Introduction

As a founder, employee or not-so-impartial observer of a family-owned business, you are a participant in one of the most important segments of our society. Two-thirds of private sector firms in Canada are family-owned, employ 7 million people and generate nearly half of Canada's GDP [1]. The continuity of these businesses is vital to the families that have founded them, as well as to the overall health of our economy.

Unfortunately, family-owned businesses do not have a great track record when it comes to self-perpetuation:

- Of the one-third of family businesses planning to transition leadership and wealth in the near term, less than 20% have documented their succession plan.[2]
- Only 30% of family businesses successfully make the transition to the 2nd generation; and only 10% make the transition to the 3rd generation.[3]
- 60% of transition failures result from a breakdown of communication and trust among family members; 25% are due to the next generation not being prepared or interested in leading. [4]

The bottom line is that many family-owned business successions fail unnecessarily, simply because the current leadership has not thoughtfully planned or prepared for the transition.

Personally, I am concerned about this as a societal issue, but also because I have witnessed firsthand, the needless destruction of wealth and family relationships as businesses deteriorate, rather than perpetuate. That is why I have written this story — to provide a best practice tool box that can be utilized at the boardroom table, as well as the dining room table — to help families balance the complexities of planning and eventually transitioning, the ownership of their business, while enhancing and maintaining family harmony throughout the process.

Formally, the tools in the toolbox are called “governance structures”; but that is too academic a description for me, so I have used a story-telling style, inspired from my extensive real-life experience as an advisor and as a member of an entrepreneurial family myself.

I will introduce you to Dave, Jim, Winville, Alan and Julie. In the story, they are long-time running friends; however, the conversations they have are serious and reflective of actual situations I have encountered. Most of the best practices we discuss can be applied irrespective of your business model or corporate structure. My ambitious, overall objective is to foster the future prosperity and longevity of all family-owned businesses — whether owner/operator, multi-family, multi-generation, or public company — by helping to them transform into inter-generational enterprises that remain true to the organization’s objectives as well as family’s core values.

Here is a quick rundown on what you’ll find.

Insight 1 introduces the first governance structure called the Family Mission Statement. Its primary goal is to formalize the family’s values and vision for the business. It is a key component in strengthening unity among family members and can be used as base of reference for future guidance when tough decisions must be made, conflicts resolved, or other critical questions answered.

Insight 2 examines the creation of the Family Constitution which addresses the policies, practices and procedures that govern the relationship among family members, company management and shareholders. Its essential purpose is to provide guidance on a number of key issues, including business leadership and succession, share ownership, selection of Board members, employment and compensation of family members, performance of the business, as well as expressing expectations of affected family members.

Insight 3 explores the importance of Family Meetings as a unifying forum for family members. Well-planned and managed Family Meetings foster open communication, co-operation and collaboration. The most effective Family Meetings are those that are open to all family members, not just those who are owners or employed in the business. This insight addresses, among other things, how to get started with a Family Meeting, what should be discussed, who should be included and how to conduct a meeting.

Insight 4 focuses on the role of the Family Council and its principal function of promoting communication within the family and providing a safe harbor for conflict resolution. Most importantly, it is a sounding board for family members to share their personal objectives, concerns and ideas. It should also support the education of the next generation in areas such as family dynamics, ownership, financial stewardship and philanthropy.

Insight 5 continues to build on best practices for encouraging open communication and trust in the family. Trust is built on two key qualities — character and competence. Character implies acting with integrity and determination. Competence includes being accountable and able to achieve results.

Insight 6 discusses how to counteract "affluenza" and feelings of entitlement that may arise as the family business success starts to trickle down into the lifestyle and experiences of the next generation. It is not uncommon for the comfort and financial status of family members created by the hard work and sacrifices made by the founders to be taken for granted.

Insight 7, 8 and 9. These are inter-related. **Insight 7** examines the intricacies of managing inter-generational change and inspiring trans-generational entrepreneurship. Entrepreneurial founders understand that starting and sustaining a business is not for the faint of heart.

This discussion continues with **Insight 8**, which looks at the challenges of ensuring business continuity regardless of unexpected events. The goal of a Business Continuity Plan is to ensure the business continues if something were to happen prematurely to the current leadership or if the business was in the process of being transitioned over an extended period, perhaps years into the future.

With **Insight 9,** we consider one of the more agonizing experiences with which many founders struggle — dealing with conflicts that can arise where one or more family members feel they are being disadvantaged, mistreated, left out of the process or denied the economic benefit that might accrue to others as a result of the succession plan. Unfortunately, the potential for backlash from some family members causes too many founders to delay their transition plan or avoid the process altogether.

Insight 10 introduces the benefits of establishing a Family Advisory Board to help bridge the business transition. A Family Advisory Board can help with the transition of control from two points of view. First. it can provide unbiased advice to future leaders of the business to help them build confidence in their leadership capabilities. Secondly, because Family Advisory Boards are informal in nature and therefore non-binding, the advice and guidance they provide is not a perceived threat to the control of the founder.

Insight 11 explores the establishment of an Ownership Council, with its primary purpose being to provide the current owners with a dedicated communication forum in which to express their views on ownership matters, including shareholder agreements and dividend policies.

Some experts believe that one of the reasons for such a high transition failure rate in family businesses is because many founders believe that gifting the business to heirs is the only way to secure their legacy. Others contend that selling the business to the next generation will create a greater perceived value to the recipients and avoid the “equal isn’t always fair” argument. To help you work through the decision, **Insight 12** weighs the pros and cons of both approaches in this critical, final step of the transition process

We end the story with a discussion on whether the creation of a Family Office or use of Multi-Family Office structure makes sense. These structures would typically be considered after a large liquidity event, such as the sale of the business or because the success of the business has reached such a level of complexity level that it is no longer practical to deal with both the wealth and the expenses of the family through the operating business.

The story describes a journey of discovery, reflection and decision-making. Join Dave, Jim, Winville, Alan and Julie in using the experiences of real-life to guide you in determining what needs to be done to ensure the legacy of the family business you have worked so hard and long to achieve.

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[1] The Economic Impact of Family-Owned Enterprises in Canada , September 2019 Conference Board of Canada
[2] Family Business NextGen Survey 2016 Deloitte
[3] Family Firm Institute
[4] Roy Williams and Vic Preisser Study, January 21, 2016