FAMILY BUSINESS

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Innovative new options enhance continuity planning

Harnessing the multigenerational advantage

With an estimated 60 per cent contribution to the GDP, family businesses are a vital cornerstone of Canada's economy. They generate job growth, make significant philanthropic contributions and continue to outperform their non-family business counterparts on many parameters. Yet in the coming decade, a high number of family enterprises face a significant challenge when Canada's boomer retires.

In family businesses, there's typically a strong desire to pass the reins to the next generation to continue the legacy, yet this transition can only be successful when incoming leaders are capable and willing, says Allen Taylor, chair of the Family Enterprise Xchange (FEX). "The next generation brings its own set of values, hopes and dreams, which may not always be aligned with the expectations for a traditional succession."

"Intrapreneurship gives members of the next generation the means to prove their business sense and leadership capabilities."

Guillaume Hervé
is president of G3pointo Consulting

The pitfalls of generational transitions are not new, Mr. Taylor explains. The common notion – that the first generation builds the wealth, the second sustains it and the third loses it – is based on a well-documented cycle.

While three out of 10 family businesses survive into the second generation, only one out of 10 are handed down to the third.

Mr. Taylor sees several avenues for involving next-generation leaders in family enterprises. In traditional succession, the ownership goes to a younger family member, who takes control of the direction of the business. Alternatively, these family members can become owners without being directly involved in the operation of the business. A third option – and one that is increasingly in the spotlight – is intrapreneurship.

The intrapreneurial model allows younger family members to leverage the family enterprise's institutional expertise for building a separate business, explains Mr. Taylor.

It also opens a new channel for intergenerational dialogue, believes Guillaume Hervé, president of G3pointo Consulting. "Studies show that the large majority of millennials are not interested in entering the family business, but that doesn't mean they are not business minded,"

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ABOUT

FAMILY ENTERPRISE XCHANGE

The Family Enterprise Xchange (FEX) is a national organization with the goal to empower family enterprises and their advisers so they can succeed and flourish. To achieve this, FEX provides business families and their advisers with a unique blend of shared wisdom and experience, and the world's best, leading-edge thinking and knowledge.

For more information, visit family-enterprise-xchange.com.

Visit **globeandmail.com/adv/familybusiness** for more information.

PLANNING

Plan early and seek qualified help to ensure long-term success

John Firstbrook is a man with a mission – to alert those in family businesses about the statistics of those who fail to plan ahead – and he means well ahead. The Family Business Institute, for instance, has found that just 30 per cent of family businesses are successfully passed on to the second generation and beyond.

The Firstbrook Insurance Group specializes in providing leading-edge concepts combined with life insurance products to mitigate tax liabilities. The real challenge is implementing a workable plan for all stakeholders.

The company's typical client is in the mid to late 50s – with children in their teens to early 30s – who has yet to transition the business to the next generation. While many founders take comfort in the fact that their businesses are highly successful in the present, they may overlook one critical need – to look ahead and plan for succession of the company into other hands.

"The earlier you start to plan a transition the more options you have."

John Firstbrook
is president and CEO of Firstbrook Insurance Group

Experts agree that one of the first principles for successful continuity planning is to allow a lot of time for frank discussions around the future direction to unfold.

"The earlier you start to plan a transition, the more options you have," says Mr. Firstbrook, president and CEO of Firstbrook Insurance Group. The work includes the founder thinking about the education and experience the next generation will need to take leadership of the business, be it studying for an MBA or even working for a competitor to better understand the industry the family business is in.

Firstbrook Insurance Group's greatest value to a family contemplating business succession planning is acting as a catalyst to bring the required experts together to "get to the truth" and to build consensus. That truth includes understanding whether the family members can get along well enough to be in business together or even if they have the interest to stay in that business.

Over the last 30 years plus, Mr. Firstbrook has seen a lot in the succession planning business. As noted, his advice is to start early and seek help by well-qualified advisers. The results are compelling for the business and, most importantly, the family.

Thinking back a number of years ago, Mr. Firstbrook remembers a conversation he had with a successful Canadian entrepreneur, asking, "At what point did you start to think about your planning?" The response was surprising: "The day I started the business," the entrepreneur said. "In the early days, the goal was to take risk off the table. We purchased a lot of term insurance, which bought us the time to become successful."

Years later, the businessman said that premiums started to go up, and he converted the term insurance to whole life. The result was that he stabilized his costs. The end game, of course, was to protect the taxes he owed to transfer the business. The company is now secure with the next generation.

"This clearly demonstrates planning is a marathon, not a 100-yard dash," says Mr. Firstbrook.

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INSIDE

FAMILY BUSINESS

CONSOLIDATION

Centralized approach aims to better serve business families' complex needs

For family business owners, determining how to pass on the significant wealth they've created can be a daunting prospect. There are many issues to consider – from family dynamics to succession planning and transferring wealth to the next generation. Addressing these matters can be highly emotional, with family members often having competing ideas about the desired outcome.

The best way to maintain family harmony throughout this process is to have "big and deep conversations," says Andrew Marsh, CEO of Richardson GMP, Canada's largest independent wealth management firm, with over $29-billion in assets. The firm is also the parent of Canada's only nationally branded family office group dedicated to serving affluent families and entrepreneurs.

These conversations require stepping back from a narrow focus on investments to exploring what wealth means to a family and how it can be transitioned to the next generation. The values that emerge from these conversations then point to strategies to grow and steward the wealth, informing decisions about succession planning, investing, philanthropic giving and more.

"While [seeking advice from various advisers] may work while you're growing a business, its fragmented nature doesn't allow high-net-worth families to see the big picture when it comes to addressing the many intersections of business and family."

Andrew Marsh
is CEO of Richardson GMP

That's where Mr. Marsh says the integrated and centralized approach offered by Richardson GMP Private Family Office makes a crucial difference. Many entrepreneurial families, he says, have collected a disparate team of advisers over the years as they have built their business, seeking advice from various tax planners, investment advisers, lawyers, estate planners and accountants.

"While this approach may work while you're growing a business, its fragmented nature doesn't allow high-net-worth families to see the big picture when it comes to addressing the many intersections of business and family," says Mr. Marsh.

What's required, he says, is a "one-place, one-team, one-call solution." This integrated approach – where one firm brings together a unified team of experts in tax, law, family dynamics, accounting and investing – enables the family to benefit from a co-ordinated strategy overseen by an objective family office team.

The recommended strategy will be as unique as each family, but in all cases it is based on a rigorous process that engages families in explorations of their personal, family and business values and goals.

"Our processes and tools help families mitigate the risk of dysfunction and mismanagement of wealth and intergenerational businesses," says Mr. Marsh. These processes range from guiding individuals through formal family meetings to helping them identify their family mission and values, and discussing the many different ways of leaving a legacy. Richardson GMP Private Family Office also advises on strategies for business succession, which can be a difficult issue depending on whether the next generation is interested in and capable of taking over the business.

For Mr. Marsh and his team of certified family enterprise advisers, the primary goal is to help wealthy family business owners understand the importance of expanding the conversation to something broader than just investment management. "Our processes guide families through the deeper and more fundamental questions, and our integrated team of advisers can put structures in place to successfully steward a family's wealth for succeeding generations."

For advising business families, conversations have to go further than investments and need to explore what wealth means to a family and how it can be transitioned to the next generation.
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FROM FB 1

Generations: An innovative approach to transition planning

he says. "Kids who grow up in an entrepreneurial environment tend to be entrepreneurial themselves, but they often look for outside avenues to quench that entrepreneurial thirst."

So why not channel this desire into something that can fulfill their dreams and benefit the family's core business at the same time, asks Mr. Hervé, who is the author of *Winning at Intrapreneurship*.

There are many proven benefits of intrapreneurship that work in favour of family enterprises, he says. "Different generations partnering on a real business initiative get to appreciate what each brings to the table. And when you talk about succession, it's always a challenge to create a merit-based succession plan versus one based on entitlement. Intrapreneurship gives members of the next generation the means to prove their business sense and leadership capabilities."

"The success of family businesses, and whether they can sustain themselves, can have a significant impact on the outcomes for Canada in the near future."

Allen Taylor
is chair of the Family Enterprise Xchange

While the older generation has a chance to see their collaborators and potential successors in action, the younger partners benefit from family support, which goes far beyond providing seed money, he adds. "With intrapreneurship, you leverage the core business by taking advantage of the abilities, resources, support and networks that can help the new business grow faster than a purely entrepreneurial counterpart would."

In addition, family support typically comes with less aggressive expectations for seeing quick results compared to outside investors.

Younger generations can also act as effective change agents at a time when many companies struggle with organic growth, says Mr. Hervé. "Family enterprises are generally so focused on their core business, and on making incremental improvements to either their offerings or their cost, that they may miss the bigger picture, which can include diversification, innovation or new markets."

Mr. Taylor adds that some of the most successful family enterprises have used an intrapreneurial-like approach for diversification and increasing their market reach. "There are many examples where the assets of a core business were leveraged to grow the company," he says. "Intrapreneurship draws on the various strengths of a family enterprise to develop a strategy that speaks to the values of next-generation leaders and their desire to build something for themselves."

But regardless of the way in which new leaders become involved, having a strategy is key for sustaining a business for more than one generation, says Mr. Taylor. "Business families are often forced into crisis management by an event, such as the founder's deteriorating health or death. This typically reduces their number of options."

The awareness that long-term planning is core to business success is what differentiates successful family enterprises, he believes. "The costs of dealing with adverse outcomes are substantially higher than the cost of doing the right thing," says Mr. Taylor, who advocates for a proactive approach and sound family business planning.

"The success of family businesses, and whether they can sustain themselves, can have a significant impact on the outcomes for Canada in the near future," he adds.

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STRATEGY

Three-circle model balances business, ownership and family interests

Expressing ideas, thoughts or concerns in the workplace can be challenging and intimidating in any scenario, and when the leadership team is comprised of one's parent or other family members, an additional level of complexity often surfaces, says Tracey Zehl, a partner with Grant Thornton LLP in Calgary. "Dealing with family members tends to come with strong emotions. At times, people stay quiet because they do not want to upset the family or do not feel empowered to share. However, when someone is part of the business strategy, his or her voice needs to be heard."

A lack of alignment can have serious implications for business outcomes, cautions Ms. Zehl. "In one example, we found that while everyone agreed on the goal to grow the business, the family members who were active in the business and key employees each had a different definition of growth. Without this common vision and the strategy to achieve the vision, everyone was rowing the boat, but not necessarily in the same direction."

As a result, a lot of effort was spent on dealing with internal dynamics, says Ms. Zehl. "The goal should be to eliminate barriers and allow everyone to have a voice. The point is not to focus on who made the comment, but to have all the ideas expressed and focus on the underlying themes to identify a path for moving forward in a productive way."

"Dealing with family members tends to come with strong emotions. At times, people stay quiet because they do not want to upset the family or do not feel empowered to share. However, when someone is part of the business strategy, his or her voice needs to be heard."

Tracey Zehl
is a partner with Grant Thornton LLP

A useful catalyst for understanding the complexity of family businesses is the three-circle model, according to Ms. Zehl. "We look at three circles: family, business and ownership. Often, when family businesses are working through issues, they are focused on a particular dimension of the model and fail to see how these scenarios often impact all three circles."

Advising family businesses often requires a whole system approach, says Roger Cooper, a partner with Grant Thornton LLP in St. John's. "Rather than looking at the business circle in isolation, it can be helpful to look at the strategies for family, business and ownership together, with particular focus on the areas where the three circles intersect."

While a strong focus on the business allows leaders to be very effective in that area, it may prevent them from considering the bigger perspective, says Ms. Zehl, who utilizes a proactive approach in dealing with these important issues. She notes that when there are clear definitions of roles, expectations and compensation for family members, plus a pathway and requirements for advancing within the organization that are defined at the onset, it can prevent some future friction between the family, business and ownership circles.

"If there is a dispute or breakdown, having a contract, agreement or some sort of physical paperwork that defines the steps to be taken that were agreed upon at the onset when the relationship was friendly can be extremely helpful. It can be important to have this document in place before critical issues arise," says Ms. Zehl. "People say, 'Oh, they're family, they'll work it out,' but unfortunately, situations can escalate. I have seen it tear families apart."

Family enterprises of all sizes and in various stages of their life cycle can benefit from external advisers, who can help identify the underlying issues and concerns in a safe environment where everyone can be heard, suggests Ms. Zehl.

Mr. Cooper adds, "Bringing together a multidisciplinary team with familiarity with the business as well as the family, who act as that sounding board for critical decisions, can be valuable and lead to much better advice for the family."

Family enterprises of all sizes can benefit from external advisers, who can help to identify the underlying issues and concerns. ISTOCKPHOTO.COM

PANEL

How to turn generational differences into assets that enable business success and continuity? We asked the experts.

Boomers

Susan St. Amand
Founder and President of Sirius Financial Services

When generations aren't speaking the same language or don't have similar exposure to key influences, it is difficult to share the same perspective and agree on common values. Boomers may feel that family values, memories and the historical context of challenges and success don't receive the deserved attention, but it's important to stay focused on shared values. The biggest challenge is often to encourage different generations to openly share their views and respect each other's perspectives.

At a time when there are more integrated families from multiple marriages as well as changes within sexual orientations and multijurisdictional residences, families may need to revisit and confirm their values against a changing general social fabric. Boomers can find it difficult to transition from the role of a parent to that of a mentor, but they need to allow the next generation to challenge the conventional and be prepared to accept the consequences.

The accelerated pace in business can impact a family's ability to formulate long-term goals and communicate them to the next generation.

For boomers, it's important to be open to evolution, accept differences and nourish a vision of the future. Diversity of voice and opinion is often a key element to tackling today's challenges, and leading by example will gain the respect of all younger generations.

Generation X

Roberto Villamar
Chief Strategy Officer and Business Development Manager Canada, COHECO

When I reflect on my career, a few elements stand out as crucial: first, I didn't start working with the family enterprise right away and only joined after gaining outside experience. And I am the type of person who will look for a positive perspective of every person, situation or challenge. I always try to identify the root of an issue first, leaving emotions aside as much as possible. Finally, I love learning, planning and working with people.

When dealing with business and non-business issues during my 18 years at the family business, there have been many times, even now, when I feel my voice is not fully heard. While I've gained strong leadership capabilities, with daily examples and results, I still face challenges when I promote a new change: it feels like starting all over again. Perseverance is key.

A big challenge that Gen-Xers face is being in the middle of two strong generations calling for attention: baby boomers and millennials. When it comes to our view of work and long-term objectives, I personally believe we have a lot in common with older generations, which generates a perception from younger people that we are more aligned with boomers. But the older generations might identify us closer to millennials, leading to a risk of inadvertence.

I'm currently studying to become an adviser for family enterprises and believe that "family-ness" is a key strategic component for business success, but new structures and open conversations across generations can make a big difference.

Generation X

Karen Laprade
Founder and CEO at LEAD

Often, the founding generation resists new ideas with the question: "Why would we change something that we have always done this way?" Instead of calling for rapid change, a less threatening approach with a long-term view would be for the rising generation to propose investment in the future by uncovering values. Tremendous opportunity comes from an assessment of values getting to the heart of what motivates each individual. When the different generations do this work, they can see where their values conflict and converge, allowing them to move forward with new insight. They might uncover areas where they require support or need to develop new skills or bring in someone external. Starting from a foundation of values is a strategic move, ensuring a better cultural fit and positioning the enterprise for sustainable growth.

On the other hand, the interplay between the possibility of choice and the reality of failure makes living within a family enterprise difficult, which weighs heavily on the rising generation. Here again, values-based conversations about what being an enterprising family means will help create a compass for shared decision-making. It's critical to remember that a family enterprise is a community of people – a place where all feel nourished and heard.

Millennials

Emma O'Dwyer
VP Market Development, The Matcom Group

The main challenge to family businesses in today's world is how to financially manage the transition of the business in order that the current generation can retire comfortably and the next can continue to grow it and maintain the family's investment.

The cost of living today is high (and still rising), so the older generation often does not want to leave the business or take more financial risks, thus delaying the transition process. As well, financial institutions have become increasingly risk averse and are reluctant to partner in the family business transition process. Government regulations and taxation changes have also made passing a company to the next generation more difficult than in the past. In most cases, a better "wealth" decision would be to sell instead of keeping the business in the family, but this is rarely the final objective when starting a family business.

Without a financial partner to help bridge the transition, the old guard tends to stay in control longer than would previously have been the case. Members of the next generation find themselves with the stress of managing the business but none of the strategic power to run it how they envision or plan for continued growth.

It is crucial to plan ahead for the generational transition. The time to begin planning is when the business is first started and to keep tweaking it as time goes on. Most importantly, change the plan or cash strategies to ensure they fit with current regulations and realities.

Millennials

Deena Chochinov
Family Enterprise Adviser

Because of their high energy, enthusiasm and zeal for making – and seeing – a difference, millennials can sometimes be impatient. They can become easily frustrated with what they see as a "turtle-like speed of bureaucracy," outdated business practices and resistance to technology. They are a generation that wants to be included in, collaborated with and participating – they typically want to jump into the business with both feet.

How can these attributes best be harnessed for strengthening family businesses? By involving millennials in foundational discussions about shared visions, goals and values.

Millennials can also grow their financial literacy and competency and build their "business capacity" by asking for challenging and interesting assignments, such as short- or medium-term special projects that expand their knowledge of the business and increase their depth of experience. They tend to do well when they consider their parents and grandparents as "wisdom keepers" of the family enterprise, and rely on them as respected coaches, mentors and guides.

Increased engagement and transparency can shape the rising generation's positive views of the family business and increase their commitment to actively participate. Open communication about continuity and succession planning is a must between the generations, and leaders need to understand that they should pass the baton not when they are ready to leave but when their successors are ready to lead.