



Welcome!

Welcome to the first issue of Your Family Business Matters – a quarterly newsletter for BDO family business clients.

We're launching this newsletter for you – whether you're an owner, co-owner, or a future owner – because family businesses are at the heart of Canada's economy, with family businesses amounting to about half of all small and medium-sized enterprises (SMEs). Not only that, family businesses are the heart of our client base and our expertise.

You might be wondering – what exactly is a family business? Also what's the difference between a family business and an owner-managed business? There is no standard definition. When we surveyed Canadian

businesses, we defined a family business as one where at least two members of the family are actively involved. So, about ½ of privately held Canadian businesses meet this test.

We see this newsletter as a way of connecting with you on a regular basis and a way of offering you food for thought on a number of issues we think are – or should be – of interest to your family business. Every issue will contain a feature article or two on a topic of general interest, as well as some shorter pieces, such as helpful tips on different topics. As well, in a section call "Q&A" we open the floor to you – offering suggestions and comments to questions you may have.

BDO is committed to supporting family business and the title of this newsletter reflects that. After all, your family business matters to us! We're excited about this newsletter and we hope you will be too. We welcome comments and feedback, as well as suggestions about topics you'd like us to cover in future issues.

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Your Family Business Matters is published quarterly by BDO Dunwoody LLP on issues of interest to family business owners. This material is general in nature and should not be relied upon to replace the requirement for specific professional advice. Comments and suggestions should be addressed to Bruce Ball, National Office by Fax: **(416) 367-3912** or E-mail at familybiz@bdo.ca.

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Are you and your kids out of sync?

Though everyone is unique, behavioural science has shown that at different stages of life most people experience similar developmental challenges. For example, during childhood (up to about age 12) most children learn to trust, to work, and to take initiative, while during adolescence (usually ages 12-18) the challenge faced is in finding one's voice.

Family dynamics

Anyone with children living at home knows that family dynamics are very much influenced by the different developmental stages family members are experiencing. When, for example, there are children in different stages of development, a certain amount of disharmony among siblings can be expected. But, when the kids move out, it's easy to forget that family members – including adults – are going through.

While it goes without saying that family dynamics play an important role in the functioning of a family business, families often fail to realize that the developmental stage of various family members can have a profound impact on the business.

Collision Course

Though two generations working within the same business are, by definition, at different stages of development, the differences

are potentially more problematic when the founder is at mid-life (in his or her 40s) and the child is a young adult (about 18-25). Indeed, because the developmental needs of these generations are so far apart, the two generations may be on a collision course, according to Ivan Lansberg, an organizational psychologist and author of “When the generational planets are misaligned”, Family Business, Spring 1997.

At mid-life, adults can feel they're in turbulent waters. They become more aware of their own mortality and they start to question the choices and compromises they've made. Because mid-life can be a period of profound self-questioning, a business leader's confidence in his or her own judgment can be shaken, according to Lansberg. As well, if a young adult child comes into the family business at the time the business owner is in mid-life, though the parent is likely happy the child will carry on the business, with a designated successor in the wings the owner also begins realizing that their removal from power is inevitable.

Meanwhile, if the potential successor is a young adult (for example, the founder's daughter), he or she is probably going through the final phases of psychological separation from her parents and is striving to establish

autonomy. She may be reluctant to join the family business because she wants a chance to explore other career options. If she does join the family business, there may be difficulties because she'll need honest feedback about her performance, which fellow employees may be hesitant to give and which the parent may not be ready to provide.

Decreasing the odds of a collision

Though there is no single right way of dealing with potential problems that might put the two generations on a collision course – the chances of problems can be decreased if the developmental needs of both the parent and the child are met. In the case of mid-life adults, it's important they come to grips with their own issues. As Lansberg points out, “Parents who have not worked through the developmental issues associated with mid-life may be unable to disentangle their own psychological needs from those of the offspring. They often begin to pin their hopes on members of the next generation to compensate for what they see as their own inadequacies, or to accomplish their unfulfilled dreams.”

To help meet the developmental needs of the twenty-something child, Lansberg suggests the potential successor should

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work outside the family company for a few years. This solution is beneficial for both the child and the parent. The child grows by gaining both practical experience and confidence; the child's time away from the business gives the parent time to work through mid-life issues and prevents the parent from having to either mentor the child or judge the child's performance at a time when the parent may not be capable of doing either.

Naturally falling into sync

The fact generations are in different developmental stages isn't always bad news for family businesses. Indeed, as Lansberg notes, the differences can be beneficial when owners are in their 50s and 60s and their children are in, or nearing, their 30s. In such situations, the owner's period of self-assessment has probably finished and his or her goals seem clearer. As well, such owners are usually better

able to see their children as autonomous individuals with their own dreams. Meanwhile, older successor children are now more committed to the business and willing to accept direction. As a result, the generational planets seem aligned, according to Lansberg, and the hard work of succession planning can begin.

Emergency Management Transition Letters

Thousands of people have surgery every day without incident. But every so often something goes wrong. The Canadian business community was reminded of this last year with the unexpected death of Micheline Charest, the 51-year-old co-founder of Cinar Corporation, who died after elective surgery.

Though people preparing to undergo surgery often update their wills (to make sure guardianship of their children and distribution of their estate is carried out according to their wishes), business owners should also consider leaving instructions for running their business in the event they die, or if they are unable to return to work as quickly as anticipated. An emergency management transition (EMT) letter is a great device for doing just that.

An EMT letter is different from a full-blown, proper succession plan (which family businesses should also have). EMT letters are also different from "emergency contingency plans", which are also vital but which tend to contain information regarding backup systems that come into play in the event of business interruption (like a blackout or fire).

An EMT letter is designed to ease the burden of survivors and to act as a guide to keep the business on the track the owner intended it to be on. Because it is a letter – not a legally binding document that must strictly be followed – survivors have guidance regarding the stewardship of the business, but also some leeway during an especially difficult time.

Main features of an EMT letter

An EMT letter should include the following components, according to Edwin A. Hoover and Collette Lombard Hoover, management psychologists and authors of, "Just in case something happens to me...", Family Business, Summer 2002:

- *Guiding philosophy:* An explanation of the overriding principles of the business – in other words, the philosophy the successors are expected to continue.
- *Interim structures:* Information about how the company should be managed and how the family should be organized around it, as well as how ownership should be handled in the interim and in the future.

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- **Direction and outside support:** Information about who should be involved in determining key issues related to the business' direction and how that input should be organized.
- **Benchmarks:** Information regarding the key success factors that should be monitored and what benchmarks should be used.

- **Location of documents:** Information about the location of important personal and business documents that will be needed during the transition.

When EMT letters should be prepared

Because you never know when an accident or unforeseen event (like September 11th) will happen, business owners should prepare such letters when

they're healthy and able to focus their attention on the issues at hand. Also, it's a good idea to update EMT letters regularly (for example, annually) and to share them with family and advisors.

For business owners who have a difficult time putting things in writing, a video or audio tape is a good alternative.

Hiring a non-family CEO

There's a lot to be said for keeping things in the family. But, there may come a time when it might be best for a family-run business to consider hiring a non-family member for a top-level position.

A family-run business may need to turn to an outsider:

- If there's no one in the next generation to turn things over to.
- If the likely candidate in the next generation simply isn't ready to take over. (One of the most famous examples is Ford Motor Company, which turned to a series of outside executives until a subsequent generation William Clay Ford, Jr. was ready to take over.) Or,
- To secure new talent, expertise or leadership.

An opportunity without relinquishing control

Though there are risks to hiring an outsider for an executive-level position, doing so provides an opportunity without risking loss of control. Also, though you should always pick the most qualified candidate and hope for the best, remember that the decision is not irreversible – there are plenty of stories of businesses (both family and publicly held) where CEOs have come out of retirement when successors haven't worked out.

Finding talent

There are many ways of finding talented businesspersons. The most obvious is to run a formal search. This can be done through a headhunter or it can be done internally. There are pros and cons to each.

Hiring a headhunter can be costly, but the time you save by not having to personally sift through all the applications often makes hiring a headhunter worthwhile. Another way of finding talent is through existing contacts, such as outside board members and advisors.

But before the search can begin, a job description must be created. You must consider the tasks the person will have to perform, as well as the special talents the business is seeking (for example, talents that might compliment those of certain family members).

You should also give some thought to how you might sell candidates on the job. Some may be interested in working for a family-run business because they believe there will be less bureaucracy. Others may be attracted by the

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business' unique story of growth or potential. In other words, figure out what it is that might make working for your family business appealing to an outsider.

In any case, to attract (and retain) candidates you must be prepared to offer a compensation package that's competitive. Information regarding competitive compensation can be found through various resources, including salary surveys and consulting firms.

Interviewing candidates

It is extremely important that recruits for executive-level positions have values similar to the family's. A particularly effective way of determining the suitability of a candidate's values is to ask experience-based questions.

For example, ask the candidate about how he or she would deal with a particular situation, how they balance their own work/family issues, etc.

Serious candidates should meet all family members (and others in the business) whom they will be working with or reporting to. If the opportunity to meet all relevant players is not offered, good candidates will probably request the opportunity to meet them, since their future rests on how well they get along.

Professional help

Family businesses considering hiring top-level executives should also consider using a corporate psychologist as a resource. Such psychologists can help

when it comes to figuring out what unique characteristics, traits and leadership styles might work best with the family and they can evaluate candidates based on these criteria. As well, because corporate psychologists are emotionally detached from the business, they can provide an objective opinion about how each candidate might fit in.

Change can be a good thing

Though hiring a non-family CEO may seem like a huge change for your family business, think of all the changes you've successfully navigated to over the years you've been in business. With proper planning and implementation, hiring a non-family CEO may be the kind of change that takes your business to a new level.

Q & A

We've titled this column "Q & A" – but that's a bit of a misnomer. It probably should be called "Q & C" – for Questions and Comments, since most questions relating to family business don't have one right answer. In other words, what we offer here is food for thought (based on our experience and what we've gleaned from others who may have faced similar issues) about specific situations you are facing or questions you may have.

Question: A business owner whose three adult children are all active in the family business asked for our

comments about this situation:

At this point, one of my children is engaged. The guy she's engaged to is finishing his MBA and my daughter has casually mentioned that she hopes he might join the family business at some point. In principle, I'm not opposed to the idea of my (future) son-in-law working in the business, as I think he has a good head on his shoulders. But I've never seen him "in action", so-to-speak and, though I know he's a smart guy, I don't really know if he's got the skills we need. I'm also a bit worried that if we hire him,

in the future the company door will have to be open to other people my children may marry. Any suggestions on what to do or how to handle this?

Answer: Clearly you care very much about treating your children fairly, which is important. In your description you hit on the key to this issue: the question of your future in-laws' skills and qualifications for employment in the business. Since it seems fairly clear that you haven't established a company policy regarding the employment of family members, now's the time to

put one in place. Such a policy should clearly articulate the procedures, processes and criteria that govern how your direct descendants and/or spouses enter and exit from the family business. By adopting a policy of only hiring qualified people you demonstrate your commitment to the well-being of the company and you also ensure that the playing field is level for all.

The other issue that your question raises is whether in-laws should be allowed to join the business as a general policy. There is no right or wrong answer to this question. The issue here is really risk. If things go well – both the couple are happy and the in-law is a great employee, then everyone is happy. However, what happens if something goes wrong? If you need to dismiss the in-law, how will that affect your child's marriage? On the flip side, how will marital problems affect the business? The one piece of advice we can give is carefully consider the hire, and its potential impact on both the family and the business.

Does Employing an In-Law Make Sense?

In the BDO Dunwoody/Compas Report on Canadian Family Business, we asked business owners to score the potential of conflict over the employment of in-laws in the family business on a scale of 7. A score of 7 means it probably happens often and it's a problem, and 1, the opposite. The results below highlight a clear difference of opinion, and we would suggest, a difference in actual experience. For a copy of the report, contact us at familybiz@bdo.ca.

| <u>Score</u> | <u>Response</u> |
|--------------|-----------------|
| 7 | 10% |
| 6 | 8% |
| 5 | 10% |
| 4 | 7% |
| 3 | 6% |
| 2 | 7% |
| 1 | 42% |
| No answer | 11% |