Your Family Business *Matters*

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WELCOME BACK!

Welcome to the first issue for 2007 of **Your Family Business *Matters*** – BDO's quarterly newsletter for family businesses.

This newsletter is one of the ways we stay connected to our family business clients. Our aim remains to offer you food for thought on issues we think are – or should be – of interest to you, your family, and your family business. In addition to articles and the Q & A section (where we offer the floor to you, answering questions on various topics), this year we're introducing items we call "Tidbits". These are little nuggets of information or ideas intended to spark an interest in, or stimulate conversation on, topics or themes that are fairly common to family businesses.

As always, we remain committed to supporting family businesses and we hope you find this newsletter informative and useful. And of course, we'd love to hear from you with comments, ideas, suggestions, issues for the Q & A section, or if you have any Tidbits you'd like to share.

Decision-Making Styles

What's your decision-making style? Have you ever thought about that? Now, we're not talking about the dozens – or even hundreds – of decisions we all make every day, like whether to have cereal or a bagel for breakfast. We're talking about how you go about making major decisions – those that impact others. When it comes to such decisions, most people have a very definite style. For example, some people don't make a decision until they have spent a good deal of time considering the various alternatives, perhaps even making detailed lists of the pros and cons. Others make decisions most comfortably if they're based on group consensus, while others tend to make decisions unilaterally, regardless of who the decision effects.

One size does NOT fit all

Being aware of your normal decision-making style is an important first step in viewing decision-making techniques as tools. And, just as different types of projects require different tools (you wouldn't use a plunger to sweep the floor, or a broom to unplug a toilet), application of an inappropriate decision-making technique can have detrimental consequences to a family business.

As well, it's important to recognize that certain decision-making styles, which might yield a positive result in one situation or at one stage of the business' life, can be disastrous in another situation. Indeed, one decision-making style does not suit all situations.

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E-mail to familybiz@bdo.ca. We invite you to visit our web site at www.bdo.ca to find out more about our firm and the offices near you. Or call us at **1-800-805-9544**.

Decision-making processes typical in family-owned businesses

Because of the overlay of family dynamics, the decision-making processes employed in family-owned businesses are often quite different from those applied in public companies. Here's a run-down of some of the more common decision-making styles applied in family-run businesses and some of the potential consequences of them, according to Ellen Frankenberg, Ph.D., in "What shall we do? Here's how to decide" (Spring 2005 issue of **Family Business** magazine).

> ## *Tidbit*
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> *There's good and bad advice, as well as solicited and unsolicited advice. When giving advice, there's always a chance it will end up being bad advice. Whether you give solicited or unsolicited advice, however, is never a matter of chance. Think about which type of advice you prefer and do your best to only give that type...*

Unilateral decision-making – this technique is often used in the early stages of a business, especially when founders don't have a board of directors or staff to discuss things with. Indeed, the ability to make unilateral decisions is often the hallmark of successful entrepreneurs. This technique is often also appropriate when timeliness or quick decisions are required. But, making unilateral decisions can also be detrimental, for example, if it leaves key employees or stakeholders feeling left out.

Unilateral decision-making, coupled with consultation – this technique is characterized by one family member still ultimately making the decision, but he or she typically consults with managers or family members before deciding. This technique is often used in second-generation family-run businesses as a means of facilitating involvement of the second generation while the founder still retains control. In more mature second-generation family run businesses you may see a situation where multiple members of the second generation are active in the business and the founder has taken a more-or-less passive position, but the founder retains ultimate veto power, should he or she disagree with the decision the second-generation team comes up with or in the event of an impasse.

One person, one vote – this decision-making process is sometimes employed in family-owned businesses that have multiple shareholders. In such situations, the notion of "majority rule" is often applied. While this approach sounds noble and fair, sometimes it can actually intensify conflict.

Decision by consensus – this technique is often employed in family-run businesses facing major decisions because it's seen as a way of keeping the family together. Before a consensus can be reached, however, a number of matters have to be agreed upon, for example, there must be agreement as to what is at issue, or how the problem is defined, and there must be a common understanding of the possible alternatives. One of the problems with this method is that family members often lack the skills required to reach consensus, so decisions sometimes go unmade. (For example, shareholder agreements don't get drafted, company polices don't get set, etc.) Of course, professional help (for example, a facilitator or process leader) is available to guide families through the consensus-building process.

Expanding your toolkit

Though you're probably more comfortable with one particular decision-making style (usually one that has proven successful for you in the past) remember that one approach doesn't necessarily suit every situation. Because the nature of the problems your family business faces evolves over time, the success of your business could well depend on your ability to apply different decision-making tools.

> ## *Tidbit*
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> *The old adage that you get what you pay for is as true of human capital as it is of other assets. Another way of looking at it is: if you pay peanuts, the talent you'll attract could be monkeys! Paying more for someone with more talent will often yield benefits that far exceed the marginal additional salary outlay.*

Ethical wills and family business succession

When most people hear the word will they think of a legal document that directs how their material assets will be distributed after their death. In contrast, family business succession planning is a multifaceted process aimed at having the business owner decide to whom, and how, the business eventually will be transferred.

Ideally, through discussions around the succession planning process, family members have insight into the business owner's hopes, goals, and aspirations for the business' future. Unfortunately, information about the rationale for certain decisions, and wisdom and insights the owner gained over the years – in business and in life – often goes unarticulated. When such information isn't passed on, successors often find themselves wrestling with the question of "what would Dad (or Mom) have done in this case?" or "what. would they have wanted?"

To help fill this information gap some family business owners are turning to an old, time-honoured technique: the ethical will. (What do we mean by old? Well, the idea goes all the way back to the Old Testament of the Bible.)

Tidbit

Ok, so you're saying to yourself – gee, why bother with an ethical will? Why don't I just tell my family this stuff. Well, by all means do, if you feel comfortable. But, the reality is that many people find certain things too hard to say face-to-face – so things go unsaid. That's a shame – especially when there's a great alternative, like an ethical will.

What's an ethical will?

An ethical will is usually a letter or a recording where the author shares his or her values. Ethical wills don't have any legal stature, which means they're not legally binding. Because they're not a creature of law, there are no formal rules that must be followed about contents or format.

In an ethical will you can set out your thoughts and feelings on any subject. So, for example, you might explain why you are transferring your business (or other assets) in a particular way and you might outline how you hope future business decisions are made. You might also address your wishes regarding cooperation among family members and your hopes related to the family's unity and closeness.

How are ethical wills used?

Traditionally, the contents of an ethical will are shared after the author dies. But there's no reason they can't be shared during one's lifetime. Indeed, there's a strong argument in favour of sharing them while you're alive, as doing so can be a way of starting conversations that can lead to even greater clarity and understanding.

How do you start and what do you include?

There are no rules on what to include or how to go about it. If you're used to putting thoughts into words, starting is as simple as taking a blank sheet of paper and writing your thoughts. But if you don't feel comfortable doing that, there are a couple techniques others have found helpful. For example, you can start by formulating lists of things, like your beliefs, opinions and values, things you learned from others, experiences or events in your life that were especially significant, things you're grateful for, your hopes for the future, etc. Of course, you needn't make this list in a single sitting – you can start the list and add to it as things percolate. After a few months, review the items. Look for patterns and group related items. Then organize the groups you've come up with and begin writing.

If you like journaling, begin consciously writing down thoughts, feelings and experiences you'd like to share. Once you've journaled about these things for awhile, go back and review the entries looking for common themes that can become the basis for your ethical will.

What's in it for you?

Admittedly, the task of creating an ethical will can be daunting, not to mention time-consuming. Most who take the time to create one, however, find the process itself richly rewarding. Such focused thinking often brings new insights about yourself and reviewing significant experiences and the lessons you've learned from them is a great way of taking stock of your life and achievements.

Conclusion

An ethical will – like a legal will – is very much concerned with your legacy: it's your way of passing down the wisdom and insights you gained through your life experiences. Surely that's something worth sharing.

Resources

There are a number of resources available to help you make an ethical will. For example, there are software programs that include sample templates and guided exercises, self-help books, and workbooks. Traditional books can also serve as inspiration (perhaps the most famous is Mitch Albom's best seller, "Tuesdays with Morrie"). As well, there are companies that specialize in recording ethical wills.

Lessons from King Lear: love and devotion shouldn't be the test for involvement in the business

Shakespeare's plays are timeless because they offer lessons we can learn from. For example, given that most business owners probably see their business as their kingdom, you could say King Lear provides a guide on how *not* to parcel out the kingdom among the kids. In a way, the tragedy of King Lear demonstrates the idea that everyone is better off if decisions related to the family business are made based on reasoned thinking, rather than on a contest meant to show filial love and devotion.

Of course, if Lear had asked Goneril, Regan and Cordelia if they wanted part of the kingdom, they'd have had lots to think about. Fortunately, today, the three of them would find lots of advice out there about ways of going about deciding. In her article, "Is the family business right for me?" (Spring 2000 issue of **Family Business** magazine), psychologist Katherine Grady set out five critical questions aimed at helping young adults facing this issue. We found Grady's questions interesting and her approach – one aimed at finding your inner voice – refreshingly different from standard analyses that often boil down to simply weighing the perceived pros and cons.

Question 1: Am I listening to my own voice? – Young adulthood is typically a time for discovering your own values, ideas and dreams. It's a time for finding your "voice" and for establishing your own direction. Finding your voice can be difficult as it requires time and a willingness to reflect on difficult questions. Grady offers a number of suggestions for doing this, including finding a close friend, mentor, teacher, or advisor who can act as an "objective ear" as you sort through conflicting thoughts, feelings, and agendas. Journaling is another method many find helpful. Because of the privacy of a journal, people often feel free to write thoughts they don't feel comfortable saying aloud.

While finding your voice is a challenge itself, following it can be even harder, especially when it's just one in a chorus of voices that make up the family business. Indeed, because families are complex social structures, the mere act of exploring different directions is often discouraged because choices individuals make may disrupt or shatter other family members' hopes and dreams for the business. Learning to listen to your own voice brings a clarity that will serve you well whether you join the business or whether you decide against it.

Question 2: What are my real interests and skills? – Determining one's true interests and skills is often difficult for young adults because they lack experience – both in life and work. Couple this with the allure of a title with the company and a salary and it's easy to see why some never get around to uncovering their talents or exploring alternative career choices.

While there's a lot of truth to the old adage that there's no substitute for experience, fortunately, there are a number of tools you can use to help reveal your talents and interests with a view toward matching your talents to different jobs and careers. Vocational and personality tests offer insights into the types of work you might be especially well suited for, as well as the types of environment and colleagues you would work best around.

Question 3: What will working with my family really be like? – Unlike the first two questions, which revolve around looking inward, this question requires assessment of the personalities of others, as well as of group dynamics. Objective consideration of the patterns of interactions between people is especially difficult when it comes to family members. Answering this question also requires an assessment of whether you think the family is flexible enough to allow for individual growth and acceptance of others as they face change in their lives (for example, the addition of spouses or children).

Apparent differences in family members' styles or personality types need not automatically be considered a reason not to join the family business, though they do come into play. Grady suggests that having all family members complete a personality test (such as the Myers-Briggs Type Indicator) might reveal – in a non-judgmental way – innate personality differences and provide a framework for finding ways these differences ultimately may be beneficial to family relations and to the functioning of the business.

Question 4: What are my motivations for choosing to work – or not – for the family business? – Motivations can be conscious or unconscious. According to Grady, conscious motivations typically are those considered more socially acceptable and so people are often fairly willing to discuss them. Unconscious motivations take effort to uncover and sometimes go unacknowledged because they tend to reflect self-centered and immature elements of our personality. When motivations go unexamined, issues and problems can arise and they tend to fester. An honest, compassionate look at your motivations, however uncomfortable that examination may be, allows you to make decisions with greater clarity.

Question 5: What price will I pay for choosing to work for the family business? – All decisions in life involve compromise. Making reasoned decisions involves understanding the trade-offs inherent in each option. The decision regarding whether to join the family's business is a compromise with one's quest for self-expression and

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maintaining a unique identity, according to Grady. Repressing your need for identity, which is more likely to happen if you don't consider the cost of this compromise early-on, can lead to resentment that can make the normal mid-life, mid-career revaluation more traumatic than it need be.

Conclusion

Because the decision of whether to enter the family business is important to both you and to your family, it merits especially careful consideration. That said, Grady's last bit of advice is also important to remember: always keep in mind that most people change jobs through the course of their career and so you should never assume a career decision is irrevocable.

Tidbit

To help keep peace among shareholders of a family business, consider including in your shareholders' agreement a provision for shareholders to sell their stock back to the company or other family members in the event a shareholder may need cash.

Q&A – Avoiding a culture clash

Q. *– I respect my father immensely. I often reflect with amazement on the fact that he came to this country with nothing and built a successful business (when he barely spoke the language). And I will be forever grateful that he has opened up the business to me and my siblings. (There are three of us and we have all been active in the business for many years.) But more-and-more lately we are all feeling that the business is stagnating because Dad insists on doing things the way they did them "in the old country".*

Don't get me wrong, it's not that we don't respect how he does things – it's just that he doesn't seem to see that times are changing. More importantly, he doesn't seem to see that to grow we have to become more "Canadian". I don't know, does that make sense? Do you understand what I'm getting at? Can you offer some suggestions on how we can all live with what is starting to feel like a clash of cultures – not just a clash of generations?

A. – Thank you for a very thoughtful question about a topic that can be very difficult to feel comfortable discussing. The manner in which you posed the question shows how sensitive and respectful you are.

What you're describing is known as "biculturalism" – though you and your parents share a common cultural heritage, because you grew up in Canada and your parents grew up in a different country, the different generations really have different cultural backgrounds. The seeming culture clash you described is not particularly uncommon, though that fact is probably of little solace to you. On top of these struggles, your family's business is probably also going through typical family business succession issues.

It may help you to know that the difficulties you described are fairly common in family run businesses where the founder is an immigrant. Conflicts between ways immigrant founders prefer to do things and the way their Canadian children would do them can arise in any area. That said, there are certain areas that seem especially sensitive, for example:

- the comfort-level with financial risk – if the founders come from a more cash-based economy, chances are they are more averse to outside financing;
- the role or treatment of female employees – people who grew up in other cultures may believe men should earn more as the family bread-winner, or they may believe that women should not be asked to work certain shifts or do certain work; and
- the willingness to use, and therefore open up to, outside professionals – some immigrants don't like to open up their books to outsiders, claiming it's none of anyone else's business, or they feel that consulting outsiders amounts to airing their dirty laundry.

In terms of suggestions for how to bridge this cultural divide, first and foremost it's important to try to get everyone to recognize that the differences are not personal – they're simply cultural. It should also be remembered that the process of acculturation takes time and that everyone adapts at different rates.

Of course, other tried-and-true techniques should also be liberally applied by all involved: be willing to compromise, be willing to listen and learn, and be willing to teach, not lecture.

So, good luck. Hopefully some of these ideas will help as you work through your cultural and generational issues.