication (family business meetings, family council meetings, family business rules), getting started, addressing the management succession issues, grooming the management successors, performance reviews, and compensation for family members are addressed in this section.

Section 4: Ownership Succession

Activities that integrate the family members (active and non-active) into the ownership succession process. Taking the lead, getting started, family communication, addressing the ownership succession issues, grooming the successors, managing minority shareholder expectations, family governance, Board of advisers, and shareholder agreement issues are addressed in this section.

Section 5: Putting It All Together

What the succession plan looks like once completed. This section also includes a family business succession self-assessment checklist to allow you to gauge your succession readiness.

What You Will Find in the Book

1. Why the opportunity to work in a family business is unique and can be most rewarding.
2. The “business” of family business. Family business is different. The need to better understand these differences and how they can impact the succession process.
3. A new family business succession model that focuses on managing the family component during the succession process.
4. An approach to family business succession planning that produces better results.
5. Family business best practices.
6. A comprehensive range of proven How-To strategies to assist family businesses in managing their family component as they plan for succession and work through the actual process.
7. Modified real-life stories and actual tools (samples) used by successful family businesses in managing their family component during the succession process.
8. A family business succession “Self-Assessment” checklist to allow you to gauge your succession readiness.

List of How-To activities

With respect to item 6 above, the following **How-To** activities/strategies on how to integrate the family component in the succession process will be addressed throughout the book:

How To: Stay in touch with *the business* of family business.

How To: Get *started* with the succession process.

How To: Manage *communication* among family members during the succession process.

- Family business meetings (active family members only)
- Family council meetings (broader family)
- Developing a set of “family business rules”

How To: Manage the “*management succession*” process.

- Taking the lead (who should lead the process)
- Communication among family members (applying the rules)
- Grooming family managers as successor(s)
- Performance reviews for family managers (a simple method)
- Compensation for family members

How To: Manage the “*ownership succession*” process.

- Taking the lead (who should lead the process)
- Communication among family members (applying the rules)
- Understanding the emotions and providing the necessary comfort to move the process along
- Grooming family managers as successor(s)
- Managing minority shareholders expectations
- Family governance (establishing a board of advisers)

How To: Tie all the pieces of the *succession plan* together.

- The “management succession” plan
- The “ownership succession” plan
- The “family business rules”
- Shareholders agreement

How To: Assess your family business succession readiness.

- A “Self-Assessment” family business succession checklist

The book focuses on the need to actively integrate the family into the succession process and more importantly, how to do it. History has proven that the influence of the family (active and non-active family members) on the business is too important not to make it one of, if not the major component, of the succession process. In other words, family business succession is not a one-time event worked out between the owners and their trusted advisers. It is a process of working through succession issues with the current owners and the active family members while keeping the broader family informed of its outcomes. The role of the trusted advisers is to ensure that the process actually occurs, that the family members are provided with succession options and professional advice, and that all family members make informed decisions about their individual and collective futures in the management and ownership of the family business.

When Should You Start the Process?

You should consider starting the family business succession process when you have next-generation family members working full-time in the business in management positions.

Grant’s Comments

Throughout the book you will find modified real family business succession stories under the title of “Grant’s Comments.” These stories are based on the author’s practical experience of advising family businesses with their succession activities. All of these family businesses hit one or more bumps on the road to succession. In each case, a number of the succession activities outlined in the book were applied to either restart the succession process or to get it back on track. Many of the succession challenges are common to family businesses. It is likely that you will recognize your family business situation in one of the stories. In any event, you will see that you are not alone in trying to manage your family business succession issues.

Section 1

The Business of Family Business: Why Family Business is Different



Defining Family Business Succession

Family business succession is the process of transitioning the management and the ownership of the business to the next generation of family members. The transition may also include family assets as part of the process. Family members typically play a controlling role in both the management succession as well as the ownership succession. As such, the effective integration and management of the family component will have a determining effect on the success of the succession process.

There is nothing more difficult to take in hand, more perilous to conduct, or more uncertain in its success than to take the lead in the introduction of a new order of things. Because the innovator has for enemies all those who have done well under the old condition, and lukewarm defenders in those who may do well under the new.

Niccolo Machiavelli
The Prince circa 1555

Far too often the family business succession process is governed by the technical components, which are typically worked out between the current owners and their trusted advisers (e.g., accountant, lawyer). In these situations, although the impact of the family component may be considered, it is not actively integrated into the process. In other situations, where there is an attempt to integrate the family component into the succession process, it is often the process itself or the lack of formality to the process that prevents the desired outcomes from being achieved. There needs to be a departure from the traditional approach to business succession to a customized approach for family business.

Grant's Comments

Just recently, I was asked to moderate a panel of family business successors who were asked to share their personal experiences during their family business succession process. One of the questions asked of the four panelists was "If you were able to start all over again, what would you do differently?" Three of the four panelists stated that if they could do it all over again, one of the first things they would do is find out more about what other family businesses have experienced. The knowledge and experience of other family businesses is available and should be used. As one panelist put it, "There's no great reward in trying to do it alone. There's much to be gained by learning from the mistakes and experiences of others." The message was clear. There is family business knowledge as well as family business organizations that can help you better understand the business of family business. It's up to you to take advantage of it.

About This Section

Family businesses are different and what makes them different is the family component. The potential impact the family component can have on the management and ownership of the business is such that it needs to be understood and effectively managed. Many family businesses have successfully managed their family components and have done so by applying proven family business 'best practices'. We will examine a number of these throughout the book.

In this section, we will discuss the business of family business and the unique characteristics of family business. We will outline the challenges and opportunities created by the 'family component' and what needs to be done to ensure that your family business maximizes its opportunities. This section will also provide suggestions on where you can get information on family business and where to look for specialized family business advisers/practitioners.

Family Business Is Different and that Can Be a Good Thing!

“ Overall, family businesses are doing better than their non-family business counterparts. They are healthier, growing both in terms of revenues and profits, they are hiring and their owners are optimistic about the future.”

Mass Mutual Financial Group, Raymond Institute, Survey Results

So why are family businesses outperforming their non-family counterparts? It would appear that the unique characteristic of family business (i.e., the family component) and the potential benefits derived from this unique characteristic can provide a significant competitive advantage.

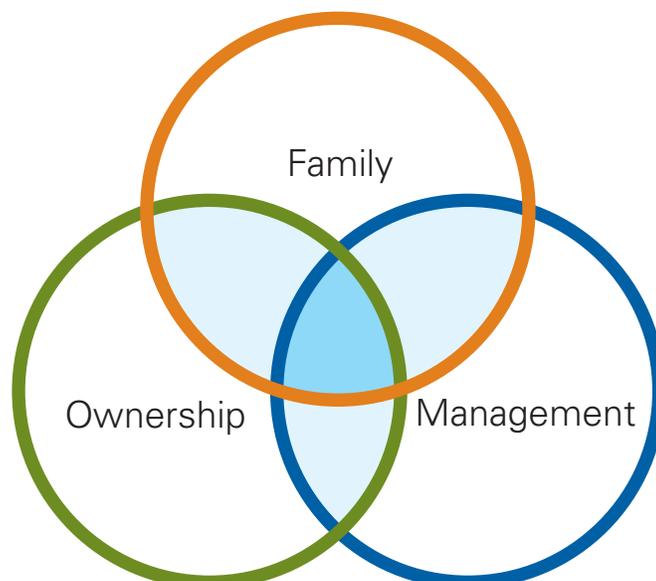
“ While the majority of family business owners would like to see their business transferred to the next generation, it is estimated that 70% will not survive into the 2nd generation and 90% will not make it to the 3rd generation.”

Family Firm Institute
www.ffi.org

So why are these same family businesses struggling with the transition process? Once again, the unique characteristic of family business (the family component) and the challenges it can create, if left unmanaged, are often responsible for these business failures.

Impact of the Family Component on the Business

The Three Circle Model outlined below is often used to illustrate the interaction/impact of the family component on the management and ownership of family businesses. The Three Circle Model is represented by the ownership circle, the management circle, and the family circle.

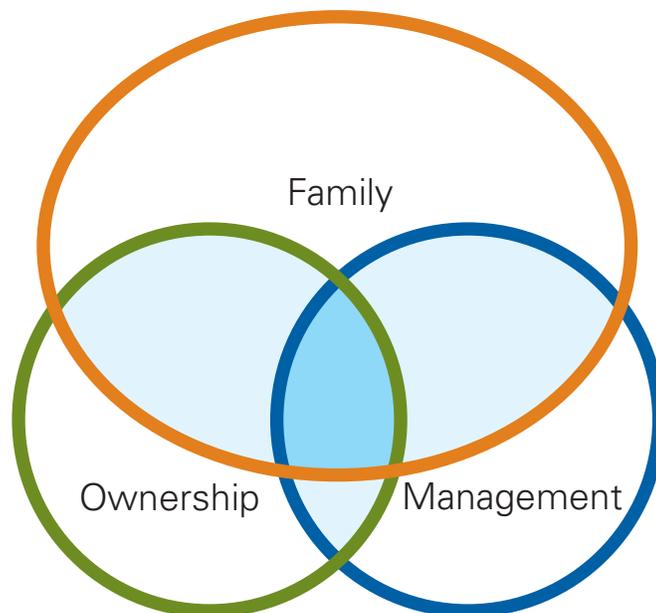


The ownership circle represents the interaction/impact that the *owners* have on the family and on the management of the business. The management circle represents the interaction/impact that *management* has on the family and on the ownership of the business. The family circle represents the interaction/impact that the *family* has on the management and ownership of the business.

The ownership circle and the management circle are common to all businesses. The family circle is unique to family business and is what differentiates it from its non-family business counterparts. In many family businesses, the family permeates the management and the ownership of the business, making it a significant, if not the major component in the overall running of the family business. It is easy to see how the interaction between these three components can create family, management, and ownership challenges, as well as provide unique opportunities.

The Three Circle Model illustrates how each of the components interacts with each other and how all three circles meet in the middle, indicating that at some stage of the family business, ownership, management, and family are mixed together.

Below is a variation of the conventional Three Circle Model that illustrates the significance or degree of influence that the family component can have. We believe this to be a more accurate illustration of a typical multigenerational family business. The family circle tends to be much more prominent and has a much greater impact on the management and ownership of the business. In effect, in many family businesses, the ownership is all family and the management is all or primarily family. In these situations, learning how to effectively manage the family component is even more important.



The ability of family businesses to outperform their non-family counterparts and successfully transfer the business to the next generations is very much dependent on their ability to manage their 'family component'.

The Benefits and Challenges of Family Business

What are the unique opportunities/benefits and challenges provided by the family component?

The Benefits of Family Business

There are many benefits to being a family in business. Unfortunately, far too often, family business is portrayed (especially in the media) as being plagued by intergenerational and sibling conflicts, fiscal irresponsibility, incestuous hiring and promotional practices, and ongoing legal battles among shareholders. Of course, family business can provide numerous benefits to family members, non-family

employees, and the communities in which these family businesses operate. These benefits often serve to differentiate these family businesses and elevate them to a level of preferred status and competitive advantage.

The benefits derived from being a family in business will vary depending on the makeup and size of the family as well as its stage of evolution (i.e., first, second, or third generation). The following are some of the benefits that differentiate family businesses and can provide a significant competitive advantage.

Loyalty – Family members in business tend to demonstrate a greater sense of loyalty to each other and to the business. They also tend to be more committed to its success and are more passionate about what the business stands for.

Legacy – Families in business have an opportunity to create a lasting legacy that brings with it a sense of accomplishment and a strong sense of pride. Building on the efforts of their forefathers is a strong motivator for subsequent generations to become stewards of the family business and carry it to new heights in the name of the family.

Labour pool – Multigenerational family businesses have access to a labour pool of family members who, as previously mentioned, tend to be more loyal and more committed to the business. Family members also tend to be more flexible in taking on different job functions and filling in for others.

Key employees – Key employees (non-family) appreciate and enjoy the unique work environment created by a family in business. The workplace tends to be less formal, more hands on, and more personable. Many key employees are treated like extended family and develop a strong bond with the family and the family business.

Patience – Family businesses tend to be less driven by short-term financial results and are prepared to sacrifice short-term gains for the achievement of longer-term goals. This allows the businesses to align the deployment of resources with their strategic objectives. This long-term approach to investing is often referred to as “patient capital.”

Values – Family business owners have the opportunity to teach and pass along their business and personal values to the next generation of family managers/owners. Family members take pride in upholding these family values and build them into their day-to-day work and personal activities. The work culture is often a reflection of these family values.

Career opportunities – Family business owners pride themselves on being able to provide family members with career opportunities in the business. The family business can be a great training ground for family members who aspire to pursue business careers elsewhere or within the family business. Family members are also provided with the opportunity to become managers and owners of the family business.

Relationships – The opportunity to work with family members to pursue common business goals can be a very rewarding experience. Years of bonding among family members can create a strong sense of belonging and interdependency. Effectively managing these family relationships will go a long way in ensuring long-term family and business harmony.

Financial rewards – Successful family businesses are able to provide financial rewards to both active and non-active family members. It is not uncommon for family businesses to reward family members more than they could obtain elsewhere. This is often viewed as one of the privileges of being family.

Succession – As well as providing career opportunities, family businesses also favour passing the business along to the next generation of family members. The opportunity to be an owner of the family business or of any business for that matter can be both motivating and rewarding.

Community and philanthropy – Most family businesses are active in their communities. The communities benefit from both the family members as

volunteers/supporters and from the family business through financial support and employment opportunities. This commitment to the community tends to permeate the generations and provide family members with the opportunity and rewards that stem from this ongoing community support.

The Challenges of Family Business

When family business owners were asked

“What issues are of the greatest importance *and* greatest difficulty for you?”

They responded

1. Resolving conflicts among family members who are in the business
2. Formulating a succession plan
3. Developing a strategic business plan
4. Developing a retirement and estate plan.

Mass Mutual Financial Group, Raymond Institute, Survey Results

Many of what are considered family business benefits can quickly turn into liabilities or roadblocks to the business and can create irreversible damage/conflict within the family if not effectively managed.

Typically, as the family business moves along its generational timeline, more family members are actively involved in the business and more family members have an interest in the activities of the business. Access to the broader family provides many potential benefits, as identified above, but also brings with it many potential challenges. Some of the more common challenges include

Conflicting goals/values – Family members, especially between generations, can have different personal and business goals/values. These goals/values need to be clearly expressed and understood by all, to avoid unnecessary stress and potential conflict among family members.

Conflicting personalities – Everyone is different. Different personalities can often lead to sibling rivalries and intergenerational conflicts. Left unattended or unmanaged, they can destroy family and business harmony, and in some cases, destroy the business.

Expectations – Family members have different expectations from the family and from the business. Expectations with respect to employment, management, ownership, compensation, work assignments, training, use of business assets, etc. will vary among family members. These expectations need to be addressed and managed in order for the family and the business to operate smoothly. Left unattended or unmanaged, they will negatively impact family and business harmony, and challenge the long-term survival of the business

Work ethic – The work ethic tends to differ significantly as the family business moves through its generations. The newer generations tend to be less prepared to invest the kind of time their parents invested in the business. This can cause considerable stress and disaccord between the generations and can also unnecessarily delay the transition of both management and ownership.

Employment of family members – Who gets to work in the family business? Who gets what jobs? Can spouses and in-laws work in the business? Will employment be based on what the families want (bloodline) or what the business needs (competencies)? How are these employment decisions made? If not effectively addressed, all of these issues can turn into liabilities for both the family and the business.

Compensation – Compensation and the inappropriate use of compensation to achieve family or personal goals instead of business goals continues to be one of the most challenging issues facing family businesses. The expectations to be fair are often in conflict with the desire to treat family members equally. Emotions can run high when this topic is addressed.

Reluctance to plan – Generally, family business owners (especially the founders) are not very good at articulating and sharing their vision for the family business or their long-term business goals. Business planning, succession planning, and financial planning are often viewed as an ineffective use of time instead of a necessary business process. As the business moves through the generations, the owners' vision tends to get lost or blurred and the next generation of owners often find themselves without direction as they plan for the future. The dining room table often replaces the boardroom table, and whatever planning is done tends to be informal and irregular.

The element of time – In general, the family component gets more difficult to manage as the business moves from one generation to the next. Therefore, learning how to manage the family component early on in the evolution of the family business will pay dividends down the road.

Family Business Best Practices

To effectively manage a family business you need to make a commitment to manage the all-important family component. On the surface, this may seem obvious. However, the potential impact that the family component can have on the management and ownership of the family business is too often underestimated, ignored, and/or mismanaged. The family component brings with it a number of unique management challenges as well as opportunities. The ability of a multigenerational family business to effectively deal with these unique management challenges and opportunities will play a pivotal role in its short and long-term success.

The good news is that many multigenerational family businesses have successfully managed their family component during the succession process. They have done this by making a commitment to applying proven family business strategies (family business best practices) to their succession process.

As a result of the ongoing research and the experience gained from family business practitioners, a number of proven family business succession strategies have emerged to help family businesses effectively manage their family component. These strategies are referred throughout the book as "family business best practices" and the book provides details on How-To apply them. The application of these family business best practices will differ within family businesses depending on the dynamics and attributes of the family as well as the stage of evolution of the family business (i.e., first, second or third generation).

Family-owned and -operated businesses need to modify and in some cases discard conventional business thinking in favour of customized solutions in order to incorporate/accommodate their family component. If a family business can effectively manage its family component, it has the opportunity to not only maximize the use of existing best business practices but also maximize the unique benefits provided by its family component. Those who have successfully done this tend to dominate their markets and continue for many generations.

The Business of Family Business

The recent interest in the business of family business has resulted in a significant increase in family business research, academic programs, and dedicated family business centres offering both informational and educational programs. The business of family business is now recognized as a separate and important field of study.

Family Business Organizations/Information

Numerous organizations offer services to family businesses. These services range from information to education to certificates of competency in family business practice. Most can be accessed through the Internet by searching for family business information/education, family business advisers/practitioners, or family business centres. The following are provided as examples.

The authors argue that the same attributes that have long been vilified as weaknesses of family businesses—stable strategies, clan cultures, lifetime tenures—have actually created formidable competitive advantages for many of these firms... these family owned businesses not only dominate their markets for twenty years to hundred plus years but did so by defying most aspects of modern management practice.

Managing for the Long Run: Lessons in Competitive Advantage from Great Family Businesses, 2005

CAFE – Canadian Association of Family Enterprises

www.cafenational.org (1-866-849-0099)

- Local chapters across Canada
- National symposium every two years
- Directory of family business practitioners
- Library of family business articles, books, and educational materials.

Family Firm Institute (FFI)

www.ffi.org (617) 482-3045

- US-based organization with an Ontario chapter
- National annual conference
- Educational courses and materials
- Directory of Family Business Practitioners
- Family business practitioner's newsletter
- Scientific journal *Family Business Review* (quarterly publication).

Business Families Centre, Sauder School of Business, UBC

www.sauder.ubc.ca/bfc (604) 822 0102 bfc@sauder.ubc.ca

- Educational programs including specific courses for farming families.

Alberta Business Family Institute – University of Alberta

www.abfi.ca (780) 492-5401 abfi@ualberta.ca

- Research, undergraduate and graduate programs
- Family Enterprise Advisor Program

Business Families Centre, Richard Ivey School of Business

Pierre L. Morrissette Institute for entrepreneurship at Ivey

www.iveyentrepreneur.ca (519) 661 3080 dsimpson@ivey.ca

- Leading Family Firms program

Family Enterprise Publishers: Division of the Family Business Consulting Group Inc.

www.efamilybusiness.com (1-800-551-0633)

- US-based organization
- “The Family Business Leadership Series” – Guidebooks on specific topics
- Extensive library of family business information/educational books and articles.

Outside Advice and Where to Get It

Managing the family component is no easy task. Understanding the need and making a commitment to managing the family component is a good start, but the desired outcomes will be achieved only by actually doing it. Knowing what needs to be done, when, by whom, and how can be a daunting task for the family business. This is where a family business adviser/practitioner can help. Family business practitioners are professionals who understand all three circles (i.e., ownership, management, and family) and how they interrelate. These professionals are experienced in helping family businesses manage the all-important family component during the succession process. The decision to engage the services of a family business practitioner could be one of the most important business and family decisions you make.

How-To: Stay Current

Assign an active family member the ongoing task of being informed and staying informed about what is going on in the field of family business and how it applies to your business. In other words, stay in touch with the business of family business.

SUMMARY

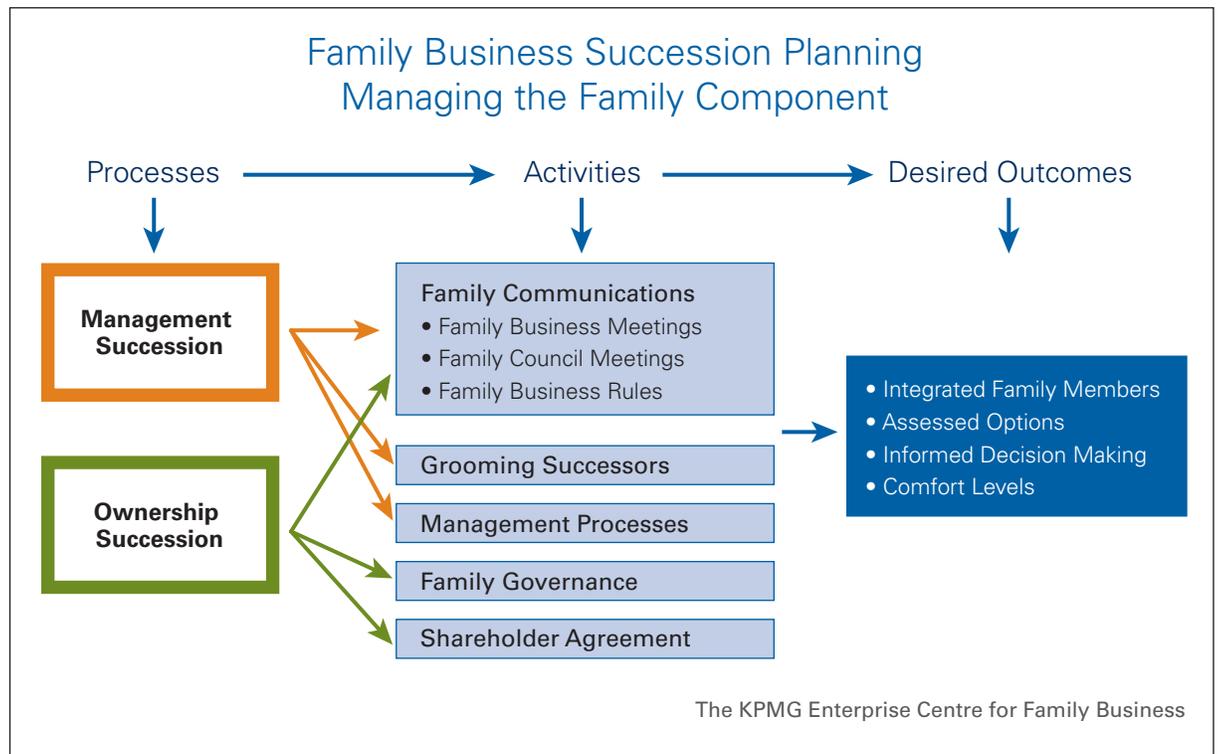
In summary, we have identified that what makes family business different from non-family business is the ‘family component’. This unique family business characteristic brings both challenges and opportunities. Family businesses need to commit to managing their family component, and the first step in doing this is being aware of, and staying in touch with, what is going on in the field of family business.

Section 2

A New Family Business Succession: Model: Managing the Family Component



In the previous section, we referred to the Three Circle Model to illustrate the interaction/impact of the family, management, and ownership components in family business. The following model is intended to illustrate how to effectively manage the all-important family component or family circle during the succession process.



Succession Processes

The family business succession plan comprises two processes, the ‘management’ succession process and the ‘ownership’ succession process. Numerous succession activities are outlined for each of the two processes to achieve the desired succession outcomes. The management and ownership succession processes can be undertaken simultaneously or one at a time. It is recommended that the management succession process be carried out first so that the ownership succession plan reflects and supports the management succession.

Succession Activities

The model shows a number of family business succession activities intended to integrate family members into the management and ownership succession processes. The activities are also intended to make family members feel comfortable with both the succession process and its outcomes. The ultimate goal is to allow family members to make informed decisions about their individual and collective futures in the management and ownership of the family business.

Establishing family communication activities, such as family business meetings for the active family members, family council meetings for the broader family, and family business rules, will serve to guide the overall succession process. These communication activities will pave the way for the effective management of the all-important family component. The management succession activities also include the grooming of

successors and integrating the active family members into a number of key management activities. Each of these management succession activities will be discussed in detail in Section Three.

The model also shows the ownership succession process including a list of succession activities involving family members. These activities comprise the same channels of communication as indicated in the management succession process. The ownership succession activities also include family governance and shareholder agreement issues. Each of these ownership succession activities is addressed in Section Four.

The management and ownership succession activities can be carried out simultaneously. However, it is recommended that the management succession process/plan be underway or in place before undertaking the ownership succession activities. You will notice that the proposed activities to manage the family's communication (family business meetings, family council meetings, and the family rules) are the same for both the management and ownership succession processes. What will differ is the type of succession issues that are addressed at the family meetings. It is strongly recommended that regardless of which of the management or ownership succession processes are undertaken, you start with the family communication activities.

Desired Outcomes

The succession activities outlined in the above model are intended to achieve the desired succession outcomes. By integrating family members into the process and by providing sufficient comfort to the current and future owners of the family business, informed decisions can be made. It is these informed decisions that will ensure a smooth and effective family business transition.

If the current owners are not sufficiently comfortable with the proposed financial arrangements, the management succession plan, or the ownership succession plan, they will most likely not let go. The owners have invested far too much in the family business to pass it on without the necessary assurances that it will continue to prosper. Furthermore, the owners want to be assured that the family and key employees, often referred to as the extended family, are also taken care of. The same can be said for the next generation. If the next generation is not sufficiently comfortable with the proposed roles and responsibilities of the management succession team, the compensation philosophy, the distribution of wealth, and the funding of the ownership transition, they will most likely delay or defer their willingness to implement a succession plan. Therefore, the sooner the succession activities get underway the more opportunity there is for each party to build their comfort zones.

The higher the comfort levels of those involved, the easier it is for them to make decisions. The speed at which the succession process unfolds will be in large part based on the owner's knowledge of their options and their level of comfort, both of which will lead to informed decisions. Therefore, developing the succession process with activities that will provide options, assess comfort, and allow for informed decision making by family members is essential for success.

Family Business Guiding Principles

In working towards the desired succession outcomes, the process or discussions may become stalled or challenged due to the number and sensitivity of management and ownership issues, and the corresponding number of possible outcomes.

Decisions made affect not only the future of the business, but in many respect the future of the family as a family unit. Family business practitioners have learned that the succession process is greatly facilitated if the family business owners and/or their

successors steer the process and their decision making based on proven family business succession guiding principles.

Applying these guiding principles facilitates the discussion pertaining to the specifics/details of the succession plan. The following are some of the more pertinent family business succession guiding principles worthy of consideration:

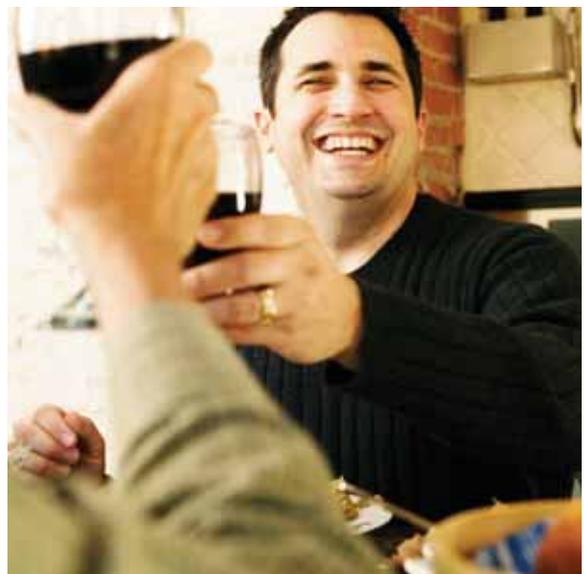
- 1 **Beware of the tax driven/cost savings succession plan:** The research on family business continues to indicate that far too much attention is allocated toward the technical components (tax, trusts, insurance, shareholders agreements, wills) of the succession process and far too little attention is allocated to the non-technical components (i.e. wishes and aspirations of the family members, family harmony, family legacy, family dynamics, integrating and preparing the next generations). This guiding principle has also lead many successful family businesses to forego tax and other cost savings in favour of family harmony. In other words, if a particular succession strategy is viewed as helping to safeguard family harmony, it is often considered a priority over cost savings.
- 2 **Creating a legacy:** Most successful family businesses adopt the concept of creating a lasting legacy. This is based on the guiding principle that the founders of the family business have created a family asset that the family would like to continue to cultivate in order to establish a lasting legacy for the founders. Applying this guiding principle to the succession process means that the family wants the business to stay in the family and, as such, all future generation of owners should act as 'stewards' of the family business. As 'stewards,' they are charged with the responsibility to safeguard the family business, grow it, and make it even better for the generations to come.
- 3 **Opportunity versus entitlement:** Successful family businesses ensure that future generations clearly understand what the family business can do for them. In other words, what exactly is being offered and how should this be interpreted? In applying this guiding principle, future generations are constantly informed/reminded that the family business can provide them with an opportunity to work in the business as well as an opportunity to be an owner in the family business. Each is based upon meeting agreed upon criteria in order to eliminate the notion of 'entitlement.' This guiding principle also promotes the view that the business is very important since it's the business that is allowing the family to enjoy this opportunity, which in all likelihood they would not find elsewhere. The business needs competent family leaders that are supported by competent key employees.
- 4 **Family ownership:** This guiding principle could well be the most important in support of creating the legacy. Research clearly indicates that those family businesses that only allow active senior family members to own shares have fared much better in the succession process. This is based on the premise that those family members who have generated the business wealth should be allocated the business wealth. Those family members who have not participated in the generation of the business wealth (by choice) can be allocated wealth from the family's non-business assets. When this guiding principle is applied, it greatly facilitates the discussion on who can own shares and how it is funded.
- 5 **Exit strategies:** We have learned over the years that the best exit strategies for a family business are those for which the terms and conditions of the exit (death, disability, and voluntary exit) are pre-determined, agreed upon, and outlined in the shareholders agreement. This has proven to reduce much of the family conflict that can and does arise when a family member exits the ownership ranks of the family business. It also removes much of the uncertainty surrounding the impact to the business and to the family. As previously mentioned, in order to achieve this objective it may be necessary to forego tax efficiencies.
- 6 **Taking the lead:** It is strongly recommended that the next generation of leaders/owners take the lead in the succession process by addressing all of the management and ownership issues (facilitated by a family business practitioner)

and, once they have reached a consensus, present their recommendations to the current owner(s). After all, if they are going to lead the boat, they should be able to agree on its future course.

- 7 **Compensation for active family members:** Compensation is often cited as one of the most contentious issues facing family businesses. If not effectively dealt with, this issue can cause a great deal of conflict and disharmony among active and non-active family members. The guiding principle is to remunerate active family members fairly (not necessarily equally) so that their remuneration reflects, to the degree possible, fair market values (i.e. what a non-family member would be paid to do the same function). Benefits and what constitutes 'benefits' is an even more contentious issue in family business. Family members pay close attention to what each is receiving and make their own interpretations of the fairness of these benefits, unless, of course, there is a clear policy that outlines who is entitled to what and why. How remuneration will be determined today and in the future needs to be clearly understood and agreed upon by all family members.
- 8 **Compatibility:** We would be naive to think that just because family members are part of the family, they are compatible to work together. Siblings are different; they have different skill sets, different interests, different expectations, and different visions for their future and the future of the business. Assuming that all of these differences will simply line up in conformity over time and that harmony is assured by the bond of family blood has far too often plagued family businesses. We need to accept the fact that the next generation will be different than their parents and that there will also be differences among siblings. Given this, we need to ensure that those family members who aspire to leadership and ownership roles are compatible. It is clearly not advisable to force children to work together if they are not compatible. Therefore, we need to incorporate the test of compatibility as part of the assessment criteria for leadership and ownership in a family business.
- 9 **Accommodation for family members:** This principle may be seen as contrary to conventional business wisdom, but is a reality in the world of family business. The principle is based on the premise that most family business owners want their children in positions of leadership and ownership even if there may be other more competent non-family members to lead the business. In other words, as we plan for the leadership and ownership succession of the family business, we need to accept the fact that we will need to accommodate to the degree that is reasonable the active family members. As one family business owner put it, "If my sons were not family, they would not be the leaders of this business. However, as family, we need to do what we can to accommodate their wishes and aspirations and surround them with competent managers and continue to groom them to become good leaders."
- 10 **Informed decision making:** It is the view of many family business practitioners that success in succession is the ability of each family member to make an informed decision about their individual and collective futures in the management, leadership, and ownership of the family business. In order to make an informed decision, the family members must know the options, be provided with the kind of information that enables them to assess the options, and be provided with a forum where they can discuss and express their views and decisions.

SUMMARY

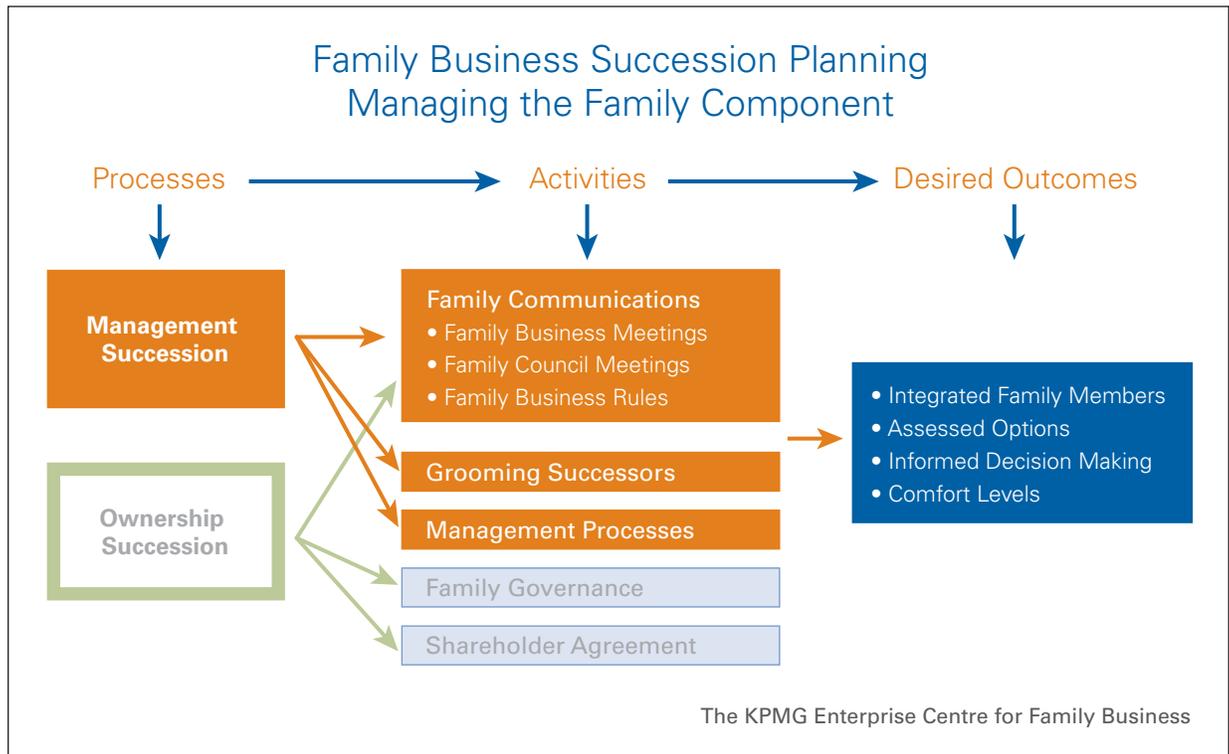
Traditionally, family business has been depicted by the Three Circle Model, which illustrates the interaction/impact of the family, management, and ownership components of the family business. The family business succession model in this section further expands on the Three Circle Model by focusing on the all-important family component during the succession process. It outlines management and ownership succession activities that involve family members with the goal of enabling family members to make informed decisions about their individual and collective futures in the family business.



Section 3

Management Succession:
Integrating the Family Component into
your *Management* Succession Process





The succession process starts by addressing the management succession activities. The ownership succession activities are addressed in the next section. Since the family communication activities (family business meetings, family council meetings, family business rules) are virtually the same for the management and the ownership succession processes, we will address them in detail in this section and only make reference to them in the ownership succession section.

As previously mentioned, family business succession is the process of transitioning the 'management' and the 'ownership' to the next generation. The transitioning of management and ownership can take place simultaneously or it can be done one step at a time. However, in many family businesses, the succession process starts with the need to plan for the management succession first followed by the ownership succession plan. Ensuring that the family business is well managed now and in the future is the key contributor to its long-term success. In effect, the case can be made that management succession should be a prerequisite for ownership succession.

Implementing the management succession plan and observing it in action over a period of years can provide the current owners with the degree of comfort required to allow the ownership transfer to occur. It is the need to provide the current owners with 'comfort' that makes the management succession process such an important piece of the overall succession process. The management succession process/plan will also provide the next-generation managers with real-life experiences in working together and managing the all-important family component. Even if you feel that your management succession plan is well established, you should review this section on 'management' succession to ensure that you have addressed all the salient points.

Grant's Comments

One of my family business assignments involved a family business owned by two brothers. Each had adult children working in the business, as well as adult children who were not involved in the business. The two brothers were still very active in the day-to-day running of the business. They recognized that the next generation was struggling with a number of family and business issues. The owners thought it might be the right time to start the succession process. John, one of the active children, contacted me to confirm that the next generation was experiencing some difficulties among the family members. These difficulties were pertaining to what he called "fairly common business issues" (e.g., compensation, job descriptions, work ethic, family time). These issues had been simmering for some time and had now reached a boiling point. It appeared that no one wanted to address the issues directly and the gossip was becoming unhealthy. To make matters worse, the owners were suggesting that they start talking about succession while these issues were unresolved. John further informed me that he had approached his father on the subject and his father shared with him a similar situation about another family business that was experiencing disagreements among family members. That family had been advised to hold a family meeting with all the family members (active and non-active, including spouses and in-laws) and table the issues for an open and honest family discussion. According to the father, this family meeting turned very ugly. It created a major divide between and within families. Many unrelated issues were brought up and in the end it only made matters worse. Understandably, the father was reluctant to try anything similar in their family business. The father said he would talk to his brother to see if he had any ideas about how to deal with these troubling issues.

This situation is fairly common in family businesses. Everyone knows there are business and family issues that need to be dealt with. However, nobody knows how, or is comfortable with, managing the communication necessary to address the issues. While many of these issues tend to slowly percolate over time, they tend to rise to the surface during the succession process since important decisions about the future are being contemplated. Addressing these management issues that involve family members is essential to the overall family business succession process.

About This Section

This section will outline activities to manage the all-important 'family component' of the *management* succession process. It will address the following family business best practices as they pertain to the management succession:

- 1 Taking the lead (who should lead the management succession process)
- 2 Communication and decision making among family members
 - a. Family business meetings (active family members only)
 - b. Family council meetings (the broader family members)
 - c. Family business rules (guidelines/policies/rules to guide the succession)
- 3 Family members as managers
 - a. Grooming the family managers to be successors
 - b. Compensation for family members
 - c. Performance reviews (a simple method)
- 4 Integrating active family members into the business planning process
- 5 Role of family business practitioners.

Formalizing Management Processes

All businesses reach a stage when they need to start formalizing their management processes. This is done to ensure that the management activities are achieving the desired business outcomes. As operations become larger and more complex with more people and larger investments, it is essential that management be able to clearly articulate where the business is going and how it will get there. That way, everyone understands the company's goals and can strive toward them.

Developing agreed-upon strategies and corresponding plans of action provides management and staff with direction, purpose, and clear expectations. Ensuring that management and staff know what is expected of them and that they are treated fairly enables them to stay focused on their jobs and stay motivated to achieve their personal and work-related goals.

Family-owned and -operated businesses have the additional challenge of dealing with their family component as they try to formalize their management processes.

Implementing generally accepted management processes into the business's regular activities without consideration for the need to integrate the family component into these activities often leads to frustration, ineffective management processes, or, worse yet, the complete abandonment of the desire to formalize the management processes. Too often the attitude is "We will just have to continue doing it Dad's way until we can figure out how to do it like most businesses do it."

As one family business owner put it:

It's not every business owner who has to deal with the stress and emotions of having to tell their spouse that one of their children, who just happens to be the one who needs the most parental guidance, is simply not working out in the family business and something has to be done about it.

Applying generally accepted human resource practices to this situation may seem obvious but when you put it in a family business context it often requires a very different approach.

For the management succession process to be effective, the current owners need to feel comfortable that the next-generation managers have the skills and commitment to effectively manage the business. They need to know that the business and personal values that they have instilled in the family business over the years will be maintained and promoted. They need to feel comfortable with their role as the management succession unfolds. The same is true for the next generation of managers. They also need to be comfortable with the management succession process and plan. The following activities are intended to provide this level of comfort to both groups.

Taking the Lead

Recognizing that it is difficult for owners to let go of the management control and ownership of the family business, we would recommend that the next generation of owners take the lead in the overall succession process. In other words, let those who will be running it in the future take charge of the management and ownership succession processes. Let the next generation, in consultation with and with approval from the owners, formulate the management and ownership succession strategies. This approach has proven effective in providing both parties the level of comfort necessary to implement the succession plans.

How Does the Family Succeed in Multigenerational Transition? ... The first way was when the successor(s) took the lead. The succeeding generation took the initiative in continuation of the family business. Because of their interest, motivation, and ambition, they viewed themselves as suitable successors.

Lambrecht, J., *Multigenerational Transition in Family Businesses: A New Explanatory Model*, 2005.

Grant's Comments

Late one Saturday afternoon, I was participating on a radio talk show about the challenges family businesses face while transitioning to the next generation when I received a call from a family business owner. He claimed that he was sure that I was talking about him and his family business indicating that he didn't realize that other family businesses could be going through the same kind of issues.

He was one of three brothers who were equal owners. Each had adult children in senior management positions in the business. The owners were in their 60s and they felt it was time to consider the idea of succession, but they also felt that the next generation was not ready to take over the management of the company and even less ready to take over the ownership of the family business. When this subject was raised at their family business meetings, the next generation very politely indicated to the owners that it was the owners' business and that they should transfer the management control and the ownership when they felt comfortable doing so. The next generation did not want the owners to think that they were being pushed out of their own business or that their services were no longer valued. After some discussion, the owners proposed that a 10-year time frame would be appropriate for ownership succession.

The next generation, in their mid to late-30s, was not prepared to wait that long. One stated:

"If I have to wait 10 years [to take over ownership], then you can tell them I'm out of here. I have no problem with them hanging around forever if they want but we are already managing most of the operation and making most of the key decisions with their input of course."

This next-generation successor proposed a maximum time frame of five years for the transfer of both the management and ownership of the family business. The lack of comfort expressed by the owners is fairly common among family business owners. The owners were simply not comfortable with a shorter time frame. No one was proposing a formal process that would increase the owners' comfort levels by providing answers to their questions. Succession, as you will see, is a process not an event. The process needs to address all the issues, expressed or not, that the owners and the successors need resolved in order for an effective transition to occur.

The next generation committed to taking the lead in the process and carried out many of the management succession activities outlined in this section. Three years later, management control and the ownership of the business was transferred to the next generation. The new owners have a new shareholders agreement and a set of 'family business rules,' and have just created an outside board of advisers. I ran into one of the fathers at a company social activity recently and I heard him boasting to another family business owner:

"We were really not ready to let it go—at least not for many more years—but they have clearly demonstrated, especially over the past few years, that they have what it takes to run the business. The scary thing is that had we waited much longer than we did, we might have lost a few of the real good ones. The business has never been healthier and I don't know how they manage to get along as well as they do."

By being open about succession planning, the owners and next generation were able to work together to address the issues and provide sufficient comfort to all parties involved.

Family Communication and Decision Making

All family members need to know and understand the guiding principles that will steer the overall management and ownership succession processes. They also need to understand their family members' expectations as they relate to the current and future management and ownership of the family business. All family members are and will be planning their lives, and they need information to make informed decisions. Recognizing that these succession guiding principles and family member expectations will no doubt change over time, it is essential that family members be kept abreast of their evolution. Providing the family with a dedicated communication forum to address the succession issues is the single most important step in the family business succession process. Achieving this important step is directly dependent on your ability and willingness to communicate.

It seems surprising in the age of *Oprah* and *Springer*, where people will spill the intimate details of their lives on national televisions, to find that communication is still a major impediment to harmony and balance for many business families... Whatever the reason, that 1960's cliché, "a failure to communicate," is probably the biggest stumbling block family businesses face.

Lynch, A., *All in the Family Inc.*, 2001.

Communicate! Communicate! Communicate!

Family Business Best Practice

Family Business Meetings and Family Council Meetings

Establish family business meetings for the active family members and family council meetings for the broader family members as the primary communication channels to manage the all-important 'family component' during succession.

Of All The family Business Best Practices, This Is Truly Number One!

If you were to pick only one of the family business best practices to implement, this should be the one. It has often been said that the lack of effective communication among family members is the root cause of most family business failures. Family business meetings and family council meetings provide the all-important communication channels through which the family component is effectively managed during succession. For this reason, we will discuss this succession activity in detail. But first, let's define what we mean by family business meetings and how they differ from family council meetings.

Family Business Meetings Versus Family Council Meetings

Much has been written about the use of family meetings or family councils as an important vehicle of communication in family business. In effect, these two terms are at times used interchangeably, which can lead to confusion. For sake of clarity, we will refer to the family meetings that involve all family members (i.e., the broader family) as 'family council meetings'. Family business meetings, on the other hand, are business-like meetings that involve *only* family members who are *active* in the day-to-day running of the business. Although the two meeting forums can serve related purposes, they are quite different. Many of the same topics may surface at the family business meetings and at the family council meetings; nevertheless, the players are different, the setting is different, the process is different, and the desired outcomes are different. In effect, the case can be made that, if and only if, the family can hold effective family business meetings (active family members) should they move into a family council (broader family) setting.

Family Business Meetings

Let's start with the family business meetings since they are the most important. The purpose of family business meetings is to provide the *active* family members with a dedicated communication forum to discuss family and business issues pertaining to the succession process and plan.

Family business meetings are not intended to replace regular business/management meetings or meetings of the board of directors (even if they involve the same players). Family business meetings are meetings for family members working in the business, not other employees. These meetings are used to address the interaction between the family and the business (the family component) as it relates to the management and ownership succession. The agenda for any given meeting can be primarily business issues, primarily family issues, or both. What's important is to have the meetings!

The family business meetings are also the ideal forum to discuss decision making. All active family members need to know who will make specific decisions and how. This will allow them to effectively carry out their roles and responsibilities.

Why Only Active Family Members?

It is easier and more productive to discuss succession issues, at least at the beginning, with those who are actively working in the business. These are the individuals who are experiencing the full impact of managing and balancing their family and business relationships.

In planning your family business meetings you will need to decide what constitutes an active family member. You will need to consider the merits of including part-time family members. In general, applying the rule of inclusion versus exclusion is advised. However, each family business will need to assess the merits of who participates in the family business meetings, keeping in mind that the overall objective is to have honest and constructive communication.

Non-active family members or non-family members (i.e., employees, advisers) can be invited to family business meetings if it is felt that the agenda item(s) would be best served with their presence at the meeting. In other words, the members of the family business meetings are the active family members, but participation at any given family business meeting can include others by invitation.

Note: In some cases, depending on the number of active family members and the stage of evolution of the business, it might be best that a smaller group of active family members hold family business meetings. First, to set the tone, establish the meeting rules, and develop a comfort zone after which time they can gradually incorporate the balance of the active family members. For example, where there are multiple generations of family members working in the business, the initial family business meetings might be comprised of the current owner(s) and a small group of senior family managers. Once this smaller group has established a meeting routine and the players are comfortable with the process, the balance of the active family members can be incorporated into future meetings. At the beginning, the smaller group might be easier to organize and the meetings might be more productive. No matter how you choose to conduct your family business meetings, the overriding objective is to provide the opportunity to communicate with all active family members.

Customize the Agenda to Suit Your Family Component

Each family business is different yet the succession issues facing family businesses tend to be fairly common. The differences are the timing, the players, and the circumstances in which the family and the family business finds itself when these issues surface. In other

words, each family business will experience these succession issues at a different time, with different individuals, and within a different set of circumstances. Therefore, the agenda items for your family business meetings need to be customized to best serve your family component (i.e., timing of the management and ownership succession).

A Good Start Is Important

Since establishing effective communication in order to deal with succession issues is of great importance, all efforts should be made to provide a meeting setting where the active family members feel comfortable to address the issues. For the first few family business meetings select agenda items that are non-threatening, non-confrontational, and not overly sensitive so that the family business meetings are given a fair chance in proving their value. It may take several meetings before participants become comfortable with the format, the agenda items, and each other. However, the investment in this step cannot be overemphasized. Don't let a poor start derail the family business meetings. Regroup, hire a facilitator, and try again.

Dealing with Personalities

Due to unique personalities, people approach the same situation in different ways. The amount of information required to make a decision, the time required to digest and analyze the information, the amount of input solicited from others, the speed at which decisions are made, and the degree of interaction with others in the decision-making process will vary depending on one's personality traits.

Some personalities are loud and aggressive; others are quiet and more passive. Some people are more analytical; others are more focused on interpersonal relations. Some are risk takers; others are risk averse. At times these different personalities will clash and cause stressful disruptions within the family and within the business. In order to get the most out of the relationships with family members (or any person for that matter) all family members need to recognize/accept that each person has a unique personality. To work together effectively everyone needs to make an effort to better understand the different personalities and how they interact.

The effectiveness of the family business meetings will very much depend on whether each member is willing to work with and accommodate these different personalities.

How To: Set up the Family Business Meetings

The owners should assign an active family member to coordinate or chair the family business meetings. For example, an active family member who aspires to be a future owner would make a good candidate. The owners should also consider the benefits of using an outside family business practitioner to facilitate these meetings, especially the first few. The active family member assigned to the task of coordinating the family business meetings is responsible for the following:

Time and place: Select the time and place of the meetings. Establish a fixed schedule date for the first few meetings after which time you can decide on what schedule best suits the group. You want everyone to feel comfortable so it's important to respect people's time commitments as well as their need for privacy.

Meeting frequency: Family business meetings should be held on a regular basis (e.g., every two weeks) until all the succession issues are adequately addressed. Later they can be held less frequently or on an 'as-needed' basis. At a minimum, meetings should be held quarterly even if there appears to be nothing new to discuss. If the meeting serves only to confirm that all is well, it will have served its purpose.

Meeting rules: It's a good idea to establish meeting rules and have them agreed to by the participants either before the first meeting or at the first meeting. For example:

1. Determine the objectives of the family business meetings—to discuss and make decisions about the role of the family (active and non-active family members) in the current and future management and ownership of the family business.
2. Define the role of the family council meetings and how they differ from the family business meetings.
3. The participants on the family business meetings are all active family members (you may need to define "active").
4. A meeting coordinator will prepare the agendas with input from the active family members and distribute in advance of the meetings.
5. The meeting coordinator will chair the meetings.
6. Decisions, when required, will be made according to the following format (e.g., equal vote or only owners vote).
7. What's expected from the participants (e.g., attendance at all meetings, equal voice by all, respect for others, adhere to the rules).
8. The chair will record any outcomes, actions or decisions and distribute to all active family members.
9. Agree on how family members will deal with major disagreements (e.g., the process).
10. Agree to stick to the time frame allocated for the meeting.
11. Brief evaluation of the effectiveness of the meeting.

Control the tempo: The coordinator should ensure the participants stick to the agenda and that all participants are being provided with an equal opportunity to participate in the discussions. If an item gets too emotional, it should get parked for further discussion at another meeting. It is inevitable that some issues will stir up emotions. This is both expected and normal. However, these emotions should not be allowed to get to the point where they jeopardize the effectiveness of future meetings. The importance of family business meetings is far too great to allow one or two emotionally charged items to determine their destiny. As the participants become more comfortable with the meeting format and the process, they will develop a greater tolerance for more sensitive issues. Staying the course with the family business meetings is a good indicator of the family's will and ability to communicate.

Records/notes: It's a good idea to keep records/notes of the outcomes of the family business meetings. With some issues, the discussion of the issue will be sufficient and there will be no need to record the outcome. However, other issues will warrant discussion and the recording of the outcome. The participants will need to decide on what is to be recorded and to whom the notes are to be distributed.

What Kinds of Issues Are Addressed at Family Business Meetings?

As the family and business evolve, they will experience a number of succession issues. In general, any issue that an *active* family member believes has, is, or will impact the management or ownership of the family business can be addressed at a family business meeting. Each family business will have issues that are more pressing than others, or that are having an undesired impact on the family and/or the business; these should be addressed first. Therefore, what gets onto the family business meeting agenda at any given time should be customized to deal with the key issues to enable the active family members to better manage the succession process. A listing of management and ownership succession issues is provided further on pages 32 and 45 respectively.

Family Council Meetings

The purpose of a family council is to provide a communication forum that allows all the family (direct and indirect, active and non-active family members) to learn more about the family business and to provide them with an opportunity to express their views on family issues that impact the business as well as business issues that impact the family. Family councils typically comprise the broader family, which can include spouses, in-laws, children, grandparents, and grandchildren, whether active or non-active in the family business. Given the potential size and composition of the family council, these meetings are typically held annually or every couple of years unless the business is in succession/transfer mode, where these meetings may be required more frequently. The meetings are most effective when they focus on keeping family members *informed* of the “big picture” issues. They are *not* intended to be used as a decision-making forum for day-to-day business issues or a decision-making forum for the succession issues. They are intended to inform, educate and obtain feedback from the broader family on specific issues of interest to all family members.

How To: Set up the Family Council

The owners of the family business should assign a family member (preferably an active family member) to be the meeting coordinator or chair of the family council meetings. Consideration should be given to rotating the coordinator role among the family. If the coordinator is a non-active family member, consider assigning an active family member to assist the coordinator since he or she will have access to the kind of business information that will be of interest to the broader family. The meeting coordinator may want to solicit the help of other family members to organize the meetings.

What Gets Discussed at the Family Council Meetings?

Note: Keep in mind that you will have held several family business meetings before holding any family council meetings since most of what will be tabled needs to be discussed first by the active family members at their family business meetings.

The following is a sample of what the first family council meeting agenda might cover:

1. Review of the purpose of the family council and the rules (see rules below). These should be approved at the first family council meeting.
2. Overview of the role of the family business meetings and how they differ from the family council meetings.
3. Overview of how the business is performing (summary of overall performance).
4. Overview of the short, mid-, and long-range plans for the business (expectations/vision of the owners).
5. Overview of the current thinking with respect to management and ownership succession.
6. Discussion of employment and career opportunities for family members.
7. Establishing education trust funds for the children and grandchildren.
8. Discussion of community and philanthropic activities that the family and the business are involved with.
9. Review and discussion of all or some of the family business rules developed by the active family members at their family business meetings. A dedicated family council meeting to review and discuss the family business rules may be warranted. Family business rules are addressed further in this section.
10. Questions or concerns about the family business in keeping with the overall objectives of the family council.
11. Brief evaluation of the meeting by each of the participants.

Note: Some family businesses include a brief history of the family and the family business as a starting point in their family council meetings or at their first family council meeting. Reviewing the family/business history makes everyone aware of how the family and the business have evolved to where they are today. Typically, many of the current owner's views, beliefs, and values have been developed through the family/business history. If you have activated your family council, reconstructing the family and business history can make an excellent assignment for the family council.

Role of the Meeting Coordinator(s)

The meeting coordinator(s) will need to consider the following:

1. Finding a meeting setting that can comfortably hold the broader family and organizing the meeting room so that it facilitates good communication.
2. Preparing the agenda.
3. Distributing the meeting agenda and any meeting materials to the participants in advance of the meeting.
4. Chairing the meeting, including confirmation or reconfirmation of its purpose and rules.
5. Recording any agreed-upon actions and forwarding to all family members.
6. Conducting a brief participant evaluation (e.g., go around the room) to obtain feedback on the meeting. Encourage participants who would like to provide further comments in writing or in private to do so.

Family Council Meeting Rules

It is important to establish meeting rules so the participants know what is expected of them. The following can be used as a guide.

1. The purpose of the family council meetings is to share information about the family business with the broader family. In an effort to effectively manage the 'family component' of the family business, the family would like to hold special meetings for the broader family to keep them informed of how the business is doing, where it is going and the role of the family in it.
2. The meetings are not intended to make day-to-day business decisions or decisions on the succession issues. That is the role of the 'family business meetings', the management meetings and shareholder/owner meetings.
3. A meeting agenda will be circulated with any meeting materials in advance of the meeting. Family members will be solicited in advance of the meetings for any agenda items they would like included that are consistent with the objectives of the family council.
4. The meeting coordinator will chair the meeting and record any agreed-upon actions.
5. Participants are encouraged to ask questions and voice any concerns they have about the family business.
6. Participants are expected to behave in a spirit of respect and cooperation.

In summary, the family council meetings are intended to provide a communication forum to keep the broader family informed of what is going on in the family business as well as the current and anticipated role of the family in it.

What Is the Outcome of These Family Meetings?

As a result of the family business meetings, the active family members will have heard the views and opinions of the other active family members, especially those of the current owners with respect to the management and ownership of the business. One of the key outcomes of these meetings is that the family business will now have developed/endorsed a number of succession guiding principles, policies, or rules to help direct and guide the behaviour of active family members in their day-to-day business activities.

"Family business owners need to develop structures, such as family councils, or constitutions to lay out agreed ground rules and objectives for the firm. These should provide methods for dealing with major decisions like succession, while minimizing the threat of the business being damaged by the conflict of family members' personal aspirations."

"Keeping it in the Family" Harvey, David;
April 2004

Just as important is the process that the active family members will go through in developing them. The process will help develop their meeting skills, decision-making skills, and interpersonal skills. All of this will provide the active family members with a better understanding of what is expected of them so that they can make informed decisions about their individual and collective roles in the future management and ownership of the family business. These guiding principles, policies, or rules are often referred to as the family business 'code of conduct,' 'family creed,' 'family charter,' or simply 'family rules.' We will refer to them as the 'family business rules.'

It is these meetings that allow for the development of the succession guiding principles. Putting things into writing makes it clear to all involved in the business how things are done and why things are done the way they are. The process of developing and writing the family business rules forces family members to focus on what their business and family mean to them, what they want to accomplish, and how they will get there. The family business rules alone will not ensure that the succession processes will be effectively implemented, but they will go a long way toward helping the active family members solve or prevent problems as they work through the succession activities.

Family Business Best Practice

Family Business 'Rules'

Establishing family business rules could result in the most important piece of work achieved by the family business in effectively managing its 'family component' during succession.

Family Business Rules

Our Family Business Rules

As one parent put it

"These are the rules of the game—our constitution, so to speak—with background information to help you understand why we came up with the rules we did. It will be up to you to review what we have done, and when the time comes, to revise the rules to fit the needs of the family and the business in your generation."

That was one of the best gifts that they could ever have given their children.
(Developing Family Business Policies—Family Business Leadership Series)

The family business 'rules' are intended to guide family members in their personal, business, and family relationships. In other words, developing agreed-upon policies and abiding by them will reduce the chance of having to deal with conflict that will no doubt challenge personal relationships, business relationships, and therefore the family business.

The following is a list of items that are often found in family business rules. They are divided into three categories: general, management succession, and ownership succession. They are the foundation upon which the overall succession process is based. They are the guiding principles that will determine the approach and the direction to use for your succession process. These issues will be further addressed throughout the remainder of the book.

Although this section is about management succession activities, feel free to address all the issues outlined below since they will need to be addressed at some stage of the succession process.

Family Business Rules

General Issues

- 1 Rationale for having a set of 'family business rules'
- 2 Family business meetings and family council meetings (Why? Who? When? Where?)
- 3 Conflict resolution process (family disagreements)

Management Succession Issues

- 4 Timeline for management succession
- 5 Communication to family, managers, and employees
- 6 Employment of family members (criteria)
- 7 Employment of spouses and in-laws (criteria)
- 8 Compensation philosophy/approach for family members
- 9 Grooming/training the management successors
- 10 Performance reviews for family members
- 11 Role of current owners during and after the management succession
- 12 Leadership (e.g., co-leadership, management team)
- 13 Role of non-family employees in senior management
- 14 Leave of absence and sabbatical by family members
- 15 Conflict resolution process (resolving management succession issues among active family members)

Ownership Succession Issues

- 16 Timeline for the ownership succession
- 17 Communication to family, managers, and employees
- 18 Who can own shares (active, non-active, direct, indirect family members) and why?
- 19 How will the shares be acquired? (method and funding)
- 20 Will the ownership transfer be gradual/partial or all at once?
- 21 Does the ownership succession support the management succession?
- 22 Role of current owners during and after the ownership succession
- 23 Compensation for the owners (salary, bonuses, annual distributions)
- 24 Exit strategy (fair and equitable)
- 25 Minority shareholders (expectations and how to manage them)
- 26 Role of non-family employees in ownership
- 27 Nuptial and prenuptial agreements for future owners
- 28 Loans to family members (terms and conditions)
- 29 Public relations (Who speaks for the family business?)
- 30 Philanthropy and community activities (Which ones? How much?)
- 31 Conflict of interest for family members (guidelines)
- 32 Shareholders agreement that reflects/supports the succession objectives
- 33 Conflict resolution process (resolving ownership succession issues among family members)

“A family-business constitution is not unlike the US Constitution: a statement of principles designed to guide a company through times of crisis and change. These principles are not legally binding, but many families find that by outlining how they will treat such issues as ownership, performance, accountability, and compensation, a constitution ensures that a family business survives long after the founders have retired or passed away.”

INC. Magazine

These are the kind of succession issues that need to be addressed as part of your family business transition. Developing your family business rules with the active family members and reviewing them with the broader family will allow you and your family members to make informed decisions about their future in the family business. Family harmony and business harmony depend on your ability to develop these family business rules.

As you read through the list, consider the benefits to you, your family, and your family business of having agreed upon written succession guidelines or rules on all of these items. How much easier would it be for you to run your day-to-day operations and plan your future in the business? How much easier would it be to handle and/or prevent disagreements? How much more likely would there be family harmony and business harmony down the road? Appendix 1 contains a sample of ‘family business rules’.

It is quite possible that many of these items have been discussed before by family members at different times and in different circumstances. Even so, they should be tabled again in a family business meeting setting so that each of the active family members has an opportunity to hear them, discuss them, and make sure they clearly understand what is being communicated and the potential impact on the management and ownership of the family business. The outcomes of these meetings should be summarized in writing (family business rules), which helps to bring clarity to the issues as well as provide a record of decisions for future reference.

Grant’s Comments

“Children will never cease to amaze you” expressed the owner of a multigenerational family business.

The first family council meeting had just been held at the family cottage to present the family business rules that had been developed by the active family members over the past year via their family business meetings. Michelle, one of the children, came forward after the meeting to indicate that she would like to consider the opportunity of joining the management ranks of the family business. Michelle indicated that her interest in the family business had never died even though she had left it to pursue a successful career in another field. She was not aware of how one rejoined the family business at a senior management level and more importantly she did not realize that you could eventually become an owner without having to incur significant personal debt. She also worried about how the active family members would react to a deserted family member coming back to the business. The family business rules had brought all of this to light and provided answers to this issue.

The owners were delighted to hear Michelle’s interest in returning to the business, but wondered why she had not come forward sooner. Upon reflection they realized that they had always encouraged the children to pursue their own interests and had never really outlined or promoted the details of how one could enter or re-enter the family business. In this case, the family business rules served their purpose.

How To: Establish Family Business Rules

The best way to establish your family business rules is to dedicate your family business meetings to this exercise. Bring a list of the items that you would like to address and start to work through them. Use the sample set of family rules in Appendix 1 as a guide.

So we came back and we formed the family council and we hired an adviser... The council is the family's way of keeping all members of the family abreast of what's happening in the business... they discuss the issues of the family and the issues of share ownership, and they may discuss the business, but not very much. They leave that up to the family in the business... So at the annual meeting of all the family members, we (the active family members) present them with the business facts: how the year went, what we think is going to happen in the next year.

Lynch, A., *All in the Family Inc.*, 2001.

Make a Commitment to Family Communication

Make a commitment to the family business meetings and the development of your 'family business rules'. As the primary communication vehicle in the management of the all-important family component these meetings and the resulting family rules will provide a solid footing for your personal and business relationships. As previously mentioned, a good start to the family meeting process is important. Select those items that have the greatest likelihood of producing positive outcomes and then move into the more complicated and sensitive ones. Address as many of these issues as possible and develop your own family business rules. If it takes a year or more to get this done, that's fine. Once you have completed your family business rules, present them to the broader family at one of your family council meetings.

If you commit to this, you will have addressed the #1 challenge in family business succession – communication or the lack thereof.

Getting the Family Meetings Started— Outside Assistance

One of the hardest steps in managing the family dynamics is getting started. Often family members worry that certain things may be said that will stir up strong emotions—and no one wants to experience that if they can avoid it. Unfortunately, avoiding the need to get the process started will only prolong the inevitable and may allow uncertainties and differences to fester to the point of irreparable loss. Engaging the services of a family business adviser/practitioner who works with family businesses, understands the significance of the family dynamics, and is willing to address the family issues could turn out to be one of the best investments you make. This way the process gets started, there is an unbiased opinion available to all family members, and there is someone to start the all-important communication and push the agenda items forward.

Family Business Best Practice

The Family Business Practitioner

Consider the benefits of using an outside family business adviser/practitioner to facilitate the family business meetings or at least get them started.

Management Succession Issues

At the family business meetings you will want to address a number of important management succession issues. Some of the more common issues are outlined below.

1. Are the current owners interested in witnessing a 'management succession' while they are still active in the family business or do they plan to manage it (management control) until they transfer the ownership? This is an important issue to discuss. Everyone needs to know the current thinking of the owners in order to plan for the future.
2. If the owners wish to entertain a 'management succession' process/plan, what is their current thinking with respect to a timeline? When will the management succession process start and when is it expected to be completed?
3. How and when will the management succession process/plan be communicated to the family, managers, and employees?
4. Will non-active family members be provided an opportunity to join the management ranks of the family business? If so, on what terms and conditions? How long will this option to join last? Who will decide?

5. What are the current and future roles and responsibilities of the family member managers? How will they be determined?
6. How are management or operational decisions made now, during the transition, and after?
7. How will management responsibilities get transferred to the next generation and when will that transfer occur? Will it be gradual or at a point in time?
8. What role do the owners want to play now, during, and after the management transition?
9. How will we determine fair pay for work done by the family business managers?
10. What are the criteria for the employment of family members as employees, as managers, and potentially as owners?
11. What are the owners' expectations with respect to work ethic, gender roles, seniority, continued education, and job training as it pertains to family member managers?
12. What are the ownership succession objectives? What are the criteria for becoming an owner? Who can own? How is it determined? How is it funded?

Note: The ownership succession issues can be addressed at a later stage of the succession process if desired. However, typically, some of the ownership succession issues will impact the management succession plan and may best be addressed at this time.

It is not expected that you should know the answers to all these issues. However, it is important that they get discussed in a formal setting (family business meetings). The discussion and the outcomes/decisions will allow the active family members to make informed decisions about their futures in the family business and will provide clarity to all as to what is expected. Sharing the outcomes of the family business meetings with the broader family will inform all family members of what is being contemplated and what the current rules are with respect to the management succession process and plan.

The following management succession issues are further addressed below.

1. Employment of family members
2. Grooming family members to be successors
3. Assessing family members as managers
4. Compensation for family members
5. Managing conflict during the succession process.

Employment of Family Members

Who can work in the family business and what are the requirements or criteria for employment? What about spouses, children, and in-laws? What is expected from those who are able to provide summer and part-time work (e.g., spouses, children)? Who will report to whom?

Having criteria that outline what is required and expected from family members who wish to be employed in a family business is essential. Who gets in and who doesn't is a major concern for any family business. It's not uncommon for the senior generation to desire that all their children, if possible, be involved in the business. Often one of the major reasons for operating a family business is to provide a comfortable living for the entire family. But bringing children into the business simply because they have decided they want in can cause major problems.

Each family business must decide for itself who will be admitted to the business as a permanent employee and under what circumstances. The essential point is to have agreed-upon guidelines, ideally in writing. The following questions need to be addressed:

Who will be hired? Will all children be eligible? Will spouses and in-laws be eligible? Whoever is brought into the business must be brought in to do a well-defined job that will contribute to the overall functioning of the business. Bringing in family members simply because they're family to do a meaningless job or a job for which they are not qualified can lead to resentment among other employees and the erosion of the family members' self-esteem.

What criteria will be used to determine eligibility? Guidelines should state the age, education, and experience that family members coming into the business should have. This may mean that a son or daughter or a son- or daughter-in-law may have to work in another business for a period of time or take training specific to the job he or she will be doing.

How will the employee be evaluated? One problem family members face is that they often get very little honest feedback about their performance. People can't improve unless they know how well they're doing. A difficult issue for families to face is how to deal with a family member who isn't doing a good job. Having clearly defined roles and responsibilities with a performance appraisal system in place can greatly aid in handling this problem. A simple performance review form is provided in Appendix 2.

How much will the person be paid? Salary should be based on service to the business and be comparable to that of other employees doing similar work. Though a parent may want to give extra assistance to a child because of special needs he or she may have, this should not be done as part of a business compensation package. Rather, the parents should find a way of helping outside the context of the business.

Grooming Family Managers to be Successors

Family members who aspire to the management and ownership ranks of the family business should assess their managerial skills to identify areas that require further training. If the business is to be passed along to the next generation, then the next generation needs to ensure that they have the appropriate skill sets to manage the family business.

Grant's Comments

During our initial meeting, the majority of my family business clients express the view that the next generation does not have the necessary skills to lead the family business. They usually point out that the children still need to do a lot of learning and that no one has what it takes to lead the business. Yet, when I speak with the children, they indicate that they are waiting to take on more responsibility if only the owners would pass it along.

It is my experience that, although, the owners think highly of their children, they tend to underestimate their potential. In many cases, the next generation is simply not provided with the opportunities that would enable them to demonstrate their management and leadership skills. In an effort to bridge this gap in real or perceived skill sets, I strongly encourage family businesses to have each of the potential management successors undertake a successor grooming assessment. In a number of cases, this activity has been the catalyst that has moved the succession process forward and allowed the next generation to take over the management of the family business. A successor grooming template is provided at the end of this section.

Family Business Best Practice

Successor Grooming Plan

The successor(s) must have the appropriate management skills to effectively take over the management of the family business. Assessing their current skills level against the required skill levels and developing a training/grooming plan to bridge the gap is an essential part of the succession process.

In an effort to provide comfort to the existing owners during and after the transition, the successors need to demonstrate their ability to effectively manage the family business. An effective way to assess the management skills of the successors is by developing a grooming plan for each of them. The objectives of the grooming plan are

1. To acknowledge the importance of developing a management succession plan (not only an ownership succession plan) as part of the eventual transition of the family business to the next generation.
2. To ensure that the level of knowledge, understanding, experience, and expertise (i.e., skill sets) of the management succession team meets the expectations of the current owners at the anticipated transition date.
3. To assist the management succession team in self-assessing their management and ownership skill sets with the goal of identifying areas that need further training/development.

The grooming plan starts by determining the management succession timeline. This will provide the planning horizon for the grooming of the successors. Next, the grooming plan outlines the most important business skills required by the successors to effectively manage the family business at the *transition date*. These business skills are typically gathered from the current owners who are most familiar with the business.

The potential successors fill out the template for each of the identified management skills by indicating on a scale of 1–10 their current level of skill and their assessment of what the desired or required level of skill should be for the *management successor team* at the transition date. The difference between the current level and the desired/required level is the gap that needs to be filled. The next step is to identify who will fill the skill gap. Will it be the successor (the one filling out the form), one of the other successors, another manager, an adviser, or one of the current owners in an existing or new role?

Once completed, the grooming plans are reviewed by the successor group and then presented to the owners for their review and approval. The combined grooming plans of the successors along with the roles and responsibilities of the current owners at the transition date should not only meet the expectations of the owners with respect to the future management of the family business but also provide sufficient comfort to allow the management control to transition to the next generation.

A successor grooming template is provided at the end of this section.

Assessing Family Member Managers

Assessing how family members are performing in the business is as important as assessing production, marketing, finances, or any other aspect of the business. In a family business, it is even more important given the impact family members can have on the business. Knowing what is expected and how well one is doing is essential to provide family members with the feedback they need to groom and prepare for their future roles. A simple performance review will go a long way in helping the next generation build the kind of confidence and work habits expected by the current owners.

Like most of the family business items mentioned so far, performance reviews are an ideal topic to be addressed at a family business meeting and should form part of the family business 'rules'. Discussing these important issues among the active family members will greatly facilitate the family business's ability to formalize its human resource processes.

Performance Reviews

Regular feedback about an employee's performance is one of the most effective tools managers can use to increase productivity. Most large companies or organizations have employee performance reviews built in as an ongoing activity in their operations. Performance reviews in family businesses are no less important, but much more difficult to do. Family members may be reluctant to evaluate a sibling or cousin. Parents may lose their objectivity when evaluating their own children. Non-family employees may be reluctant to provide negative reviews of family members. Stresses in family relationships may be unfairly reflected in job evaluations. Performance reviews in family businesses are much more challenging due to the family component. However, these challenges do not make them any less important.

How To: Do a Performance Review

Managers often find the performance review process stressful and struggle to put in words an accurate assessment of their staff, let alone their family members. Using a performance review process/form that includes a self-assessment component along with a numeric performance criteria ranking scale instead of writing out the assessment has proven an effective performance review tool. A sample performance review form, which includes a self-assessment component, is included in Appendix 2.

Family members may not take kindly to being evaluated by each other. In some instances, family members may even be shielded from honest feedback in the belief that they need to be protected and nourished. Nevertheless, feedback is essential for the growth and development of each family member.

Compensation for Family Members

Family Business Best Practice

Compensation for Family Members

Establish a compensation philosophy/strategy for family members that is fair and representative of the value of the work performed.

Developing a compensation strategy for a family business can be challenging but is essential. Compensation is at the heart of more family-business concerns than any other topic except succession. Family business owners should establish a compensation philosophy or strategy for family members that is fair and representative of the value of work performed. Compensation should be at the top of the agenda at family business meetings. The sooner the compensation issues are dealt with, the better.

Questions such as the following are common:

1. What exactly constitutes a family members' compensation (i.e., housing, use of recreational property and vehicles, travel, conferences/conventions, education costs, the promise of future ownership, etc.)?
2. Should all family members be paid equally?
3. Should family members of the same age or with the same number of years experience in the family business be paid equally?
4. Are salaries based on what family members could earn doing the same job somewhere else?
5. Are salaries scaled and based on the roles and responsibilities of each family member?
6. Are there bonuses? If so, how are they determined?
7. Are salaries on the low side since other benefits are provided?
8. Are salaries on the high side to reflect the family members' family business commitment?

Make compensation a top priority item for one of your family business meetings.

Managing Family Disagreements During the Succession Process

All family businesses experience disagreements/conflicts. Agreeing on how to manage disagreements is essential in family businesses. Left unattended, they will no doubt negatively impact the family business as well as family relationships. As in any long-lasting relationship, it's important to address the disagreements/conflicts as soon as they arise. Far too often disagreements/conflicts are dismissed as someone being petty, unreasonable, immature, inexperienced, or simply wrong. Even though any or all of these assessments may be justified, simply having an opinion on why there is a disagreement is not sufficient to resolve it.

This is another area where an outside family business practitioner can be of assistance. Ultimately, the issue needs to be resolved with those who are implicated in the disagreement. However, a trusted unbiased third party can be very effective in mediating the disagreement with the goal of finding common ground and resolution. In any case, someone must be assigned the responsibility for dealing with family conflict. Agreeing to a conflict resolution process is an important part of the family business rules developed by the family business meetings.

Integrating the Family Component in Business Planning

Planning is central to the success of any business. Identifying long-term strategies and developing corresponding operational plans will clarify for a business where it wants to go and how it will get there.

According to the research, many family business owners are not very good at carrying out formal planning exercises. In fact, the majority of them don't do it at all. They may not see the benefits... and therefore cannot seem to find the time for it. Often, when owners do carry out some form of planning it tends to be dominated by the owner(s) with little input from management or outside advisers. Children in senior management positions are often reluctant to express their views for fear that they may challenge those of their parents and as such appear disrespectful. This lack of formal planning has often been cited as one of the major stumbling blocks in the successful management of the multi-generational family business.

To overcome this reluctance to plan, consider assigning the task of organizing the planning activities to a senior next-generation family member who is active in the family business and who aspires to become a future owner. The need/desire to do some planning should be tabled at a family business meeting and an honest discussion should take place around the willingness to do the planning, who should participate, and what is expected (outcomes) from the planning exercise. There is no value in doing planning for the sake of planning. The planning participants must feel comfortable that their views and opinions will be taken seriously and what is agreed upon is intended to be implemented. If the owner (e.g., Dad) is of the opinion that he knows what is best for the business in both the short and long term then chances are this family business is not yet ready for formal business planning as described here.

Only 37 percent of family business owners reported having a written strategic plan. Those who had written strategic plans tend to engage in other types of planning as well: They are more likely to have buy/sell agreements, formal redemption plans and formal company share valuations... They also employ more workers, tend to have qualification policies for employing family members and are more likely to have selected a successor. In addition, they post higher sales revenues. These findings appear to demonstrate a correlation between the existence of a written strategic plan and taking actions commonly viewed as essential to family business survival.

Mass Mutual Financial Group, Raymond Institute, Survey Results

Grant's Comments

I have encountered a number of situations just like this. Each year, the owners would develop an annual financial projection or budget that would include any planned capital investments. As far as they were concerned they had done their planning. They did not see the need to develop a long-range strategic plan or any of the corresponding marketing, production, or human resource plans. Their view was that they had been in the business for years and they knew not only their business but also the industry as well. To them, marketing was really just advertising and promotion and would be handled over the course of the year as opportunities were presented. Production was based on projected sales and the projected sales were outlined in the annual financial

projections. Human resource planning was to be handled on an ad-hoc basis to satisfy the staffing needs of the business.

As the business continued to grow, the management team, which included a number of next-generation potential successors, was finding this simple planning format less than adequate as they tried to effectively manage the multitude of issues they were facing as managers. They knew they needed more structure, but how to get the owners to buy into it was the problem.

The following approach has worked with a number of families.

First, the next generation of potential successors took the lead in the process. They proposed to hold a one-to-two day planning retreat to develop a long-range strategic plan and the corresponding operational plans without the active participation of the current owners. The owners would be invited to address the management team at the beginning of day 1, a kind of state of the nation address, and then would be asked to leave. They would be invited back at the end of the planning exercise so that the management team could present them their findings. The owners would be asked to review the plans and provide their comments and suggestions with the goal of obtaining their approval of the final plans.

Where this approach was used, I have witnessed the following outcomes:

- A comprehensive plan does in effect get developed (the work gets done).
- The management team works as a collective unit. There is good participation by the managers, and many items that typically do not get addressed with the owners get tabled and discussed at these sessions.
- The next generation of potential successors get an opportunity to work as equals with the rest of the management team and are not hampered by the presence of their parents.
- The management team as a whole and the potential successors get an opportunity to actually go through a formal planning exercise, which they can repeat as need be. They learn how it's done.
- Pride of accomplishment is experienced by the next generation.
- When the owners come back at the end of the planning exercise, they are impressed with the quality and the quantity of work accomplished.
- The majority of what is presented meets with the owners' approval.
- Everyone agrees that the strategic planning exercise would not have taken place if it were not for this kind of process being proposed by the next generation.

Advice is seldom welcome;
and those who want it most
always like it the least.

Philip Dormer Stanhope, Earl of Chesterfield

Making Use of Outside Expertise

Advice

Running a family business is a complex task. Most family businesses will engage the services of professional advisers such as accountants, lawyers, bankers, and insurance agents to assist the family business as it evolves. Likewise, family businesses should engage the services of family business practitioners to assist them with their family business succession process/plan. The family business practitioner understands the nature of family business and how to effectively integrate the family into the succession process. It is recommended that the family business practitioner be neutral or independent with respect to the current and future owners of the family business. Otherwise, perceived or real biases may negatively impact their ability to earn the trust of the family members. Having the owners' long-time trusted adviser (e.g., accountant, lawyer, insurance broker) facilitate the succession process will most likely not produce the desired results.

It is often difficult for family members to express their true feelings about succession with other family members. Personalities, expectations, biases, and culture can all play a role in preventing family members from having open and honest discussions about succession. A family business practitioner provides not only an unbiased opinion, but more importantly, is someone both the owners and the next generation can confide in. It's essential that all family members (especially the active family members) have the opportunity to express their true feelings about the succession issues and process. The family business practitioner has the skills and experience to facilitate the kind of dialogue required to enable family members to comfortably express their views and concerns. The family business practitioner can also gather the information that will allow family members to make informed decisions as they go through the succession.

Family businesses can obtain outside advice by contracting services of professionals with expertise in specific areas (e.g., family business practitioners) and by establishing a board of directors or an advisory board. The use of Board's comprised of outside advisers is addressed in the next section under ownership succession.

Providing comprehensive advice to family businesses including how to manage the all-important family component is a relatively new consulting discipline. Over the past ten years or so, a group of family business advisers or family business practitioners who specialize in family business and are able to combine business consultation with a perspective on family dynamics and relationships in the resolution of business issues have emerged. They can advise on succession planning, strategic planning, and human resource management with a focus on managing the impact of the family component on each of these business processes. You should consider engaging a family business practitioner as one of your professional advisers.

SUMMARY

In summary, management succession and the need to formalize management processes is an essential stage in the transition of a family business. The family component will have a determining impact on the ability of the family business to transition its management and formalize its management processes and, as such, family businesses must incorporate this dynamic into the succession process. In other words, one cannot expect to simply transplant proven business best practices into the family business operations without modifying or customizing them to account for the family element.

For the succession process to be successful there must be effective communication among the family members. In this section, the most important family business strategies (best practices) required in effectively managing the family component have been reviewed. The section also focused on the need to establish the all-important communication channels for both the active family members and the broader family with the goal of developing a set of family business rules to guide the succession processes.

Even if the only issues you have addressed in your family business meetings are who will be the next-generation managers and owners, and the anticipated timing of the transition, this at least will have established guiding principles to help steer the succession process. Having established the necessary communication channels will allow family members to make informed decisions about their individual and collective roles in the management and ownership of the family business.

Successor Grooming Template

The following is a successor grooming template to be completed by each of the potential management successors.

PART I

Name of Potential Successor: _____

BUSINESS SKILLS REQUIRED AT TRANSITION DATE	(A) SUCCESSOR'S CURRENT SKILL RANKING (1-10)	(B) REQUIRED SKILL RANKING AT TRANSITION BY MANAGEMENT SUCCESSOR TEAM	(B) - (A) = GAP GAP TO BE FILLED BY SUCCESSOR, PARTNER(S) , CURRENT OWNERS, WHO?
Managing people: ability to effectively manage people (provide clear direction, delegation, discipline, motivate the troops, obtain productivity from staff)			
Communication skills: ability to effectively communicate with others at all levels of the organization. Ability to provide clear, concise, and relevant information in a timely manner. Ability to listen to others.			
Team building: ability to work as a team player irrespective of title or position. Ability to get others to participate on the team.			
Time management: effective use of time, ability to prioritize, respect for timelines, punctuality			
Negotiation skills: understanding of the negotiation process, ability to see the whole picture, ending with a win-win outcome.			
Personnel management: ability to recruit, hire, and discipline employees, knowledge of compensation issues (rates of pay, employee benefits, training, etc.)			
Marketing skills: ability to identify new business opportunities within existing and new product lines and the selling opportunities (target customers) created by these new opportunities. Knowledge and ability to manage advertising and promotion activities.			
Analytical skills: ability to analyze information and provide a clear picture of what the information is trying to indicate. Ability to identify opportunities for the business from the analysis.			
Planning skills: (long-term or big-picture outlook) ability to analyze market information (market intelligence) and develop corresponding corporate strategies (i.e., strategic business planning) to achieve continued growth and profitability.			
Financial skills: understanding of the company's financial position and how to manage its finances including financial statement analysis and cash flow analysis.			
Networking skills: participation in community activities, making contacts, association boards/committees.			
Selling skills: ability to identify/understand customer needs, focus on customer service, understanding of the selling process, paying attention to before- and after-sales follow-up. ability to close the sale, convey a sense of pleasure/enjoyment in the selling process.			
Other: (specific skills)			

PART II

Bridging the Gap

With respect to EACH of the skills identified above, what kind of grooming/training strategy is required in order for the *successor* to achieve his or her required ranking versus his or her current ranking? Clearly indicate HOW the proposed grooming/training will achieve the stated objective.

The proposed strategy should start with the most important skills and clearly identify how the required skill level will be obtained. For example;

Business skill required: _____

Successor’s current ranking: _____

Successor’s required ranking: _____

Proposed method to achieve the required ranking: _____

In-house grooming/training (which area, who will do the training, how long will it last, starting when, what evaluation method will be used, and how often, etc.)

External grooming/training (which courses, seminars, conferences, when should they start, how will they be evaluated, etc.).

PART III

Time and Event Schedule

Based on the proposed grooming/training plans outlined above, prepare an overall “time and event schedule” of the proposed plan. The events should be in chronological order. For example:

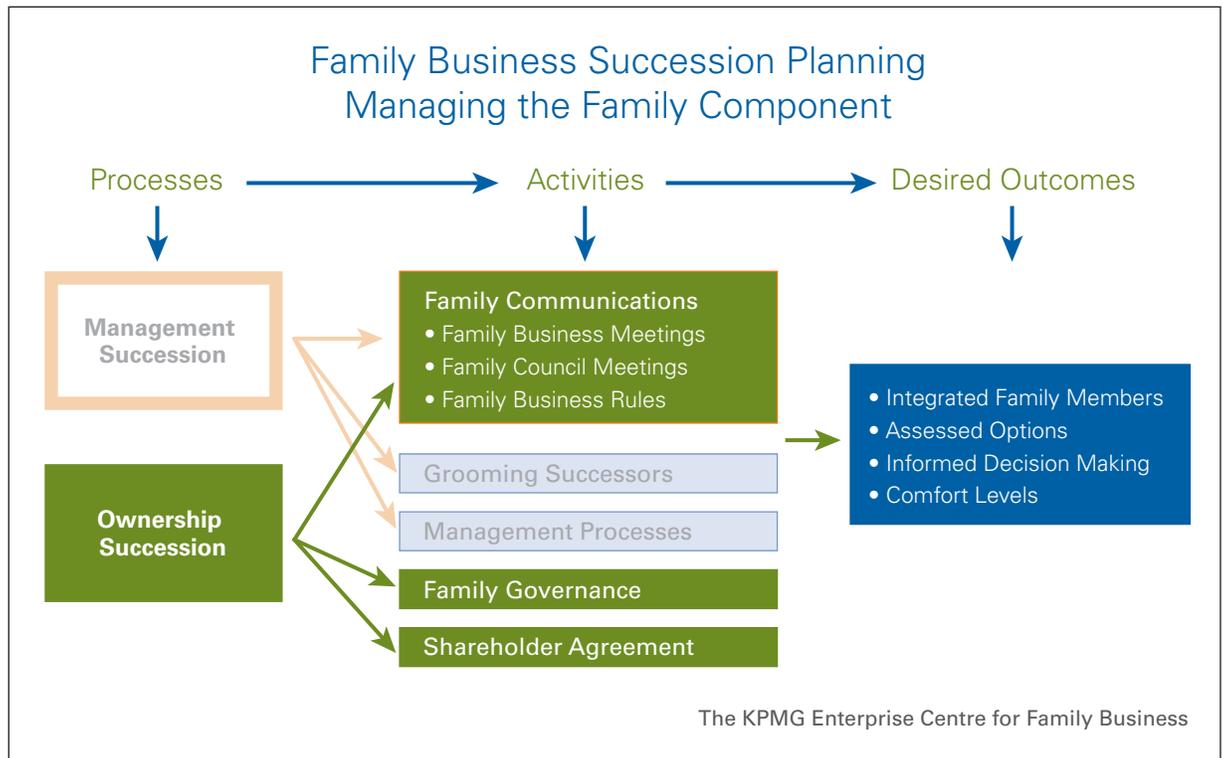
GROOMING TRAINING EVENT	SKILL SET TARGETED	START DATE	COMPLETION DATE	STATUS

Review the time and event schedule to ensure that the time frames are realistic and manageable. Periodic review of the grooming process should be tabled at scheduled succession status meetings or at the regular family business meetings.

Section 4

Ownership Succession: Integrating the Family Component into the *Ownership* Succession Process





If you decided to start with this section of the book, keep in mind that your management succession should be part of the overall succession plan or, better yet, be in place as a prerequisite to your ownership succession process/plan. The details on how to manage your family communication (family business meetings, family council meetings, and the family business rules) as well as how to groom the successors are all outlined in the previous section as part of the management succession activities. Therefore, you are encouraged to refer to the section on ‘management succession’ in preparation for this section on ownership.

Even if you believe that your management succession plan is well established, you should review the section on ‘management succession’ to ensure that you have at least considered all the salient points.

About This Section

You may recall the following statistic from Section 1 pertaining to the challenges facing family businesses created by the family component. We repeat it in this section to highlight the fact that family businesses often struggle when it comes to formulating a succession plan.

When family business owners were asked, “What issues are of the greatest importance and greatest difficulty for you,” they responded:

- 1 Resolving conflicts among family members who are in the business
- 2 Formulating a succession plan
- 3 Developing a strategic business plan
- 4 Developing a retirement and estate plan.

(Mass Mutual Financial Group, Raymond Institute, Survey Results)

This section will outline some proven strategies that provide the necessary comfort to help ensure a successful ownership succession. The following topics as they pertain to ownership succession will be addressed.

- 1 Taking the lead (let the next generation take the lead)
- 2 Understanding the emotions and providing comfort
- 3 Communication and decision making among family members
 - Family business meetings (active family members only)
 - Family council meetings (the broader family members)
 - Family business rules (guidelines/policies/rules to guide the succession)
- 4 Governance (governing the family component)
 - Board of Advisers
- 5 Managing minority shareholders' expectations
- 6 Shareholders agreement.

Grant's Comments

There is no need to stall or delay your succession process because you have not formulated all the answers to the ownership issues. You are not alone. Most family business owners do not have clear-cut answers to many of the ownership issues. This should not discourage you from starting the process. In effect, discussing the ownership issues in a formal setting with potential successors and outside expertise will greatly facilitate your decision making. Most family business owners are not aware of all the options and strategies available to them in the succession process. Parking the ownership in a trust account until you know all the answers, or until the succession falls into place on its own, is not generally recommended as an effective succession strategy.

At a minimum, pick a transition target date (e.g., one to five years), assign the process to someone or to a small group of active family members or make it one of your priority projects, and slowly start to work through the steps that apply to your family business situation. Once again, consider engaging the services of a family business practitioner/adviser to assist with the overall process and, more importantly, to get it started.

Inadequate estate planning and failure to properly prepare and provide for the transition to the next generation, coupled with lack of funds to pay estate taxes, were among the three leading causes for the failure of Family Owned Businesses... In 47.7%, the transition and ultimate collapse of the firm was precipitated by the founder's death.

(University of Connecticut Family Business Program Website)

Taking the Lead

As in the case with the 'management succession' process, it is recommended that the next generation of owners take the lead in the ownership succession process. In other words, let those who will be running the business in the future take charge of the management and ownership succession processes. Let the next generation, in consultation with and approval from the owners, formulate the management and ownership succession strategies. This approach has proven to be effective in providing both parties the level of comfort needed to implement the succession plans.

The current owners may feel that they are best suited to lead the ownership succession process. If this is the case, they must integrate the family into the process as active participants. Working through the succession plan between the owners and their trusted advisers without the active participation of the family is not recommended and often leads to family conflict that otherwise could be avoided. Regardless of who leads the process, what's most important is that it gets started.

If you have next-generation family members working full-time in senior management positions, it's time to start the succession process.

Emotions and Comfort

Transferring the ownership of any company can create a variety of emotions ranging from guilt to freedom and happiness. Letting go of what you have dedicated the better part of your life to build is no easy task and is often referred to as the greatest test of greatness for the founders of businesses. Family businesses have the additional challenge of having to deal with the emotions generated by their family component. Fortunately, there are now generally accepted family business best practices to help family business owners effectively manage their family component as they work through the succession process.

The current owners need to feel comfortable that the next-generation family members have the skills and commitment to effectively take over the family business. They need to know that the business and personal values they have instilled in the family business will be respected. They need to feel comfortable with their role during and after the ownership transfer. The same is true for the next-generation owners. They too need to be comfortable with the ownership succession process and plan. Therefore, the succession process needs to move at a pace that will provide this necessary level of comfort. All of the succession activities outlined in this section and the previous section are intended to build comfort among family members so they can make informed decisions with respect to their future role in the family business.

Family Communication and Decision Making

Family communication is the foundation for successful succession in family business. The likelihood of a smooth and effective transition will be significantly enhanced if the active family members have been holding family business meetings and family council meetings to address the succession issues. How to establish and conduct these meetings is outlined in Section 3. Managing family member expectations, enabling them to make informed decisions about their future in the business and providing sufficient comfort to implement the succession plan is the role of these family meetings. If your family has not held family business meetings or family council meetings, it is strongly recommended that you start your succession process by setting them up.

Ownership Succession Issues

The ownership succession issues that will need to be addressed in your family business meetings include the following (also refer to the list of management succession issues in the previous section):

1. Family communication. How will the family handle communication as it pertains to the ownership succession process? (family business meetings, family council meetings, family business rules)
2. Timing of the ownership transition. What is the current thinking with respect to the timeline for the ownership transition? Will it be a gradual transition whereby a portion of the ownership will be transferred first with the balance at a later date? If so, when will it start and when will it be completed? (Note: do not worry about trying to accurately predict the timing since it most likely will change, in some cases significantly. What's important is to have a target timeline so that everyone can work toward it.)

3. Who can own shares in the family business and why? Only family members who are active in the business? Non-active family members as well? Should non-family (key employees) be invited to join the ownership ranks? What about next-generation family members who are not currently in the business, but who may be interested in joining the business at a later date? Which scenarios would give the current owners the most comfort? Which scenarios would give the next generation the most comfort?
4. How will the ownership transfer be funded? Will the future owners be expected to invest personally in acquiring ownership? Will the owners require an upfront lump-sum payment? Are the current owners willing to have their value in the business paid over time through the profits of the company? What kind of assurances or collateral will the owners need?
5. What will be the compensation arrangement for the owners after the transition? Will the compensation arrangement be part of the transition price or will it be separate? How will it be determined?
6. What will be the compensation arrangement for the new owners? If more than one owner, will they all be paid the same or will they be paid based on fair market value for the function they each perform? Will bonuses be allocated based on ownership percentages or equally or as a percentage of salary?
7. What role if any will the current owners play during and after the transition process?
8. At what stage of the ownership succession process will you communicate with the broader family and the employees? What will be communicated and who will lead the communication process?
9. What will happen if an owner (current or future) becomes incapacitated, dies, or decides to voluntarily leave or retire from the ownership ranks of the business? In other words, what is the exit strategy?
10. What are the criteria for next-generation family members becoming owners? Should they require a certain level of education and experience? Who will determine the criteria and if it has been met?
11. Do the owners have a current shareholders agreement that reflects and supports the succession objectives/plan?
12. Do family members' personal wills (estate plans) support the succession plan?
13. Would a board of advisers benefit the next-generation owners?

The above ownership issues are best dealt with in the family business meetings dedicated for this purpose. The outcome of these meetings is a set of family business rules that address the above ownership issues and guide the family members in the succession process. In other words, the ownership issues are discussed with the active family members first and then presented to the broader family when deemed appropriate.

The best plans in the world will not work unless the people who are involved and affected by the plans are informed and willing participants in the process. Discovering and managing family member expectations, a critical step in succession planning, cannot occur without effective communication. Holding regular family business meetings with the active family members and periodic family council meeting (i.e., broader family) are the primary communication channels in the effective management of the family component in the succession process.

Outside Assistance

Consider obtaining the services of a trained outside facilitator or family business practitioner to assist in working through the succession issues, particularly those

dealing with family members' goals and expectations. These can be tough issues to discuss. However, getting people to express their expectations concerning plans for both their personal and working lives is essential in the succession planning process. Assumptions and guesswork must not be the basis of your succession plan. An outside facilitator/expert can bring knowledge of what other successful family businesses have done, provide an unbiased opinion, present options, open communication, and help steer the process.

The importance of communicating and setting up the necessary communication channels cannot be over emphasized. Succession planning is about people. Ideally, the family business has already dealt with family member expectations as part of its regular family business meetings and family council meetings (i.e., managing the family component) in advance of actually implementing the succession plan. The experience gained in these meetings will serve the family well as the succession plan unfolds.

Governance

Governing the Family Component

Governance can be defined as the organizational structures that outline who is accountable to whom, along with the organizational processes that determine how decisions are made. Corporate governance can include organizational structures, such as board of directors and executive management committees with decision-making processes, such as board policies and operational manuals.

Family businesses can also have similar governance models but they also need to account for the family component. It is recommended that they govern the family via the family business meetings and family councils, and use the family business rules for decision making. A board of directors or a board of advisers can also be used to help govern the family component, and is further addressed below. Some large family businesses have established a "Family Office" to manage/govern their philanthropic activities.

Board of Directors and Board of Advisers

A multigenerational family business is a complex business. Making use of expertise from outside the family can provide a greater depth of knowledge and experience, thereby resulting in better decision making. Family businesses can consider two board options: a board of directors and a board of advisers.

A board of directors is a formally structured governing body. It has legal status and is responsible for overseeing the performance of the business and its corporate behaviour in carrying out its affairs. Incorporated businesses have an obligation to hold board of directors meetings at least once a year. In most family businesses these tend to be held as part of the annual general meeting of shareholders and comprise primarily or solely family members. Some family businesses, typically very large ones, which have elected a governance structure similar to that of public companies, will have a majority of non-family members on their board of directors.

A board of advisers, on the other hand, is a group of respected peers selected by the family business to provide advice on a number of business issues including business strategy, executive compensation, and succession. An advisory board has no legal status and, as such, carries no formal power and has no legal liability for its actions as is the case with a board of directors.

Grant's Comments

A representative from a group of cousins (they call this a "cousin consortium") who were all owners of the family business contacted me to explain that there were disagreements among the cousins as to the future direction of the business: the level of reinvestment needed to sustain the projected growth, the roles and responsibilities of some of the owners, and the ongoing interpretation and implementation of the succession plan. The cousins enjoyed working together, but they had different views and approaches to how the family business should be run. Although one of them had the title of president, she was reluctant to use it as a power lever in any major decisions. The cousins were worried that their business and family relationships would be compromised if something wasn't done soon. I suggested that they establish an outside board of advisers. The following are the terms of reference we developed for this family business. You should consider the merits of this for your family business.

Board of Advisers: Terms of Reference

Objectives

1. To provide the owners with a sounding board for major operational and strategic business decisions.
2. To provide the owners with another level of accountability with respect to implementing strategy. In other words, responsibility to the board to do what we say we are going to do.
3. To enhance professional and personal growth.
4. To enhance the owners' business network by cultivating relationships with board members and their business network.

Role and Responsibilities

1. Assist the family business in achieving its short-term and long-term goals.
2. Participate in or at least review the strategic/business plan and its corresponding annual strategies/actions. Challenge all assumptions, ensure options are considered, provide advice on all major strategies.
3. Provide advice to the owners on a periodic basis (e.g., quarterly meetings) with respect to business strategy and operational decisions/issues.
4. Assist the family in adhering to the family business rules such as employment criteria, performance reviews, and compensation for family members
5. Monitor the succession process (management and ownership succession).
6. Provide a stabilizing effect for family disagreements (unbiased opinion).
7. Take on special projects assigned by the owners.
8. Provide advice to the owners on their professional and personal growth.
9. Introduce the owners to their network of business colleagues where appropriate.

Mechanics

1. Individuals will be selected on their ability to best meet the priorities (objectives).
2. Individuals will be selected who complement each other so that each can bring to the table the best of their skill sets.
3. The board of advisers will consist of at least four outside members. All active family members will be members of the board. An outside member will chair the meetings. An active family member will be assigned to the board chair to assist with the tasks of setting up the board meetings, preparing agendas and related materials, and recording the outcomes of each meeting, which are to be distributed to all board members.
4. A fixed meeting schedule will be established with specific agendas. The agenda should be clear as to exactly what is wanted from the board (i.e., information, advice, recommendations, contacts, further direction).

5. Each board member will sign a general confidentiality letter.
6. Board members will be encouraged to provide feedback on the performance (effectiveness) of the board in general as well as with respect to their personal experience on the board.

As your family business matures and moves into second- or third-generation owners, it should consider the merits of establishing an outside board of advisers. This approach to family business governance has proven to be effective in ensuring a healthy, long-lived family business that will remain true to its mission and family values.

Minority Shareholders: Managing Expectations

Managing minority shareholders' expectations will go a long way in ensuring family and business harmony. Minority shareholders will have expectations related to their ownership status, which are often different than those of the majority shareholders. Far too often, minority shareholder expectations are simply ignored and assumptions made as to what they need and when they need it.

If the minority shareholders are active family members, which means they are also part of the family business meetings, chances are they have had the opportunity to share with the rest of the shareholders their expectations with respect to their minority holdings. If not, this should be one of the agenda items for the family business meetings.

If the minority shareholders are not involved in the family business, their expectations should be addressed at one of the family business meetings and then shared with all at a family council meeting. The end result should be a written policy on minority shareholders' expectations and how they will be managed.

Shareholders Agreement

An integral part of the succession plan, if there is more than one owner, is a shareholders agreement. The shareholders agreement formalizes and legalizes the succession plan. Therefore, the shareholders agreement needs to reflect and support both the management and ownership succession plans.

Unfortunately, many family businesses do not have a shareholders agreement. The uncertainty and discomfort surrounding many of the succession issues, the lack of a formal process to discuss succession, and the reluctance of owners to plan for the eventual transition of their businesses are all contributing factors. The succession activities outlined in this book, especially the development of the family business rules by the active family members are all intended to remove much of the uncertainty and discomfort surrounding the succession issues. Preparing a shareholders agreement after having worked through the succession activities is a lot easier and a lot less expensive since most, if not all, of the issues have already been decided. The shareholders agreement in this case is written to reflect and support the management and ownership succession decisions made by the active family members during their family business meetings.

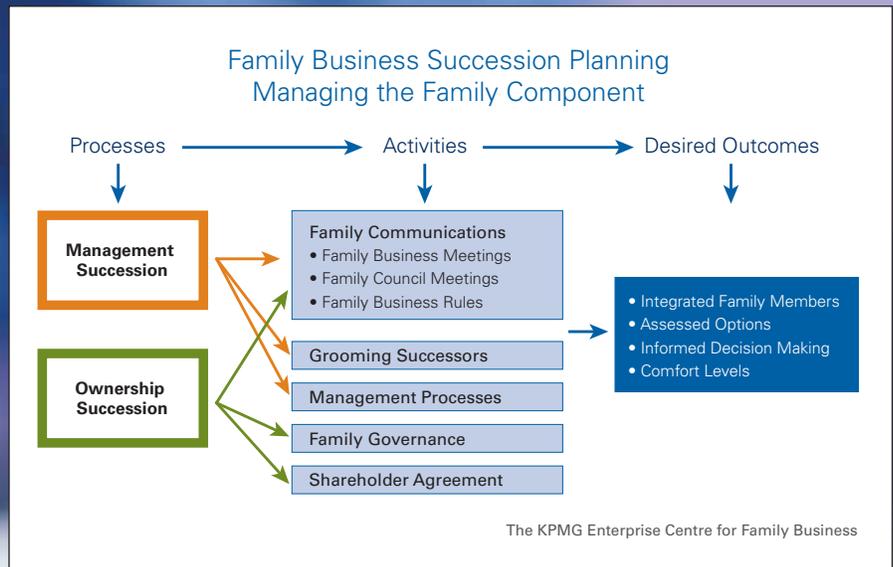
The family business rules developed during the succession process can be embodied in the shareholders agreement or they can be referenced in the agreement.

SUMMARY

Similar to the management succession activities outlined in the previous section, establishing the family's communication activities is the key element for a successful ownership transition. Integrating the family members into the ownership succession process and establishing the family business rules to guide the ownership succession will provide much of the comfort required for a successful succession.

Section 5

Putting It All Together



Grant's Comments

I received a call from a distraught family business owner who had been toying with the idea of transitioning the family business to the next-generation family members. However, he was overcome by the number of unanswered questions raised by his lawyer and his family. He expressed his commitment to doing what was best for both the business and the family, and wanted to know if I could provide him with a detailed step-by-step approach to his family business succession plan. He also wanted to know how long the process would take, what the final product actually looked like, and what role I would play. The following was my response:

Dear Sir,

The following is a detailed list of the kinds of activities I would suggest you consider as part of your family business succession process. Depending on your particular circumstances, you may not need to undertake all of these activities. We will further discuss this when we meet.

Family Business Succession—The Process

Family business succession comprises two processes, the management succession and the ownership succession. Each requires involving family members so that at the end of the processes your family members will have been involved and will feel comfortable making decisions about their individual and collective futures in the management and ownership of the family business. Described below are the proposed management and ownership succession activities.

Phase I

1. Individual interviews with all current family business owners, their spouses, and their adult children. The purpose of these individual interviews is to identify what is common, uncertain, and different among the family members with respect to the future management and ownership of the family business (family member expectations). I would conduct the interviews and provide a list of questions to be reviewed by the interviewees in preparation for the interviews.
2. Establish the family communication (family business meetings) for family members who are currently working in the family business. This will involve only the *active* family members at this time. I would chair the first few meetings, which will focus on the information gathered during the individual interviews. The first meetings will serve to confirm what is common among the family, clarify any uncertainties, and commit to addressing the differences among the active family members as we work through the management and ownership succession issues.
3. Establish the family communication (family council meetings) for the broader family. At the first family business meeting (active members only), we would commit to holding family council meetings to communicate to the broader family the status of the succession process and plan as it unfolds. Therefore, once the active family business members have had the opportunity to discuss the succession issues in their family business meetings, some or all of the information would be relayed to the broader family to keep them informed and to obtain their feedback.
4. The desired outcome from the family business meetings is to develop a set of family business rules, which will serve as the guiding principles for the overall succession process. I would provide a list of the kinds of management and ownership succession issues to be addressed in developing the family business rules, which will include:

- Criteria for the employment of family members
- Compensation for family members
- Grooming the successors
- Criteria for ownership in the family business including how the ownership transfer is to be funded.

Phase I can range from a few months to a year. The objective is to be able to discuss the succession issues in a dedicated forum and build the necessary level of comfort to allow the family members to make informed decisions about their futures in the management and ownership of the family business.

Phase II

1. Assess your comfort level with the management succession. Identify existing and potential management successors. Establish a management succession timeline. If required, have each of your management successors complete a successor grooming template to identify their current management skills, and, more importantly, identify any gaps in skills required to effectively take over the future management of the family business. Determine how any gaps in skills required will be filled. This exercise will help establish the current and future roles and responsibilities of the management successors as well as those of the current owners. The results of this exercise will be discussed at the family business meetings. I would provide the grooming template, including a performance review form. I would also encourage your management successors to take the lead in the management succession process.
2. At one of the family business meetings we would focus on addressing management succession issues. The list of issues will be provided as part of the process in developing your family business rules (phase I item #4).
3. Assess the merits of having the management successors (without the current owners) undertake a business planning exercise to develop a common vision for the future of the family business. The outcome of this activity will be presented to the owners for their comments and approval at one of the family business meetings. I would provide a sample business planning format and, if required, I could facilitate the process.
4. If not already addressed as one of the succession items at the family business meetings in phase I, develop a compensation philosophy/approach for active family members. This will include salary, benefits, use of company assets, bonuses, memberships, and holidays.

Phase II depends on the current readiness of your management successors. If all of the above activities need to be implemented, this phase could take from several months to a year. Once again, this phase will be managed via the family business meetings and the outcomes communicated to the broader family (family council) if and when deemed appropriate.

Phase III

1. Assess your comfort level with the ownership succession. Identify existing and potential ownership successors. Establish an ownership transfer timeline. Determine whether the ownership successors should complete the grooming template outlined in phase II above.
2. At one of the family business meetings, we will focus on addressing the ownership succession issues. This will include
 - Who can own shares? What are the options?
 - How is the ownership transfer to be structured and funded?

- Compensation for owners
 - Insurance coverage for the owners
 - Future family members who wish to be owners
 - Exit strategy (death, incapacity, and voluntary exit by an owner)
 - Family governance.
3. Communicate with the broader family (family council meeting) to inform them of the current thinking with respect to the ownership succession and to obtain their feedback.
 4. Develop a shareholders agreement based on the outcomes of the family business meetings addressing the ownership issues. This agreement should include an exit strategy that addresses what happens on the death, incapacity, or voluntary withdrawal of an owner.
 5. Review the management and ownership succession plans with your trusted advisers (e.g., accountant, lawyer). Once these have been reviewed, your lawyer will draft the new shareholders agreement.

Like phase II, the duration of this phase is based on your ownership succession readiness and your comfort level. If your management succession plan is already in place, the ownership succession process can proceed fairly quickly. In most cases this phase will take several months to complete.

The End Product

Your family business succession plan will comprise the following:

1. A shareholders agreement based on the agreed-upon outcomes from the management and ownership succession processes. The agreement will make reference to your family business rules.
2. A set of family business rules that have been developed by the active family members and communicated to the broader family.
3. A recent business plan prepared by the management successors (this could be the same group as the ownership successors) approved by the current and future owners.
4. A successor grooming plan for each of your successors.

The above will have achieved the overall family business succession objectives: integrating the family into the succession process, assessing options, making informed decisions, and feeling comfortable with the overall process and plan.

SUCCESSION SELF-ASSESSMENT CHECKLIST

To help you gauge your succession readiness, the book ends with a succession self-assessment checklist. It is hoped you will review the checklist and commit to working through the succession issues with your family members.

This assessment scale is intended to provide family business owners with a general assessment of their succession readiness while recognizing that the family dynamics and the family attributes vary from family to family and from generation to generation. The degree to which these questions are dealt with, the greater the likelihood you will experience a successful transition.

1. **Creating a legacy:** Is it important to you that the business stay in the family? Do you think it is important to the next generation that the business stay in the family?

2. **Timing:** Have you established a timeline (target completion date) for the management and ownership succession process? Is it clear to you when the process should get started and when the next-generation leaders and owners should be in place? Has this been communicated to the next generation? To the broader family?
3. **Comfort level:** Family issues and/or business issues will no doubt impact the future management and ownership of the family business. As an owner and parent, you may not feel comfortable or well equipped to deal with some of these issues. If you are currently experiencing some concerns, are you doing anything to increase your comfort levels and minimize any potential negative impact on the family and the business?
4. **Options:** As you think through the succession issues, do you feel comfortable that you are aware of the kinds of options available to you? Do you know where to get the relevant information on the options so that you and the next generation of managers/owners can make informed decisions about your individual and collective futures in the family business? Have you identified these options?
5. **Communication:** Communication is often considered to be the single most important aspect of a successful transition. You must ensure that you are not making decisions based on assumptions, but rather on factual information expressed by those who are impacted by the succession process. Do you have a dedicated forum (i.e., family business meetings for the active family members and family council meetings for the broader family) that deals with succession issues and the succession process? Do you feel comfortable in leading these kinds of meetings? Is there an active senior family member who is well suited to lead these meetings? Have you considered the benefits of using an outside facilitator (i.e., family business practitioner) to get the family meetings started?
6. **Expectations:** Are you able to clearly articulate the expectations of your family members with respect to their future roles/interests in the family business? How have you gathered this information?
7. **Guiding principles:** There are numerous options available in transferring the management and ownership of a family business. Agreeing upon some of the fundamentals (guiding principles) will help steer the process and help manage family members' expectations. A formal process to discuss management and ownership succession issues (i.e., family business meetings with active family members) that results in agreed-upon succession principles can pave the way. Have you reflected on your guiding principles? Have you shared and discussed these with the active family members? With the broader family? The following is an example of some guiding principles:
 - **Employment of family members:** What is the criteria for the employment of future family members (educational requirements, outside work experience)? Can spouses and in-laws work in the business?
 - **Who can own:** Will ownership be made available to non-active family members? If so, why, and what are their rights and expectations as non-active family owners. How will the active family members manage (e.g., voting control)? Can spouses and in-laws become owners?
 - **Compensation:** What is your current thinking with respect to compensation for active family members? Equal, fair market value, below, or above market value? If fair market value, how will it be determined?
 - **Leadership:** Can there be only one leader (e.g., president) or will co-leadership be entertained (e.g., co-presidents)? How will they be selected?
 - **Management succession:** What is your current thinking on how the management succession plan will tie into the ownership succession plan? Will it be a gradual transition of management and ownership? Will it be a transfer of ownership only once the management succession is in place? Will the ownership be held in trust until the management succession issues are addressed? Will management and ownership be transferred at the same time? Will the ownership plan support the management plan?

8. **Successor(s):** Have you identified a successor(s)? Has this been communicated to the next generation? Would the next generation have selected the same individual(s)? How do you know?
9. **Changing role:** Have you thought through the kind of role you want to play during and after the management and ownership transition? Does the next generation support this role? Is this the role you think you should be playing or is it the role you really want to play?
10. **Income security:** Is most of your disposable income tied up in the family business? Do you know how much you would need to draw from the family business once you have transitioned it to the next generation? Are you concerned about the security of your investment in the family business once the business is transferred? Is this financial concern preventing you from moving forward in the succession process?
11. **Who should lead:** Do you think you should be taking the lead in working through the succession issues? Would you prefer that the next generation of family managers/owners take the lead while obtaining your advice, support, and approval in the process?
12. **Managing conflict:** Some degree of conflict among family members is inevitable. Left unattended it can have dramatic negative effects on the family and on the business. Is there an agreed-upon process to deal with family conflict? Is it effective? Would most family members agree with how conflict is being managed?
13. **Business strategy:** Is the next generation planning to take the business in the same direction that you do/would (growth, profits, investments)? Has the next generation demonstrated its ability to do so?
14. **Exit strategy:** Will the shareholder agreement for the next-generation owners include an exit strategy that is considered fair and amicable to all parties while safeguarding the financial viability of the family business? Will it address incapacity, death, and voluntary retirement?
15. **Wills:** Does your will (estate plan) reflect and support your current thinking with respect to the future ownership of the family business? Is the next generation aware of this?
16. **Getting started:** Are you having trouble getting started? Do you think that an outside family business adviser could assist you in the succession process?
17. **Validation:** Would the next generation be in agreement with your answers to the above questions? How do you know?

And finally, give credit when credit is due—celebrate your achievements!

If you have completed your family business succession plan, celebrate! Most family businesses don't get there. Make it an important accomplishment and let your family know you are proud of them.

SUMMARY

This section summarizes the overall succession process and the need to integrate the all-important 'family component' into the management and ownership succession processes. By addressing the family component in each of the key areas, sufficient comfort will be provided to each of the parties involved to allow the transition to take place in a timely and orderly fashion. The level of detail required to plan an effective transition may at times seem overwhelming. However, if the family business commits to applying many of the family business best practices outlined in the book, they will not only find the activities informative and rewarding, but will have most likely beaten the family business succession odds.

Appendices



Appendix 1: Sample Family Business Rules

The following is a sample set of family business rules to provide you with an example of the kind of policies that successful family businesses have put in place, applied, and transferred to the next generations.

Family Business Rules

Objective: The objective of our family business rules is to provide a set of rules to guide family members in their personal, business, and family relationships. In other words, if we develop agreed-upon policies and abide by them, we will reduce the chances of having to deal with conflict that will no doubt challenge our personal relationships, our business relationships, and, therefore, the family business.

Methodology: The following rules were developed at our family business meetings, which were facilitated by the KPMG Enterprise Centre for Family Business. The rules have been reviewed and approved by the owners of the family business (September XXXX) and have been presented to the broader family at one of our family council meetings (November XXXX).

Family Business Meetings

The purpose of our ‘family business meetings’ is to provide a formal communication forum for family members who are *active* in the family business. Business issues that impact the family, family issues that impact the business, and any issues that impact the relationship among the active family members are the primary agenda items. The family business meetings are not intended to replace regular management meetings. They are intended to enable active family members to better understand each other and to better understand why the family business operates the way it does. Personal and business values, succession principles, grooming of successors, compensation for family members, and family member expectations are the kinds of topics that will be discussed at the family business meetings.

The outcome of our family business meetings is the following set of family business rules, which are intended to guide us in our day-to-day activities in the family business. The family business rules and any changes thereto will be presented to the broader family members for their information and feedback at one of our family council meetings.

The family business meetings will be chaired by a senior active family member and will be held at least quarterly if not more often. Meeting rules have been developed for the family business meetings.

Family Council Meetings

The purpose of our ‘family council meetings’ is to provide a formal communication forum for the *broader* family members to keep them informed of the overall activities of the family business. They are intended to provide the broader family with the “big picture” and not the day-to-day operational activities. Employment and ownership opportunities for family members, succession principles, corporate philanthropy, community activities, and family governance are the kinds of issues that will be addressed at our family council meetings. As the active family members work through our family business rules they will be presented to the family council for their information and feedback.

The family council will be chaired by an active family member with the assistance of a non-active family member. The family council will meet once a year or more often if required, and will have a formal agenda. Meeting rules for the family council rules have been developed.

The following are our family business rules.

1. Employment of Family Members

The owners of the family business would like to encourage and support the participation of family members in the family business. Family members are encouraged to consider employment opportunities in the family business as well as ownership opportunities. Ownership opportunities are available only to family members who are active (full-time) in a senior position in the family business.

The owners recognize the importance of ensuring that the business is being led and managed by individuals with the appropriate skills and commitment to the family business. In other words, the family business does not exist to support the family but rather, the family business can provide family members with career opportunities where there is a good match in the skill set required by the business and what the family members have to offer. Creating opportunities to accommodate family members is not good business practice and has proven to be a major stumbling block in the effective management of family enterprises. Therefore, the owners would like to promote the following principles as they apply to the employment of family members.

- Employment of family members in the family business will be based on opportunities being available (versus created) and on the appropriate matching of a candidate's skills with the business employment opportunity. Compatibility of personalities (especially at the ownership ranks) will also be taken into consideration in assessing the employment and potential ownership of family members.
- Prior to an offer being made to a family member for employment (full time or part-time), the offer must be approved by all the owners.
- Family members aspiring to the ranks of management are expected to have the following qualifications;
 - University/college degree (or equivalent)
 - Three to five years of related work experience outside the family business
- Family members will be compensated based on fair market value. In other words, at the same rate that the company would need to pay for a non-family employee.
- A probationary period of six months will be applied to all new family members after which time full employment can be granted.
- All efforts will be made to have family members reporting to non-family members or to non-direct (e.g., not parents or siblings) family members.

2. Family Members Becoming Owners

The owners recognize and support the concept of bringing active senior family members into the ownership ranks as soon as they demonstrate their skills and commitment to the family business. Approval by the existing owners is required for a new family member to enter the ownership ranks.

Family members aspiring to join the ownership ranks of the family business should have three to five years of work experience in the family business at a senior management position.

When a family member is deemed ready for ownership, the company would carry out a "freeze," meaning that the current value of the company would be determined and that value would be distributed among the current owners in the ratio of their ownership interest (i.e., 1/2 each if there were two equal owners) in the form of "freeze" shares (or preferred shares), which the company would have the obligation to pay as per the agreed-upon payment terms determined by the owners. At this time, a new class of ownership shares (common shares) would be distributed to all of the owners (including the new owner) in equal share. For example, if all of the existing owners decided to remain owners, there would now be three equal owners. There is no price to pay for these new ownership shares and from this point on, the growth of the business is accruing equally to each of the owners (1/3 each). This process would be repeated as subsequent owners are accepted into the ownership ranks.

3. Employment of Spouses and In-laws of Active Family Members

The employment of spouses and in-laws of active family members in the family business is a delicate and sensitive issue. It is best to address this issue and agree on how to effectively deal with it before the situation or request arises. The following principles are intended to reduce the potential conflict that can arise from the employment of spouses and in-laws.

- Given the dynamics of family business, we do not encourage the employment of spouses or in-laws of family members who are *active* in the family business. However, should a situation arise where the employment of a spouse or in-law of an active family member is deemed appropriate, then the principles of employment outlined in policy #1 above should apply.
- The employment of spouses or in-laws of *non-active* family members will be treated in the same manner as the employment of any family member outlined in policy #1.

4. Executive Compensation

Executive compensation is often cited as the second most common challenge (succession being the first) facing family business. It is important that executive compensation (salary and bonuses) for family members be reasonable and representative of the value of the work being performed. Inappropriate use of compensation (i.e., too high or too low) will inevitably lead to conflict both within the family and within the family business.

Therefore, in an effort to minimize the potential conflict that can arise from inappropriate compensation, the owners endorse a compensation philosophy based on fair market value. In other words, executive compensation for family members will be based on levels of pay that are comparable with similar functions in the marketplace. The owners will periodically (e.g., every two years or so) review their compensation plan to ensure its alignment with the marketplace.

5. Exit Strategy

The shareholders agreement will provide for a fair and equitable exit strategy from the family business. The terms and conditions of the exit strategy will be clearly outlined. If there is no shareholders agreement, the terms and conditions of the exit strategy will be tabled and approved at a family business meeting and forwarded to legal council for future reference.

6. Retirement Strategy

In an effort to support the orderly transition of leadership and ownership in the family business among future generations, we propose a mandatory retirement date of 65 unless agreed to by the rest of the owners.

7. Minority Shareholders

The family business commits to informing all shareholders of their roles, responsibilities, and expectations. Minority shareholders will be kept informed of ownership type issues including periodic business performance results. The family business will develop an annual distribution policy if required.

8. Conflict Resolution

The purpose of a policy on conflict resolution is to provide family members (active and non-active) with a forum to discuss and resolve conflict related to the family business. The nature of family business is such that family issues will impact the business and business issues will impact the family. Family conflict left unattended will negatively impact relationships, which, in turn, will negatively impact the family business. Therefore, in an effort to promote harmony within the business and the family, a process to deal effectively with conflict is recommended.

- The owners will establish a conflict management process to address conflict that is negatively impacting or will or can negatively impact the business. The objective is to provide those involved in the conflict with a process to try and resolve it. One of the owners will chair the process.

- The owners will encourage and support the use of the conflict management process as the vehicle to deal with family business related conflict. The chair will manage the process for which the conflict is to be resolved. In other words, the chair will schedule a meeting with the appropriate players. The chair will conduct the meeting with the objective of facilitating the discussions and finding resolution to the issue.
- The chair will consider using an outside facilitator (i.e., an expert in family business) to assist in dealing with the conflict.
- The chair will inform all family members of the existence of the conflict management process and how it operates.

9. Prenuptial or Nuptial Agreements:

The purpose of a prenuptial or nuptial agreement (also known as domestic contracts) is to safeguard the ownership/control shares of the family business so that in the event of a marriage breakup the ownership structure is not inappropriately altered, put at risk, or compromised. Therefore, the following policy is endorsed by the owners.

- As a condition of ownership in the family business, the owner is required to have a prenuptial or nuptial agreement in a form acceptable to the company's corporate solicitor.
- Any family member planning to join the ownership ranks of the family business is encouraged to have a prenuptial agreement prior to marriage.

10. Family Trusts and other Trusts

As a condition of ownership, each of the owners will ensure, in a form acceptable to the company's corporate solicitor, that his or her family trusts or other trusts support the terms and conditions of the shareholders agreement with respect to the rights and privileges of his or her ownership/controlling shares in the family business.

11. Leaves of Absence and Sabbaticals

The purpose of leaves of absence and sabbaticals is to allow active family members an opportunity to take time off from the family business to deal with personal or professional matters. Given the ongoing challenge of family business owners in their roles as parents, boss, and owners, it is best that the terms and conditions under which these temporary absences can apply be outlined in a policy.

Sabbaticals

- Sabbaticals are intended to accommodate extended leaves (i.e., one year or more) from the family business. The request for a sabbatical could be to accommodate continued education, health reasons or a special circumstance.
- Entitlement is based on having worked at least three years in the family business.
- Current or comparable position, to be provided upon return.
- The leave is without pay unless otherwise determined by the owners.
- If the leave is for educational purposes, course/program costs will be reimbursed by the company on the successful completion of the course/program.
- Approval of all the owners is required.

Leaves of Absence

- Leaves of absence are intended to accommodate short-term periods of time (i.e., weeks to months) from the family business to allow family members to deal with short-term illness or personal issues.
- The leave is generally with pay.
- Entitlement is based on assessing each individual case, for which approval is required by all the owners.

12. Business Loans to Family Members: Purchasing Goods/Services from Family Members

The purpose of this policy is to apply consistency in the financial transactions with family members that are not in the normal course of business. The family business may experience requests from active and non-active family members for personal loans or for the family business to purchase goods/services from a family member who is involved in another business. If not consistently handled, these situations can cause long-lasting conflict among the owners and among the family.

- All requests for personal business loans or other financial transactions with family members must be approved by a unanimous vote of the owners, with the terms and conditions of the transaction agreed to in writing. This would include:
 - The full amount of the loan, commitment, or other financial transaction
 - Precisely to whom it is being lent or committed
 - The proposed payment schedule and any related interest
 - What happens in case of default?
 - Whether the loans should be insured?

13. Philanthropy

The purpose of this policy is to maximize the family business's charitable contributions to the community while supporting and promoting the family business.

- The family business will develop a strategy on charitable giving to be reviewed and approved by all the owners. The strategy will address the following:
 - Which charities we want to support and why.
 - What amount we are prepared to donate annually. This should be budgeted.
 - The name in which the funds are being donated (the family business, individuals).

14. Public Relations

The owners will decide who on behalf of the family business will be assigned to represent them in the media and in communication with the general public. In other words, all requests for written or oral comments by the media or general public, public appearances and any other public relations activities will be channelled to and handled by the company designate(s).

15. Conflict of Interest

The onus is placed on each family member to ensure that he or she is not in conflict of interest while employed in the family business. Any family member who is unsure as to his or her status with respect to being in a conflict of interest situation will table the situation at an executive meeting for review.

- For example, a family member employed in the family business would be considered in conflict of interest if he or she engaged in any related business activities either directly or indirectly without the consent of the rest of the owners.
- Any family member employed in the family business shall not engage in any other active business without the unanimous consent of the owners.

16. Changes to the Family Business Rules

Changes to the family business rules requires the majority vote of the active owners. Any changes will be presented to the broader family at the next scheduled family council meeting.

Appendix 2: Performance Review Form

Note: It is recommended that the employee (active family member) be provided the performance review rating scale as well as this self-assessment portion so that they know exactly what the review will be based on.

Employee Self-Appraisal Checklist

To prepare for the upcoming performance appraisal discussion, consider the following areas in evaluating your performance:

1. Do you know and agree with what is expected of you on your job?
2. Have you a clear understanding of your personal goals?
3. What have you done recently to become more effective in your present job?
4. What are your major strengths?
5. What routine tasks or duties do you carry out competently?
6. What significant tasks or traits are often praised?
7. What results do you achieve with confidence and assurance?
8. What responsibilities would you be reluctant to delegate?
9. Which working relationships are you pleased about?
10. What areas require improvement?
11. What areas of work do you dislike?
12. What tasks do you constantly delay in the hope that they will “disappear”?
13. In what areas do you need help?
14. What tasks or traits are commented upon negatively by those who work with you?
15. Which working relationships require strengthening?

In the light of these answers, do you have a plan to:

1. Maximize your strengths?
2. Overcome your major job difficulties?
3. Add to your knowledge, skill and experience?
4. Improve any working relationships?
5. What help would you like from your supervisor in carrying out your plans?

CONFIDENTIAL

Performance Appraisal

EMPLOYEE'S NAME: _____

APPRAISAL PERIOD: _____

DATE: _____

POSITION/TITLE

TIME IN DEPARTMENT

TIME IN THIS POSITION

NAME OF PRESENT SUPERVISOR

Performance Appraisal

Rating Points Rating	10 Unsatisfactory		20 Marginally Satisfactory		30 Entirely Satisfactory		40 Commendable		50 Superior	
	Job Knowledge	Knowledge of job is very limited; requires constant assistance and frequent instructions.	Fair working knowledge of job; requires occasional assistance and instruction.	Informed about job and what it entails; requires little assistance and instruction.	Well informed about job and what it entails; knowledge exceeds job requirement; requires limited supervisory assistance.	Exceptionally well informed about job and what it entails; knowledge exceeds job requirement; requires little or no assistance.	Rating		Pts	
Quality of Work	Work is sloppy and incomplete; continuously makes errors and fails to check own work; constant spot checking and rework necessary.	Work is occasionally sloppy and incomplete; occasionally makes errors; spot checking and rework by others is needed 30–40 per cent of the time.	Work is neat and complete; infrequent errors, checks own work for accuracy; spot checking and rework seldom necessary.	Work is above average in appearance and accuracy; spot checking and rework rarely necessary.	Work is excellent; well organized and complete; rarely makes errors; spot checking and rework never necessary.	Rating		Pts		
Productivity (Quality of Work)	Volume of work often fails to meet minimum requirements; work pace is slow.	Volume of work occasionally fails to meet minimum requirements; works at pace.	Volume of work meets standard job requirements; works at steady pace.	Volume of work exceeds standard job requirements; works at fast pace.	Volume of work is consistently exceptional; never misses deadlines; independently adjusts priorities.	Rating		Pts		
Organizing Ability	Work is not organized; employee neither meets deadlines nor is able to prioritize work.	Work is partially organized; employee frequently misses deadlines; frequent assistance required in prioritizing work.	Work is organized; employee rarely misses deadlines; can adjust priorities with little assistance.	Work is well organized; employee rarely misses deadlines; can adjust priorities independently.	Work is well organized; employee rarely misses deadlines; can adjust priorities independently.	Rating		Pts		
Interpersonal Skills	Unwilling or unable to work with others either within or outside the department; is uncooperative with staff and public; cannot handle situations effectively.	Willing, but works poorly with others, both within or outside the department; is cooperative with staff and public, yet has occasional difficulty with others; occasionally effective in dealing with conflict situations.	Willing and able to work with others, both within or outside the department; is cooperative with staff and public; can effectively handle most conflict situations.	Works well with others, both within or outside the department; is very cooperative with staff and public; is very effective in handling most conflict situations.	Works exceptionally well with others, both within or outside the department; is extremely cooperative with staff and public; handles all conflict situations exceptionally well.	Rating		Pts		
Communication Skills	Unable to concisely and precisely summarize and convey information (verbal or written) pertaining to the job.	Can concisely and precisely summarize and convey routine material (verbal and written) pertaining to the job.	Is able to accurately and concisely summarize and convey more complex information (verbal and written) pertaining to the job.	Fully proficient to accurately and concisely summarize and convey complex information (verbal or written) pertaining to the job.	Outstanding ability to accurately and concisely summarize and convey all information of various levels of complexity (verbal or written) pertaining to the job.	Rating		Pts		

Judgment	Decisions are consistently unsound and impractical.	Decisions are occasionally unsound and impractical; generally displays fair judgment in routine matters.	Decisions are sound and practical in most cases; displays good judgment in more complex situations.	Decisions are rarely unsound and impractical; demonstrates above average judgment skills in complex matters.	Decisions are always reliable, sound, and practical; displays excellent judgment skills in resolving situations.	Rating [] Pts []
Initiative and Resourcefulness	Unable to act independently in finding answers and solutions to problems; rarely suggests improvements to current practices.	Occasionally is unable to independently find answers and solutions to problems; occasionally suggests improvements to current practices.	Can independently find satisfactory solutions to problems; regularly suggests improvements to current practices.	Independently finds innovative and effective solutions to problems; constantly seeks improvements to current practices.	Independent problem-solving ability is outstanding; self-starter; consistently eager to improve current practices.	Rating [] Pts []
Attendance Punctuality Timekeeping	Habitual absenteeism (8 days or more during the last year); continuously tardy (6 times or more during the last year); work time is constantly misused and consequently wasted.	Frequently absent (6 or 7 days during the last year); frequently tardy (4 or 5 times during the last year); occasionally wastes time.	Occasional absenteeism (4 or 5 days during the last year); occasionally tardy (3 times during the last year); work time is used effectively.	Rarely absent (2 or 3 days during the last year); rarely tardy (twice or less during the last year); work time is used above average proficiency.	Never absent; never tardy; work time is used exceptionally well.	Rating [] Pts []

Legend

Superior 46–50 Commendable 36–45 Entirely Satisfactory 26–35 Marginally Satisfactory 16–25 Unsatisfactory 10–15

Individual Development Plan

Refer to the ratings on the Performance Appraisal and indicate those areas where improvement in job performance or training needs have been identified.

Develop a performance improvement plan for the employee during the next period of appraisal. This performance improvement plan could include attendance at internal/external training programs or seminars, attendance at staff meetings, participation in cross-training activities or job rotation, discussion with staff specialists, study of manuals or procedure guides, temporary assignments to other departments, etc. Specify when this action will take place and who will be involved.

AREA(S) NEEDING IMPROVEMENT OR TRAINING	ACTION TO BE TAKEN (INDICATE BY WHOM AND WHEN)

Performance Review Summary

1. Performance appraisal comments:

Employee overall rating: _____

(10–15 = unsatisfactory; 16–25 = marginal satisfactory; 26–35 = entirely satisfactory;
36–45 = commendable; 46–50 = superior)

Employee's comments on performance appraisal interview:

Employee's Signature

Date

(Signing indicates that you have had the opportunity of reading and discussing the contents of this report with your supervisor.)

Supervisor's comments on performance appraisal interview:

Supervisor's Signature

Date

(Signing indicates that you have discussed all documented comments with the employee.)



Grant Walsh

About the Author

Mr. Walsh is the Director and Founder of the KPMG Enterprise Centre for Family Business in Ottawa. For the past ten years, his professional services have been dedicated solely to assisting family businesses in working through their management and ownership issues with a focus on the transition/succession process.

Specific areas of experience:

- Assessing the 'readiness' of family businesses for the transition/succession process
- Helping families prepare for and navigate through the transition/succession process
- Providing options for both management and ownership succession within family businesses
- Facilitating family meetings (active family members) and Family Councils (broader family)
- Developing family business 'Codes of Conduct' or 'Family Business Rules' to help prevent potential conflict among family members
- Assisting in the development of effective shareholder agreements that meet the needs of both the family business and the family (i.e., decision making, exit strategies, distribution policies, executive compensation)
- Coaching individual family members as the family business evolves
- Analyzing current trends in family business.

Mr. Walsh is an active member of CAFE (Canadian Association of Family Enterprise) and serves on the Board of the CAFE Ottawa chapter. He frequently writes articles on family business and recently authored another book on behalf of Agriculture Canada entitled "Managing the Multi-Generational Family Farm". He is often called upon to make presentations and provide advice to local business groups and the local media on family business issues.

Mr. Walsh is also a member of the Family Firm Institute (FFI), an international association of family business professionals providing in depth information on family businesses from around the world as well as ongoing education and training in the field of family business consulting.

Mr. Walsh's career background includes; corporate finance, sales and marketing within a large multinational pharmaceutical company; public administration in a large teaching hospital; owner/manager of a local residential construction firm and associate professor of graduate studies (Finance and Strategic Planning) at the University of Ottawa.

Helping Canadian Business Families

KPMG Enterprise business advisers care passionately about the success of Canadian family businesses and their owners. As your trusted business adviser, they take time to understand you, your family, and your business so they can bring the right resources and technical talent at the right time to help solve your business challenges and seize the opportunities. You want business advice that is relevant, timely, and, most importantly, objective and independent. KPMG Enterprise values its integrity above all else. Our firm culture is built around relationships. We set out to build long-lasting relationships with you and your family that are built on mutual respect and trust; so much so, that we earn the opportunity to be viewed as an extended member of your team.

KPMG Enterprise professionals combine strong business acumen and technical capabilities with deep family business insight and experience. They are proactive in raising relevant business issues and know the importance of getting results in a timely, no-fuss manner while maintaining family harmony. Their mandate is to help the family business owner achieve both personal and business objectives—and they care about your success.

The professionals who comprise our Family Business team represent the highest standards of achievement in their field. Many are active in leading professional associations such as CAFE and serve on specialized committees in order to remain current with new industry trends and developments. Our professionals frequently lecture to trade and professional organizations and contribute articles to leading journals and business publications.

Our Family Business Focus

KPMG Enterprise organized our team with an exclusive focus on the needs of private companies. Due to the unique nature of family businesses, we decided to pull together a unique team with specific family experience and training dedicated to working with and helping position Canadian family businesses for future success. Our clients range from first generation start-ups to multiple generation businesses across distinct cultures and industry sectors.

Our Approach to Working with Family Businesses

No two family businesses are the same—nor are the commercial or competitive pressures that affect them. For that reason, we tailor our approach to the specific needs of the family and the business involved in each assignment we undertake.

Through your KPMG Enterprise adviser, your family can benefit from broad access to our wealth of knowledge and resources locally, nationally and globally—all to the benefit of your long-term goals and business objectives.

Family business clients can draw on the extensive capabilities across a range of disciplines. We assimilate easily into your existing team of professional advisers, such as lawyers and bankers. Additionally, KPMG Enterprise has forged alliances with academics, lawyers, financial planners, and business mentors, and, should you require it, we can facilitate introductions to meet the specific needs of your business.

How We Can Help

In addition to providing Accounting, Audit, Tax, and Advisory services, we offer a range of services geared to the needs and dynamics of the family business:

- Transition planning, equity transfers, and generational change
- Family business governance, including family councils, family constitutions, board structures, business decision making, and assurance frameworks
- Sale and purchase of family businesses
- Wealth creation planning and wealth preservation to manage inter-generational wealth
- Asset protection
- Retirement planning and estate planning
- Strategic business planning
- Domestic and international tax planning and compliance, including HST, capital gains tax, and income tax.

Why Select Us

At KPMG Enterprise, the impact of the family component on a family business is at the forefront of our thinking and our advice. It makes sense to work with advisers who really understand how a family business operates. Having worked with family businesses for decades, KPMG Enterprise has the experience and know-how to help you achieve your business objectives and family goals.

Value for Money

KPMG Enterprise professionals seek to deliver value to their client beyond the fee charged. Our experience working with family businesses and specialized training helps us to isolate the key issues quickly and efficiently. It means you're not paying for someone to learn on the job.

Industry Knowledge

Our understanding of family business issues is reinforced by our in-depth industry experience across all business sectors, including manufacturing, automotive, transportation, retailing, food services, franchising, property and construction, communications and technology, and hospitality.

Integrity and Independence

You want business advice that is relevant, timely, and, most importantly, objective and independent. KPMG Enterprise values our integrity and independence above all else. We set out to build long-term relationships with our clients built upon mutual respect and trust.

People

Our experienced professional advisers combine strong technical capabilities with deep business insight and experience. They're proactive in raising ideas and know the importance of getting results in a timely, no-fuss manner.

Multi-disciplinary Approach

Our family business clients can draw on our firm's extensive capabilities across a range of professional disciplines. We've also forged alliances with academics, family business facilitators, lawyers, financial planners, and business mentors. These resources can be "mixed and matched" to meet the specific needs of your business.

Clear, Actionable Advice

No family business is immune to the unique challenges created by the family component. Your trusted advisers owe it to you to be knowledgeable in the field of family business practices since this could be the difference for long-term success. We know that family business owners don't have the time to wade through advice that is vague and impenetrable. Our advice is practical, jargon-free, relevant, and timely. We work with family business clients to simplify complexity and isolate the key business issues.

About the KPMG Enterprise Centre for Family Business

KPMG Enterprise applauds the entrepreneurial spirit often overlooked in our country. Canadian family businesses are a driving force behind the success of our economy. We established the KPMG Enterprise Centre for Family Business, a virtual centre of excellence where knowledge and information come together. Readily accessible for all members of the family, it provides research-based insight and education to support the continued growth and success of Canadian family businesses. The Centre also raises awareness of the benefits, challenges, and strategic advantages of family businesses in a thriving economy and serves as a connection point to share and learn from other Canadian family businesses. Members will gain access to in-depth analysis and discussion of current trends and issues relative to family businesses. Visit: kpmg.ca/Centre-For-Family-Business.

About KPMG Enterprise

It makes sense to work with people who understand how today's family business operates. At KPMG Enterprise, the impact of the family component of a family business is at the forefront of our thinking and our advice. With years of experience working with family businesses across the country and with several of our professionals coming from family businesses themselves, we understand that the nature of a family business is inherently different a non-family business. That is why we pulled together a unique team of professionals within our firm and developed an equally unique portfolio of services that address the specific needs of Canadian family businesses and Canadian family business owners.

Abbotsford 604-854-2200	Kelowna 250-979-7150	Penticton 250-492-8444	Vancouver 604-691-3000
Burnaby 604-527-3600	Kingston 613-549-1550	Prince George 250-563-7151	Vernon 250-503-5300
Calgary 403-691-8000	Lethbridge 403-380-5700	Regina 306-791-1200	Victoria 250-480-3500
Chilliwack 604-793-4700	London 519-672-4880	Saint John 506-634-1000	Waterloo 519-747-8800
Edmonton 780-429-7300	Moncton 506-856-4400	Saskatoon 306-934-6200	Windsor 519-251-3500
Fredericton 506-452-8000	Montréal 514-840-2100	Sault Ste. Marie 705-949-5811	Winnipeg 204-957-1770
Halifax 902-492-6000	North Bay 705-472-5110	St. Catharines 905-685-4811	
Hamilton 905-523-8200	North York 416-228-7000	Sudbury 705-675-8500	
Kamloops 250-314-5960	Ottawa 613-212-5764	Toronto 416-777-8500	

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