The Business Family Advisor:

Providing Structured Transitions for Business and Wealth

By Keith Brown

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FOREWORD

I've committed the last thirty-five years to helping family businesses survive, thrive, and transition successfully. Over that time, I've had the privilege of working with hundreds of them, and had the unique opportunity to witness first-hand the factors that led to both success and failure. Believe me, I've seen both winners and losers. I also have personal experience with a family business that made critical errors, with catastrophic results. As a result, I'm well positioned to offer both professional and experience-based advice that can help your business avoid the pitfalls that plague so many family businesses, and position you and your successors for maximum success.

One of my earliest, most searing experiences has served me for years as a motivation to help others. I'll never forget it, or the lessons I learned from it.

My dad was a smart, experienced, capable, well-read guy who held solid management roles during his working career. But because he didn't possess a university degree (much to his frustration), he was never able to land a senior leadership position; they were typically reserved for engineers, accountants, and lawyers. So in 1975, at age 38 he made a decision to leave the corporate world, and begin his entrepreneurial career.

My family (mom, dad, and four kids) left Calgary, bought an acreage on the outskirts of town, and built a 5-bedroom home—complete with a pool and lots of space. The Alberta economy was booming at that time, and well-paying jobs were plentiful. My parents had profited from real estate over the years; they'd bought and sold several homes, and in the process had moved up from a very modest neighborhood to one of the most prestigious in the city (my mom's parents had also owned several revenue-producing rental properties; real estate was in our family's genes.) Then came the move to our new expansive property, and dad's entrepreneurial real estate initiative.

After completing our new family home, he decided to build a couple of homes in a small community just north of Calgary, to take advantage of the then-booming economy. He owned the newly built home outright, so in order to finance construction of the new homes, he used our family home as collateral for the builder's loans.

In the spring of 1978, while I was finishing my first year of college, my mom and dad were in Europe–Dad wanted to visit family and to learn more about his English roots. At the same time, concrete foundations were being poured for our two spec homes. The plan was that together, we'd build them over the summer, and my parents would finish them in the fall when I returned to school. But while still in London, dad was diagnosed with tuberculosis and advised to return home. On his return to Canada in early June, he visited another doctor and was referred for a biopsy.

On June 20, 1978 (a day I'll never forget), I drove my parents to the doctor's office for a follow-up appointment to receive the results of the biopsy. We didn't know what to expect and were apprehensive.

The news the doctor delivered was shocking. His opening line was not the usual "How are you?" followed by some social chatter. Instead he said, "Mr. Brown, you have a rare type of carcinoma, and you have maybe a month to live. I suggest you get your affairs in order." We were able to blurt out a few simple questions, but the three of us were completely overwhelmed. As we drove back home there was little conversation, except an attempt to decide what to tell the other kids. Being told you have a month to live has a way of ramping up your stress level.

The "getting your affairs in order" comment required three telephone calls. The first was to my uncle Reg, who was also my parents' life insurance advisor. He informed dad that he had a mere $17,000 of life insurance; he'd given up his group life insurance coverage when he left his corporate job, and hadn't reviewed his coverage needs since starting his entrepreneurial ventures. Reg recommended that my dad make his second call to his lawyer to confirm that his will was up-to-date (fortunately, it was).

The third call was to the bank manager who'd arranged the builders' loans my dad had taken on the two houses we were building. Dad wanted to determine whether there was life insurance coverage on those loans. The banker checked the paperwork and told dad that there wasn't. He also inquired as to why dad was asking. Dad told the banker about his diagnosis, and that he was putting his affairs in order.

Later that week, the banker called back to inform us that in light of dad's medical situation, the Bank of Montreal would be calling the demand loans. We were given 90 days to pay them off, failing which the bank would seize the collateral it held—our home and acreage. The stress level in our family was elevated to an almost overwhelming level.

As my father's cancer treatments began, we put our family home on the market. It was large, beautiful, and well built, so it sold quickly. At the same time, along with several friends who were carpenters' apprentices, I worked to complete construction on the first of our new projects. Luckily, we were able to quickly sell the second lot and foundation.

My father's cancer was advanced and aggressive, and his condition deteriorated quickly, despite (or perhaps partly as a result of) the debilitating chemo and radiation treatments. He died just over 90 days later, at the too-young age of 41. My friends and I had completed construction of the first home by this time, allowing my mom and siblings to move into it.

The bank seized our family home and acreage. Our family was emotionally and financially devastated, and we've never fully recovered.

Our family business was completely destroyed, but it was completely unnecessary. It could have been avoided if only my dad had had a plan: if he'd been more aware of the importance of being properly protected by insurance, if the bank had offered mortgage insurance on the builders' loan, the devastating outcome we experienced could have been completely avoided. That's one of the reasons I'm driven to ensure that my clients are always properly protected, whether by insurance or by the use of a range of other options available.

So my purpose in writing this book is to prevent other families from being destroyed by lack of planning, by calling upon my years of experience, my in-depth knowledge of the obstacles that face every family business, and my ability to offer creative, effective strategies that can help to avoid those obstacles, and thus contribute to the success every family business strives to achieve.

INTRODUCTION

The book begins by providing a background to the massive, imminent, worldwide transfer of wealth, with a particular emphasis on North America. In Part I, I outline the major challenges and obstacles that are faced currently, and will be faced in the near future, by individual and family-operated businesses. Finally, in Part II, I propose several strategies that successful family businesses have used, not only to grow in the short term, but also to position them wisely for the inevitable transfer of ownership that will likely take place in the next decade or so.

Background

With the aging of the Baby Boomer generation (those born between 1946 and 1964), the biggest wealth transfer in history is currently taking place. Over the last decade, several studies have attempted to quantify its magnitude, but it's crystal clear that it's going to be a virtual financial tsunami. In Canada it's estimated that Boomers stand to inherit approximately $1 trillion over the next twenty years.[1] In the U.S. the numbers are, not

Over the last decade, several studies have attempted to quantify its magnitude, but it's crystal clear that it's going to be a virtual financial tsunami.

1. The Canadian Inheritance Study, Decima Research, 2006

surprisingly, substantially greater. Some estimates place the number at about $41 trillion.[1] While the exact size of the transfer is subject to debate, there's absolutely no doubt that an unprecedented shift in wealth from one generation to the next has begun to take place, and will continue over the next few decades; that's on an individual level.

It's estimated that approximately 70%–80% of all businesses operating in Canada are family-run; they play a key role in the nation's economic growth and employment. Further, about 70% of them expect to see an intergenerational transfer of management and/or ownership within the next decade.

There's also a looming need for succession planning on a family business level. It's estimated that approximately 70%–80% of all businesses operating in Canada are family-run; they play a key role in the nation's economic growth and employment. Further, about 70% of them expect to see an intergenerational transfer of management and/or ownership within the next decade. But while the need to plan is clear, many business owners aren't ready. In her book, titled "Facilitating New Conversations in the Next Decade: Private Family Businesses Face Major Transitions," Sara Hamilton sums up the challenges: "Many private business owners aren't ready for the changes that are imminent as they transition leadership and/or ownership of their business enterprise. Some are in denial, while others are oblivious. They may feel that their children aren't prepared to be in charge, or perhaps they haven't spoken to their children about handing over the reins because

1. Boston College Social Welfare Research Institute, January 2003; nytimes.com, July 21, 2012, What To Tell The Children About Their Bequest And When.

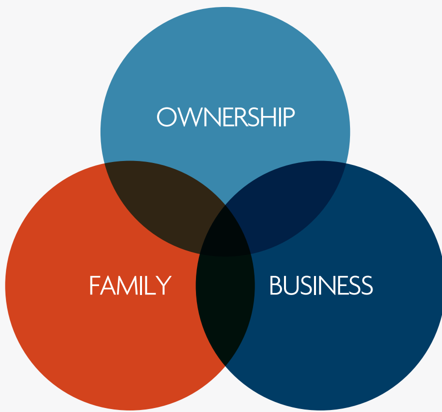
they love being in control. Maybe they say they can't find a successor who takes a long-term view or who cares enough about the employees. No matter the reason, when it comes down to it, many clients can't see a logical transition path."[1] According to the 2014 PwC Canada survey, only 20% of Canadian family businesses have a robust, documented succession plan in place to professionalize their business.

Clearly, massive individual and business wealth will transfer from one generation to the next in the next several years. As we'll demonstrate below, most wealth transitions are unsuccessful for a variety of reasons. The challenge facing owners of wealth is whether they too will be unsuccessful in their attempts, or whether they'll learn from the mistakes of others and put in place strategies that offer a much greater likelihood of success. This book is designed to assist you in making decisions that will provide that greater likelihood of success.

1. Sara Hamilton "Facilitating New Conversations in the Next Decade: Private Family Businesses Face Major Transitions." Trusts and Trustees, August 2013, p. 28.

Family Business Roles: The Three Hats

In a family business, there are three roles: ownership, business involvement, and family member. As a result, there are overlapping needs: for financial rewards, decision-making, access to information, and wants. Being in one, two, or all three of these roles can greatly impact one's perspective on the family business. Those who wear more than one hat have multiple responsibilities, which sometimes pull in opposite directions, thus creating conflict within the family, in some of the following areas:



- Family unity.
- Ownership vs. control.
- Shareholder rights and responsibilities.
- Governance.
- Performance and compensation.
- Successor choice.
- Non-family managers.
- Sibling teams.
- Family values.
- Business success vs. family harmony.

Part I

COMMON CHALLENGES FACING FAMILY BUSINESSES

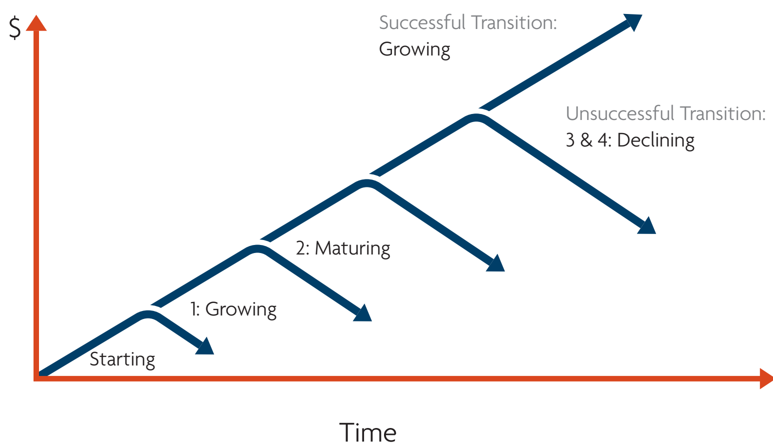
Only one-third of all family businesses make it to the second generation and less than ten percent of that one-third survives to the third generation. That means that today, if you're a company founder, your grandchildren have about a three percent chance of ever owning your business.
—Keith Brown

It's a sad but well-documented fact that the majority of wealth transfers from one generation to the next, fail. It doesn't seem to matter where in the world the transition took place. Countries with no estate taxes, a "New World" or an "Old World" economy, all had similar results**—a 70% failure rate in wealth transitions from one generation to the next.**[1] This outcome has also been reflected during my years of advisory experience.

The consistent failure at successful transitions of wealth has given rise to phrases such as "shirtsleeves to shirtsleeve in three generations." It's a reference to the fleeting nature of wealth, the effects of which are often catastrophic for families.

1. Richard Beckard and W. Gibb Dyer, "Managing Continuity in the Family-Owned Business," *Organizational Dynamics*, Summer, 1983. Author Beckard was then Adjunct Professor of Management at the Alfred P. Sloan School of Management at the Massachusetts Institute of Technology. *The Economist*, "The New Wealth of Nations," June 16, 2001. Advisory firm the Williams Group has conducted in-depth interviews with 3,250 wealthy families over a 20 year period, and experienced the same ratio: 70% failed, 30% succeeded.

Business Stages: Survival of the Few



1. 30% Failure Rate by Year 2 from Industry Canada
2. 50% Failure Rate by Year 5 from Industry Canada
3. 70% Failure Rate for 2nd Generation from KPMG
4. 90% Failure Rate for 3rd Generation from KPMG

The wisdom of it states, "The first generation earns the money, the second spends most of the money, and the third generation finishes off what little is left." The phrase is attributed to financier and philanthropist Andrew Carnegie, but it's a concept so deeply entrenched that several other countries, including Japan (Rice paddies to rice paddies in three generations), Italy (From the stable to the stars and back again), and China (Wealth never survives three generations) have similar phrases to describe the phenomenon.

Simply stated, for 70% of all high net-worth families, the money has been spent or lost before the end of the second generation. And by the end of the third generation, over 90% of families no longer have their wealth. That's a dismal less than 10% success rate.

Simply put, there's good reason for concern on the part of parents who want to achieve a successful wealth transfer.[1]

The findings of the U.S. Trust 2014 *Insights on Wealth and Worth* show virtually identical results.[2] They report that 58% of high net-worth individuals are the first generation in their family to be wealthy. About a quarter of the families (26%) sustained wealth for two generations, 13% for three generations, and only 3% for four generations or more.

"The most critical issues facing business-owning families are family-based issues, more than they are business-based issues."
—John L. Ward, an international expert on business governance and transition, author of Perpetuating The Family Business.

For the longest time, it was assumed that the financial advisors, lawyers, and accountants were somehow responsible for the lack of success in helping families to transition wealth. However, the general environment for estate-planning professionals is one that requires participation in educational seminars, upgrading of certification and qualifications, and constant improvement of their knowledge and skills. Further, based on 25 years of proprietary research by the Williams Group, less than 3% of the failures were found to be due to professional errors in accounting, legal or financial advisory planning, or to estate taxes. The professionals were very good at what they were trained to accomplish. So, it's inaccurate to lay the blame for failure there.

1. The term "*successful transition*" is defined as "wealth remaining under the control of the beneficiaries." The term "*unsuccessful transition*" includes any combination of taxes, losses, economic downturns, missed opportunities, litigation, expenses, or financial reversals, which "remove the assets involuntarily from the control of the beneficiary."
2. This study has been conducted annually since 1993, and is based on interviews with individuals who control assets valued at US$3 million or more. One-third of the participants had assets from $3–$5 million in value; one-third controlled assets valued from $5–$10, and one-third were worth $10 million or more.

For the answers we must look, as the Ward quote above notes, within the family itself.

So what are the major obstacles that for the most part are within the family's control? Taken together, they're what I call "business killers," and they include (but are not limited to) having no plan for making decisions, no strategic plan or business plan, and no plan or structure for good communication of the business goals, mission or vision to the employees, customers and other stakeholders. They also include poor governance, damaged relationships between management, family and friends who work in the business, self-destructive family behavior, failing to acknowledge the inevitability of retiring from or selling the business sooner or later, and failure to grow it and drive value. In this section, we'll look more closely at the majority of these "business killers."

My experience convinces me that they can be summarized as follows:

No Master Plan—No Process for Decision Making

"Those who fail to plan, plan to fail."
—Winston Churchill

In many situations, I've seen reasonably comprehensive business plans and tax plans, and sometimes, individual estate plans. But rarely when we first begin working with a business family do we see a comprehensive succession plan—a roadmap designed to ensure the long-term viability of the family enterprise. According to the Chinese proverb, "If you don't know where you're going, any road will do." If you do know where you're going, it's almost invariably because there's a comprehensive plan in place for getting there.

That plan must address the critical question of the *central purpose of the family's wealth.* Is it to make money, and

thus provide a level of comfort for family members? Is it to provide educational or vocational training? Is it to grow in order to support future generations? Is it intended to make the world a better place? Is it to be used to launch other businesses? Or, as is likely, is it intended to achieve several of these objectives simultaneously?

Beyond the need for a plan, there's a need for a clear process to be followed in order to implement the plans that are laid out. It's one thing to know where you want to go: that's the plan. It's another thing to know how to get there: that's the process. Both are necessary, and most family businesses possess neither.

Lack of Effective Communication and Trust

There's simply not enough dialogue taking place within families, a silence that has been described as a ticking time bomb. Clearly, there are uncertainties involved in the transfer of business control and wealth, including the exact timing of the transfer, the actual monetary value of the transfer, and the expectations of both the donor and the recipient as to what should be done with the money. However, particularly with the older generation, discussions around death, the transfer of business control and the transfer of their estate—including writing a will—are often considered "taboo."

This lack of dialogue is also an issue in situations where the child works in the family business, and receives little or no feedback as to how effectively they're carrying out their job responsibilities. The owner's (i.e., parent's) view of the child is a potent (though often overlooked) force within a business. Without ongoing communication and feedback over the mid- to long-term, resentment builds within the child and they'll either quit or lose interest in the business.

This lack of candid conversation between generations is a major contributing factor to poor success in transitioning wealth. The lack of dialogue often leads to misunderstandings and misgivings on the part of the inheritor

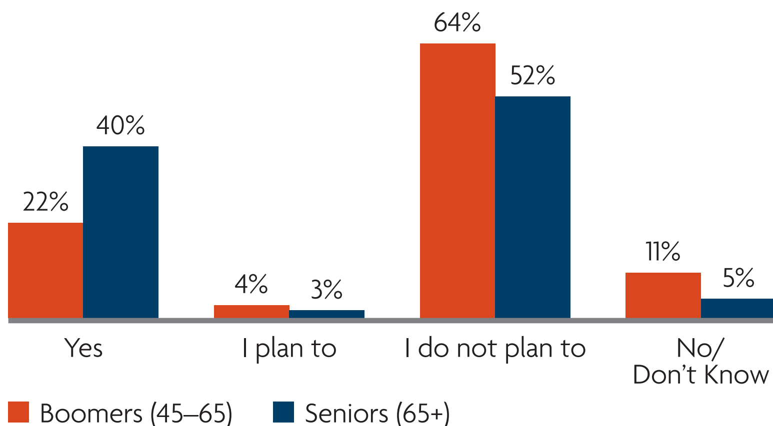
According to the 2014 U.S. *Trust Insights on Wealth and Worth*, only 38% of wealthy parents have fully disclosed their financial status to adult children over the age of 25, and only 38% believe that their children will be fully prepared to handle their inheritance. The older generation is less likely to have fully disclosed family wealth to the next generation. No doubt this is, at least in part, because their parents didn't involve them in discussions about what to expect, when to expect it, and what's expected of them.

This lack of candid conversation between generations is a major contributing factor to poor success in transitioning wealth. The lack of dialogue often leads to misunderstandings and misgivings on the part of the inheritor, especially in light of the fact that an increasing number of individuals are planning to bequest at least a portion of their wealth to charity as part of their legacy[1], leaving children with nothing, or a smaller than expected inheritance.

And discussion is deficient not only between generations, but also with trusted financial advisors. According to a BMO[2] Report, 64% of Boomers (ages 45–65) and 52% of seniors (age 65+) said they haven't talked to a financial advisor about their plans to leave an inheritance. This, in spite of the fact that there are significant considerations to be examined, which may have long-term financial and tax implications—both positive and negative.

1. & 2. BMO Retirement Institute Inheritance Study, 2009

Have You Talked to a Financial Advisor About Your Plan to Leave an Inheritance?



Boomers (45–65) Seniors (65+)

Source: BMO Retirement Institute Inheritance Survey, 2009

> **60% of the cause of unsuccessful family business transitions was a breakdown of communication and trust within the family.**

While proactively initiating a family conversation on the transfer of control of the family business and family wealth can be daunting and emotionally challenging, the risk of avoiding these discussions is likely to have significantly negative consequences.

This lack of effective communication and trust inevitably leads to conflict among family members and among sibling successors. According to one extensive study[1], 60% of the cause of unsuccessful family business transitions was a breakdown of communication and trust within the family.

1. *Preparing Heirs: Fives Steps to a Successful Transition of Family Wealth and Values.* Roy Williamson and Vic Preisser, 2012

Communication is derived from the two root words, "common" and "action." The objective of communication is to achieve consensus or "common action" within the family as it relates to their making good decisions and working together. Common action can keep the family aligned with its business or family mission, and avoids the waste of time, energy, and money on disputes resulting from separate action, or no action at all.

The elements of "trust" involve two components:

- Reliability—Do family members actually do what they say they'll do, when they say they'll do it? Repeated failures to live up to promises establishes a pattern of negative expectations, which in turn leads to a reputation for unreliability.

- Sincerity—Is the individual's "inside story" consistent with their "outside story"? Do the words and the music match up? If not, the person will come to be seen as insincere and by extension, untrustworthy.

Further, both components must be present in order for trust to be sustained. If either of them is missing, trust cannot be maintained. For example, parents are often sincere when they promise to be at their child's hockey game, but their lack of reliability in actually turning up, over and over again, will erode trust within the family.

Goals and Plans Are Not in Sync

A *third obstacle* to the successful transfer of wealth is the fact that, based on the research, the wealth transfer goals of wealthy parents and the actions they've taken to ensure those goals are met aren't in sync. "To preserve family wealth for future generations," and "To ensure financial needs of children are met," are among the most important stated goals of estate planning by

high net-worth individuals in the 2013 *Insights on Wealth and Worth* report. Yet, at the personal level, 72% of those parents don't have a comprehensive estate plan in place, 58% don't have a power of attorney for financial affairs, and 47% don't have a power of attorney for health care. On a business level, only about 20% have a comprehensive, documented succession plan in place. Without serious plans in place, it's no wonder wealth transfer initiatives so often fail.

In my experience, only a small percentage of parents have adopted a policy of transparency on these matters with their intended heirs and held frank, open discussions with their children about the contents of their will and their business succession plans.

Another Family Story

When I was a little boy, I used to accompany my father while he helped my grandparents (my mother's parents) maintain their four rental real estate properties. I had no idea what was going on there other than *I could play outside while my dad was inside fixing plumbing problems, or making electrical repairs, and every now and then help him out.* Those trips to the rental properties and the repairs we made taught me a lot about hard work, working together, and family values. As a result of these experiences, I've become pretty handy. I can do most home repairs on my own, or at least understand what's required (though I leave most of the technology stuff to my sons and the techies).

My grandparents also built a cottage in Harvie Heights, a small neighborhood just outside the gates of Banff National Park. As a child, I recall our family spent nearly every weekend working on that cottage, and I spent most of my summers there until my grandfather passed away of a heart attack in 1968. I fondly

remember the smell of the forest and the walks with my family in the woods.

My grandfather was 65 years old when he died; I was nine. I didn't really understand the death, other than the fact that my grandfather was no longer around for me to work and play with. Not long after he died, my grandmother sold the cottage. It seemed that the maintenance of the rental properties and the cottage, along with everything else, was too simply much for her to handle; she'd been in poor health for as long as I could remember.

Soon after my grandfather died, my grandmother met her next husband (a widower) at the church they both attended. He was a kind and gentle man of meager means who was one of the last blacksmiths working at the City of Calgary stables. When they married, they moved into his home, which was across town from where we lived, but closer to his work.

Despite poor health, my grandmother lived until about 1980. She is survived by her six children and over 20 grandchildren. At her funeral, I recall sensing some resentment and anger among her children—my aunts and uncles, who were upset about the fact that my grandmother, though married to her second husband for nearly 13 years, hadn't made a will specifying that on her death her assets should go to them. Normally in this situation, a person would allow their surviving spouse to receive the income or even take some capital from the assets to cover living expenses, but after they pass away the remaining capital assets would be distributed to the surviving beneficiaries. That's referred to as a "spousal trust," now also called a "joint partner trust." My grandmother had neither a will, nor a spousal trust; as a result, all of her assets went to her spouse.

As a result of her ignorance of the law, and with no expert advice to guide her, she had unintentionally disinherited all her children. I'm not sure of the amount she had in cash and securities, but she owned multiple residential properties including her personal residence, which was sold when she moved into her new husband's home, so her assets would have been substantial for the time. My grandparents had always treated me well, I grew up thinking there was a lot of love in the family, so to hear negative comments about my grandmother from her own children, at her funeral, was extremely upsetting.

Since that time, my aunts, uncles, and my mother have all passed away, leaving only the grandchildren. The lack of proper estate planning caused significant conflict and broke up both my mother's family and the business that they'd all worked on. As a young person observing this, I was confused because I always thought favourably about my grandmother and her family, and how everyone pitched in to help build wealth.

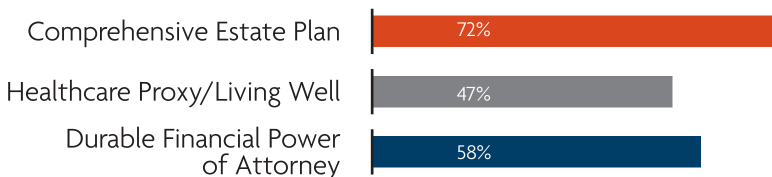
The lack of sophistication that led my grandmother to neglect making a will, one which clearly stated her wishes, made it impossible for her intended legacy to be realized. Instead of an opportunity for enhanced family wealth and harmony, there was discord and anger. This misjudgment on my grandmother's part made my step-grandfather a very wealthy man, and the legacy she intended was hi-jacked by another family that had no part in creating and building that wealth.

As we see so often, and specifically in this close-to-home case, goals and plans were not in sync, and the results were disastrous.

So despite the consistently and sincerely expressed desire of wealthy parents to successfully transfer wealth to their children (and sometimes their grandchildren), the odds are overwhelmingly stacked against success. Yet we see the same

approaches to the transfer of wealth used over and over again, despite their dismal record of failure. Perhaps that's the origin of Albert Einstein's famous definition of "insanity" as "continuing to do the same things over and over, and expecting different results."

% Who Do Not Have the Financial Documents Listed Below



Source: U.S. Trust 2013

Yet we see the same approaches to the transfer of wealth used over and over again, despite their dismal record of failure. Perhaps that's the origin of Albert Einstein's famous definition of "insanity" as "continuing to do the same things over and over, and expecting different results."

Entitlement Trumps Talent

This is a trap that's easily fallen into, and very difficult to escape. It's also a trap that, once fallen into, rarely has positive outcomes. It's not that there's no place for family members in the family business; it's just that the family business can't be seen as a social welfare agency that distributes funds in perpetuity. That's a key reason why we insist on clear job descriptions for all positions, and that that everyone in the business be subject to regular performance reviews.

Disparate Family Goals, and Jumbled Priorities

It's not unusual for family members to have different levels of involvement in the family business, different levels of commitment to it and, often, jumbled priorities. Some see the family business as their life's work; others see it as a dividend-producing ATM, designed to make their lives easy. Some confidently state that family issues take priority over all others; others argue that the business must come first.

These different views of the business, left unchecked or unaddressed, can pull the fabric of a family apart, leading to dysfunction at both the family and business level. I've witnessed situations where the relationship between founding father (G1) and son (G2) is so fractious and counter-productive, that instead of firing his son, the founder sells his business to a competitor for a fraction of what it's worth in order to end the insanity at both work and home.

Experts in the field also speculate that one of the main reasons so few family businesses last to the third generation (G3) is this: G3 decides not to work in the business because her father (G2) loved her too much to encourage her to endure the same soul-destroying conflicts he was put through. Instead of seeking solutions to avoid these matters in future (solutions that almost invariably include a family mission statement co-operatively developed by all family members), G2 simply allows the business to die.

According to the Williamson and Preisser study, about 10% of the reasons for unsuccessful family transitions can be attributed to the lack of a clearly stated, family-developed mission statement. Without one, members of the family tend to go their own ways, with differing goals and values. On the other hand, families who've created a mission statement find that when family

conflict issues arise, they're more easily addressed and resolved within the framework of that statement, and a family constitution that supports it.

The Challenge of Adapting to Constant Change

There are the ever-present business challenges brought on by fluctuating currency exchange rates, advancements in technology, emerging disruptive technologies, new competitors who force lower pricing and lower margins, intrusive government regulators, and employee issues. Maybe the company's brands are getting tired; perhaps its products are losing their competitive edge. At the same time, competitors are getting bigger, better capitalized, and are becoming globalized, all of which add pressure for the family business to keep pace. This whole range of external macro-economic risks combined with somewhat more manageable internal financial risks, can present daunting obstacles.

Then, assuming that these risks can be successfully managed, there are historic difficulties associated with transitioning the business from one generation to the next. As we've noted above, it's estimated that 70% of the family-run businesses in Canada will address this transition of ownership and/or leadership within the next ten years.

Sibling Rivalries

"Mom always liked you best."
A Tommy Smothers line, regularly said to his brother Dick on their weekly television program.

While delivered as part of ongoing dialogue, the sentiment expressed by the younger brother's comments to his older sibling hit home for many people.

Leaders know how difficult it can be to turn any group of people into a team. Forging two or more siblings into a team, especially if they didn't have team-building experiences growing up, is even tougher. The emotional issue expressed by Tommy Smothers, resonates with millions of younger brothers or sisters who feel the way he feels. All the more reason to be aware of and understand these issues so that any negative impacts can be minimized or prevented altogether, because we know that unchecked, these rivalries can be destructive to both family relations and business continuity.

Among the main pitfalls that can derail a sibling team are the following:

- Taking stands based on ego/age:
  "I'm older, so I know better than you."
- Triangulation on the part of the parents:
  Dad complains to Diane about Jim, but doesn't address the problem with Jim directly.
- Expectations that the leader should police the other siblings.
- Spouses who don't feel part of the team or welcome in the family.

The seven challenges discussed above are the most dangerous (though by no means the only) ones faced today by family businesses, any one of which is capable of dealing it a deathblow. We refer to these challenges as "landmines," because if triggered, they can seriously wound or kill a business.

In Part II, we'll turn our attention to strategies and approaches that can help to defuse and clear the field of these explosive and destructive dangers.

Part II

SEVEN HABITS OF HIGHLY EFFECTIVE FAMILY BUSINESSES

Habit #1

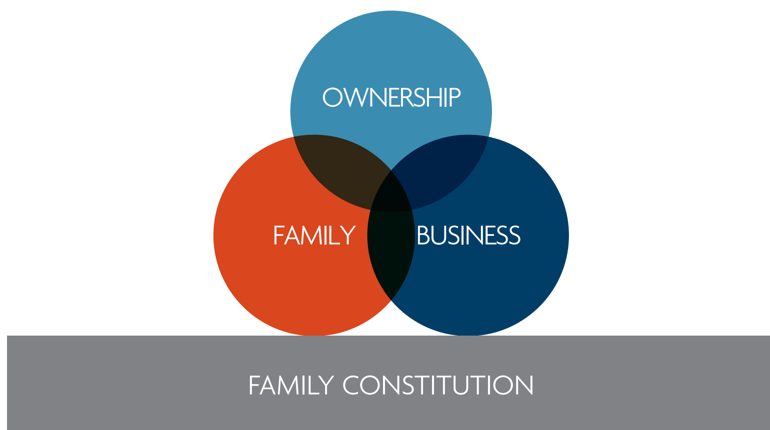
THEY CREATE A FAMILY CONSTITUTION

One of the most significant indications of a determined, committed leadership is the early decision to develop a Family Constitution, or Family Agreement: the foundation on which virtually all other aspects of a family business are built. These include such matters as values and mission, operating principles, supporting policies and contracts, and provision for periodic review and revision. An agreement that covers all these issues in a comprehensive, integrated manner is defined as a Family Constitution.

In most cases, family businesses don't create a Family Constitution early in their existence; they're too busy in a day-to-day effort to survive to consider developing a whole series of rules, regulations, policies and processes. It's usually not until the business becomes more complex that there's recognition of the need to consider matters more formally. These increased complexities are often the result of the entry of spouses or a new generation into the business, of growth and diversification of the company from one company to a group of businesses, and an increase in the number of shareholders, generations, or brands. While I subscribe to the

theory that encourages anticipation of future needs (change before you need to), and therefore the early development of a Family Constitution, it's my experience most Family Constitutions emerge later, rather than sooner; but like the old saying goes, better late than never.

The Foundation of a Successful Family Business



A Family Constitution is designed to address the three key components of a family business: business development, ownership unity and commitment, and family strength.

Under the heading of *Business Development,* the Family Constitution should address items including: how the family will manage a succession process; how it will prepare for succession; determining the conditions that could trigger a sale, or the winding down of the family business; establishing a policy for family members entering the business; ensuring annual reviews of all employees; setting conditions for professional management; and guaranteeing the company a suitable governance system.

Under the heading of *Ownership Unity and Commitment,* it should address setting rules to transfer shares into and outside of the family, how to create an internal market for family-controlled shares and establish dividend policies, identifying values and behaviors it expects of responsible owners, and determining a policy and process to solve ownership conflicts.

Under the heading of *Family Strength,* the Constitution will identify a common set of values that will guide its decisions; create opportunities for family get-togethers; offer support and development services for individual family members, and for the family as a whole; groom future owners in a responsible way; and delineate family members' responsibilities toward the business.

Let's dig a little deeper and consider the types of questions that might be part of a family's discussions as they consider the key aspects of a Family Constitution.

Vision and Values

- What are our hopes and dreams for the family business?
- Where do we want the business to be in 5, 10, 20 years?
- Do we want to continue to own and manage the business? Just own it? Sell it?
- What will be the key business/family values that drive us?

Process

- How will we make decisions?
- How will we manage differences?
- How will we treat one another?

Structure

- How will we organize ourselves?
- How will we remunerate our employees?
- How will we organize family philanthropic activities?

Participation

- How will we select and train people for leadership positions?
- What are the "rules of entry" for family members to work in the business?
- How will we ensure ongoing participation and communication with an expanding family?

Education

- How will we educate the next generation about ownership, business, and family governance?
- Who will take part, and when?

Managing Succession

- How will we identify the next president?
- How will we decide the timing of the transition?
- How will we evaluate the next president's performance and plan for their replacement?

Family Business Careers

- How do we decide which family members can join the family business?
- How will we evaluate performance and reward achievement?
- What happens when family members wish to exit the business?
- How will we develop and prepare future leaders?

Compensation

- How will we evaluate and compensate family members?
- How will bonuses be determined?
- What will be our dividend policy?
- Who participates in stock option programs?

Ownership and Governance

- How will we ensure financial security for the senior generation?
- How will we redeem stock to provide liquidity for shareholders?

- How are members of the board of directors to be selected?

Family Relationships

- How will we address conflicts between generations?
- How will we revise and amend family agreements?
- How can we create a process for family planning and decision-making?

Responsibilities and Code of Conduct

- How will we help family members who encounter financial, personal, or career difficulties?
- What if there's a divorce?
- What responsibility does the family have to the larger community?
- What if a family member breaks the law or acts in a seriously irresponsible manner?

In short, a Family Constitution creates principles relating to working in the family business, to an ownership position in the family business and to the governance of the family business.

The Seven P's of Highly Effective Family Constitutions

The following are characteristics of the most effective Family Constitutions:

- Positive—they emphasize the common good and stress that the document helps both the family and the business.

- Philosophical—they're driven by values and principles focusing on reasons for progressing as a family and as business owners.

- Personal—they reflect the specific nature, goals, and values of the family creating it.

- Participative—they include as much participation from as many family members as possible.

- Professional—they aspire to incorporate the highest industry standards.

- Process-driven—they affirm that good processes create good policies and decisions; process trumps one-off, ad hoc decisions.

- Priority—they ensure that market conditions drive business decisions, not family needs.

Family Constitutions are incredibly valuable documents; most of the successful families I know have developed one. Families who've done so are invariably blessed by having strong, proactive, and committed leaders. But while these Family Constitutions are becoming more prevalent, they're still the exception to the rule in family businesses.

But while these Family Constitutions are becoming more prevalent, they're still the exception to the rule in family businesses.

A well-developed Family Constitution exemplifies and incorporates all the principles for success we'll discuss in the section ahead; principles that can, and should be acted upon, even while a family constitution is under development.

Habit #2

THEY RECOGNIZE IT'S LARGELY ABOUT LEADERSHIP

Harry Truman, 33rd President of the United States, is often quoted as saying, "The buck stops here," meaning that while others further down the line might "pass the buck," he would not. He had to act—and to lead.

The same is true of a wealthy family's patriarch, matriarch, or leader. They must lead; for without leadership, the likelihood of a successful transition of wealth from one generation to the next is slim. If a family is to transition their wealth successfully, new approaches to challenges are required: challenges which must be championed by determined, committed family leaders who are prepared to model behaviors of change that their children, and grandchildren can emulate.

Articulate and Model Core Values

Whether or not a family business has a Constitution, one of the leader's first jobs must be to develop and clearly *articulate* its values—and that's not always an easy task. So here's a suggestion: Use the following phrases as a launch pad to start a discussion on Family Values.

- "Our most important priority as a family is..."
- "Our family has a responsibility to ensure..."
- "Our family legacy will be..."
- "Successful families always..."
- "When people talk about our family, they say..."
- "Our family is inspired by..."
- "Our family has been blessed with success because..."

I refer to this as the "inside-out" approach because it begins with internal family discussions and then looks outward.

The two following exercises take an "outward-in" approach instead; I've found them helpful too. In the first, family members interview people outside the family who know the family and its business. They could be non-family employees or people in the community who are asked to identify what they believe the family's values to be. The feedback is often surprising, giving family members some stimulating outside perspectives to consider and discuss.

A second approach is to invite family members to tell stories in a group setting. Each member relates a family-related story that he or she personally found memorable or impactful, and then discusses what he or she takes to be the value or the moral of that story. These approaches can produce more imaginative results than are often achieved by starting with efforts to identify the values.

Once the family has discussed and agreed on the values it wishes to emphasize, they can be formalized in writing as a Family Statement of Values, or a Family Creed.

Sample Family Values Statement

As a family, we value excellence, love, trust, respect and honour. We strive to:

- Act with integrity
- Promote self-esteem
- Teach "sense of family"
- Pursue the love of work
- Cherish individuality, independent thinking, and freedom of choice
- Encourage the participation and empowerment of every family member
- Commit to communication and resolution of conflicts
- Serve as responsible "role models" of productive and creative people
- Create wealth responsibly and confront the challenges of wealth
- Acknowledge excellence as a personal expression, with freedom to learn from mistakes
- Demonstrate pro-active compassion and generosity
- Focus energy on the enhancement of our community
- Create an environment for lifelong learning

All these we will pass on and teach from generation to generation.

Source: John L. Ward, Perpetuating The Family Business, Palgrave Macmillan, 2004, p.94

Once developed and articulated, these core values must be *modeled*—not just preached—in order to successfully pass them on to the next generations. Among the values I've seen most often as part of a family commitment are:

- Consistently setting a good example.
- Modeling and teaching:
  - » that responsibility accompanies privilege.
  - » the intrinsic value of work.
  - » generosity.
  - » that wealth is a privilege, not an entitlement.
  - » that we often learn more from our "failures" than our successes.
- Consistently encouraging, nurturing the confidence, and building the self-esteem of your children.
- Encouraging full participation in wealth transition discussions from all family members (including spouses).
- Mentoring family members, showing them that you believe they have potential, and showing them through your actions how they can become better.
- Displaying a commitment to philanthropy.

A family's wealth extends well beyond its financial resources— it includes its collective skills and competencies, intellectual capital and values, and a reputation for fairness and decency in its business and community relationships.

Thus, any meaningful discussion of family wealth must begin with the philosophical foundation on which it is built; that begins by creating a lasting legacy of values.

The idea of passing on a values system is fundamental for most successful business-owning families. For them, one of the reasons business ownership is worthwhile is that it affords an opportunity to instill values in the next generation. The business often becomes

Almost invariably, primary responsibility for identifying, instilling, and modeling these values lies with the family leader.

the concrete, real-world laboratory where the family's values are applied, tested, and proven. Integrity, perseverance, openness, respect and care for others, trust with customers and suppliers, and a belief in the entrepreneurial spirit are often included as components of the family's value statement.

Over time, family members become more committed as owners because the business is seen as being more than its product or service; standing for something that makes a difference to the family and often, to the larger community. Almost invariably, primary responsibility for identifying, instilling, and modeling these values lies with the family leader.

Habit #3

THEY ENCOURAGE EFFECTIVE, ONGOING COMMUNICATION

My experience tells me that effective, ongoing communication among family members is next in importance to strong, inspiring leadership. The perception by a family member of being left out of the loop, a misinterpreted tone of voice during a telephone conversation, failure to provide a family member with information that affects them in a timely manner—all of these can have disastrous results on the family dynamic.

In this section I'll discuss several recommendations to help ensure that timely, effective communication within the family is the rule, and not the exception.

A Family Wealth Mission Statement

Management consultant and author Stephen Covey is likely best known for his book entitled *The Seven Habits of Highly Effective People*. During his workshops, he often asks corporate clients to write a one-sentence answer to the question, "What is this organization's essential mission, and what is its strategy to accomplish it?" He then asks executives to read their answers aloud. Participants are often shocked at how much their answers differ from one another's, despite the fact that they all work together. Covey then helps them create a more unified mission statement.

One of Covey's other innovations has been to apply a similar process to families, and suggest that they create a family mission statement. "The goal," he wrote, "is to create a clear, concise, compelling vision of what you and your family are all about."

He said the family mission statement is like the flight plan of an airplane. "Good families—like airplanes—are off track about 90% of the time," he wrote. What makes them successful is that they have a clear destination in mind, and they have a flight plan to get them there. As a result, when they face the inevitable turbulence, they keep coming back to their plan. And Covey's idea captured something inherently true: *How can we ask or expect our children to uphold our family's values if we never articulate what those values are?* That's the real value of a family mission statement. By sitting every family member down (including spouses) and talking about what they believe in, families can articulate a common vision and define the values the family holds dear.

My experience in conducting such workshops leads me to make three suggestions regarding a Family Wealth Mission Statement:

- *One,* keep it short—never more than one page in length. The key is to make it clear and dramatic.
- *Two,* celebrate its drafting, and make it a special occasion. Go to a hotel, have a great dinner, or do something that's a big deal so you create a fond memory associated with the process.
- *Three,* ensure that everyone has a copy, and that there's a process in place to review it periodically.

Examples of Family Wealth Mission Statements

- Our mission is to strengthen our family and use its assets wisely; to enable our family and others to realize their fullest potential; to value and encourage love, work, self-sufficiency, and co-operation within the family and in the larger community.
- Our mission is to use our resources to strengthen our family and to support causes in which we believe.
- Our mission is to maximize the equitable transfer of family assets in a way that will enable and encourage the next generation to work for the benefit of humanity.

I believe that it's vital for the family leader (or leaders) to initiate this important project. The role of the family leader is one that tends to carry a lot of credibility and respect. As the Family Leader, it's quite likely that you've had a successful business or professional career, and that, whether enunciated or not, your attitude was likely one that signaled to others your belief that, "We can do this," or "We're going to get this done!" This same attitude must be signaled as a prelude to the development of a Family Wealth Mission Statement. If you're not fully committed to it, no one else will be.

Develop the Family's Communication Skills

The most successful business families make a significant commitment both in time and effort into improving their communication skills. The #1 topic at family meetings that have an educational focus is usually the subject of *listening skills.*

Effective listening is especially important for a family because it builds trust and a sense of mutual support. When members are good listeners, it makes others feel important and encourages their future active participation in family discussions.

The greatest obstacles to effective listening are the assumptions we have at the beginning of a meeting or discussion: "I know what you're going to say." "I can tell by your body language that...." "You always look at things negatively." And we can be quick to react, based on our assumptions, even before we hear the actual content of the other person's message, particularly if the other person is a younger sibling. As our listening skills improve, we become better at putting our assumptions on hold. As a result, we're better able to hear the essence of the speaker's message and to consider it within the discussion.

Another aspect of communication skills I find most successful business families developing are the *presentation skills* of its

members. When they're able to get their points across succinctly and powerfully, their ideas are more likely to be given greater weight than if they're presented in a muddled, ineffective manner. Improved presentation skills also have a positive impact on family, board, and foundation meetings.

Then there's a focus that many successful families are making to acquire skills in the areas of *mediation* and *conflict management* (see also pg 46). They want to learn how to resolve disputes quickly, creatively, and fairly, allowing them to get on with what they do best—run a business, without damaging important, long-term family relationships along the way.

There's a wide-range of resources available to assist families in developing any or all of these skills. And my experience is that the very best results occur when families learn these skills as a group, instead of sending just one or two members off to a course. When it's done together, common skills and a common language are developed and a mutual support system grows.

Finally, the wisest families know that getting communications training of any type isn't a one-time event; it's an ongoing process, with a refresher on some form of communications about every three years.

Education for In-Laws

Smart business families understand the importance of enlisting the support of in-laws as they join the family. In-laws who "buy in" to the family's values, traditions, programs, and processes can become invaluable assets. Conversely, those who feel ostracized, ignored, or taken for granted can cause untold damage to the family and the business.

There are three key areas to focus on when integrating in-laws into the family. First, the newcomer needs to be introduced to

the family's history, traditions and culture; this helps them understand how the family thinks. Second, they should learn the basics of the family's business: its main products or services, what makes it "tick," who's in charge, what the board of directors does, and in broad terms, how to read and interpret the financial statements. Third, they must learn how the family works—its processes, dynamics, and policies. All this assumes an ongoing involvement in family meetings, programs, and initiatives that are designed to provide ongoing education and skill enhancement.

The education provided for in-laws is generally informal, but it needs to be deliberate and well planned—orientation sessions are vital. Often a senior family member teams up with an in-law who's joined the family relatively recently (over the past five years or so) to help initiate the newest arrival. By involving a relatively new member, the newest arrival gets a sense of "I know what you're experiencing since I've only recently joined myself; I can help you learn the ropes." That approach can help the newest arrival feel comfortable more quickly.

The mentor or mentors should make it their business to take the newcomer on a tour of the operation, and to introduce them to the Board of Directors, if applicable, as well as to the administrative team: the lawyer, accountant, investment advisor, etc. Subsequently, each of these advisors might initiate discussions about how assets are typically invested, for example, or policies regarding dividend payments, family liquidity, and compensation. The mentor(s) also ensure that the in-law is included in seminars, workshops, meetings, or conferences involving family participation.

All these efforts are in recognition of the fact that new family members are, initially, likely to feel uncomfortable and unsure of themselves. They're probably very interested in learning about their new family and its business operations, but at the same

time feel shy and don't want to appear pushy or too inquisitive. So it's up to the family to take the initiative in helping integrate the newcomer as quickly and supportively as possible. The more accepted and supported they feel, the more they'll learn and the more quickly they can become actively involved in and supportive of the family and its business.

A Family Code of Conduct

Closely related to and often flowing from a Family Mission Statement is a Code of Conduct, which basically is an agreement that states how family members will treat one another, and how they'll conduct themselves in the world outside the family.

In a situation where a family had already developed a Family Constitution, a Code of Conduct would be an integral addition. In cases where no Family Constitution has yet been developed, a Code of Conduct would be an important document on its own.

One aspect of such a code usually relates to meetings, with statements such as "We start and end our meetings on time." "We will be prepared for and actively participate in family meetings." "We don't interrupt each other." As the codes are developed over time, they tend to broaden in scope, addressing such questions as, "What should our decision making process be? How will we handle disagreements? Will we handle our philanthropy anonymously or be open about it?"

Developing family codes can deliver several positive benefits. One is that it helps to increase the family's attention to and appreciation of the individual. In so doing, it helps show respect for the individual family member and protects one another's dignity and rights.

Another is that a code of conduct helps ensure that expected behavior is something agreed upon mutually, rather than imposed

by senior or more powerful family members. This issue can arise where siblings of different ages are working in the business, and the older sibling assumes that he or she can impose their will on younger siblings just because they're older and used to be able to do so when they were just kids. It empowers the family to take responsibility for its behavior.

Thirdly, a code of conduct makes a family much more conscious of the importance of effective communication, the lack of which has been identified as one of the greatest threats to family harmony, co-operation, and success.

Finally, a code of conduct provides an important safety valve for the family and its members. This is a crucial issue because family meetings (which are essential to the effective conduct of the family's business) can be emotional, stressful, and tiring. A code provides guidelines for more constructive and productive interactions, which are empowering when it leads to family members agreeing on the principles together.

Simple family codes may pledge that family members will respect one another, do what they say they'll do (thus building trust), be ethical, be transparent, contribute to society, and so on. The key though, is that like the Statement of Values, the Code of Conduct is the result of family members working together and coming to consensus on what it says.

The 5 C's: A Family Code of Conduct

1. Communication: Good communications are essential. We promise each and every family member an equal voice, irrespective of age. We don't need to vote. Those who are quiet are encouraged, even asked to comment. We've found those who remain quiet in a meeting are often in disagreement and will talk, away from the meeting, of their displeasure. We emphasize the importance of never closing channels, so therefore...

2. Criticism: Criticism must be constructive and intended to help the other person. We never want to "attack the person", only to discuss the concept. We find it better for uncles or elders to offer such criticism. But to be willing to accept criticism requires...

3. Commitment: We are committed to the family philosophy. Commitment requires that each family member have a comfortable living. We are committed to affording and encouraging the best education the person's talents permit. We are committed to caring for one who has needs. We have a special family fund for that purpose. So we feel deeply about...

4. Compassion: We seek to be compassionate to family members and to those who work for us. We respect older family

The 5 C's: A Family Code of Conduct

members. We give them love, time, and recognition. Sharing recognition is important because it means giving...

5. Credit: We want to be humble and share. We never let anyone, however brilliant, take all the credit. We also find ways in which the family—past and present—contributed to the success of any one individual. And when one feels he's achieved a great success, he's eager to share it with others.

Source: Modified from John L. Ward, Perpetuating The Family Business, Palgrave Macmillan, 2004, p.94

Develop Conflict Resolution Expertise

Many successful families are making serious efforts to acquire skills in the areas of mediation and conflict management. They want to learn how to resolve disputes quickly, creatively, and fairly, allowing them to get on with what they do best—run a business, without damaging important, long-term family relationships along the way. Increasingly, I'm seeing families engage professional mediators to help them learn and apply effective mediation techniques.

There are likely as many approaches to conflict resolution as there are people involved in situations of conflict. Here are two I know of that have worked effectively.

Two Conflict Resolution Approaches

1. The Amulet

   Four brothers in the Midwest inherited a large meat packing business thirty-five years ago. On his deathbed, their father said to them: "You are each inheriting a quarter of the shares of this business. Strive to reach consensus whenever you can. However, it is very likely that there will be times when the four of you cannot agree." He then produced a bolo tie with a silver and turquoise amulet that he kept under his pillow and said: "I will assign this amulet to one of you at random. In those instances when you can't reach consensus, the one of you who has the amulet should be given the right to have the last word." The father paused and then said: "There is a catch, however. Whenever the authority of the amulet is invoked to settle an issue, the one imposing his will on the others must forgo the amulet to another one of you, and wait his turn before he is eligible to have it again."

   The brothers adopted the system immediately and swear by it to this day. In thirty-five years, the amulet has gone around

twice and the brothers have managed to grow a highly successful, billion-dollar company. Among the many reasons why this system seems to work so well for them are these key ones: The brothers were able to evoke the father's memory and were willing to abide by his proposal and, from a practical standpoint, the system encourages the brother who wears the amulet to push for consensus unless he feels so strongly about an issue that he is willing to forgo his right to the last word on the next issue.

2. The Wise Swiss Gentleman
   Two Chilean brothers who inherited a sizeable family business from their father had been encouraged by him before his death to follow a simple procedure when they disagreed. The father had a trusted business associate living in Switzerland, a man of great experience and judgment. On those few occasions when the brothers disagreed on an important issue, they were to call the father's friend in Switzerland to mediate. They follow the procedure to this day. Each brother gets on the phone and argues their point of view. The Swiss gentleman, now in his eighties, then says: "Frederick is right," or "George is right on this one." The brothers abide by his ruling, and that ends the disagreement. Most importantly, they've called the father's friend only three times in thirty years of working together.

(These two examples are included in course materials developed by the Institute of Family Enterprise Advisors.)

Though these approaches have served the families involved well over the years, we know that they don't always. Where they don't, I'd suggest that it's important to have a defined process to rely on.

For many years now, the Harvard Negotiation Project has set the international standard in studying and teaching effective conflict

resolution methods. In their international bestseller, *Getting to Yes*, authors Roger Fisher and William Ury share their experience and expertise in the field. Their recommended approach can be used in almost any conflict situation, and includes four concepts:

- Separate the people from the problem.

We can sometimes forget that we're not dealing with "the other side" in conflict situations. We're dealing with human beings—just like us, who have emotions and deeply held values, and who are prone to blind spots and misperceptions—just like we are. We often, erroneously, deduce their intentions from our fears, and assume that they're the enemy.

A more effective way for the parties to see one another is as partners in a hard-headed, side-by-side search for a fair solution to a shared problem.

Separating the people from the problem isn't something you do once and forget about it; you must keep working at it. The basic approach is to deal with the people as human beings and with the problem on its merits.

- Focus on interests, not positions.

Illustrative of the point is the story of two men in a disagreement in a library. One wants the window open; the other insists it be closed. They bicker back and forth about how much to leave it open: a crack? half way? three-quarters of the way? Nothing satisfies them both.

The librarian arrives and asks the first guy why he wants the window open: "To get some fresh air." She asks the other why he wants it closed: "To avoid the draft." After a moment's thought,

she opens wide a window in the next room, thus bringing in fresh air without a draft.

This story is typical of many negotiations. Since the parties' problem appears to be a conflict of positions, and since their goal is to agree on a position, they naturally think and talk about positions—and in doing so, reach an impasse.

The librarian could not have invented the solution she did if she had focused only on the two men's stated positions of wanting the window open or closed. Instead, she looked to their underlying interests of fresh air and no draft. This difference between positions and interests is crucial.

- Invent options for mutual gain.

Because we often assume there's only a single answer to the problem, and because we often assume there's a fixed pie, we often end up in negotiations or conflict situations like the two children who quarreled over an orange. After they finally agreed to divide it in half, the first child took one half, ate the fruit, and threw the peel away. The other proceeded to throw away the fruit and use the peel from their half in baking a cake. Too often negotiations end up with half an orange for each side, instead of the whole fruit for one and the whole peel for the other.

Brainstorming options based on shared interests rather than positions is one way to invent options that might be mutually acceptable.

- Insist on using objective criteria.

This approach commits the parties to reach a solution based on principle, not pressure. The merits of the solution are key; not the

forcefulness of one party. This principled approach to conflict resolution produces wise agreements amicably and efficiently.

What are the objective criteria that should guide discussions? Fair standards based upon market value, precedent, professional standards, moral standards, and tradition are generally easy to agree to. So are fair procedures such as taking turns, drawing lots or letting someone else decide (as in the example of the Wise Swiss Gentleman above). Then there's always the age-old method to divide a piece of cake between two hungry people: one cuts and the other chooses.

We know that about 80% of the conflicts that arise in family businesses are interpersonal, the so-called "soft" issues. As a result, it's critical that family members master the tools and the processes best suited to resolve them. Effective conflict resolution skills are critical.

Habit #4

THEY DECIDE HOW TO DECIDE

Any family business will be faced with many decisions; some will be trivial and some will have "make-or-break" consequences. So, the question isn't whether there will be decisions. Rather, the question is, "How should those decisions best be made?" Some family members who understand the intricacies of an issue might be inclined to move to a decision more quickly than those who are still learning the facts and the available alternatives. This situation can cause tension and misunderstandings. Having a defined process where all the facts and options are gathered and presented, given time to be considered, absorbed, debated, and then acted upon will allow for a deliberate, smooth, open, and congenial transition from concept, to decision, to implementation.

The Three P's

Family businesses present a fundamental dilemma for the family, because there's the real potential that from time to time, what the *family* needs in order to be strong and healthy might conflict with what the *business* needs to be strong and healthy. My experience has lead me to develop the Three P's, which families have used successfully to reduce or avoid many of the frictions caused by this fundamental dilemma.

1. Create Policies Before They're Needed.
   There are two major benefits in doing so: First, issues can be addressed before they become personal and emotional, and can be addressed more dispassionately and rationally. Second, by creating policies before they are needed, the family begins to manage expectations and prepare family members for how things will work. For example, before the second generation is

ready to join the business, the family develops and commits to draft an employment policy that outlines the requirements for members who wish to join and move through the ranks of the company. And before the second generation enters the business, there's a written policy regarding compensation and performance appraisals. Before there's a serious relationship on the scene, senior family members have created a policy requiring prenuptial agreements to keep the business' assets within the family.

One family I advise has created the requirement that before he can join the family business, son Robert is required to earn a Master's degree and to work successfully outside the business for at least three years. And of course, the needs of the business take precedence over Robert's timetable, so if he decides he'd like to join the business, he'll have to wait until a suitable opening occurs. Another family has a retirement policy in place requiring that the President relinquish her role at age 65.

By being proactive and anticipating future needs, the family is able to be more objective than it could if forced to make a decision in the heat of the moment. Using this approach, many potential sources of conflict, which the family would prefer to avoid, can be avoided.

2. A Sense of Purpose

"Why are we doing this? Why are we working such long hours? Why are we spending so much time to develop processes? Why are we exerting such effort to prepare the business to be taken over by our children?" These are questions I hear clients asking themselves a lot.

In order for it all to make sense, families must discuss and decide *why* they're doing what they're doing. They need to

have a clear sense of the over-arching purpose that makes continuing the family business worth the challenges that inevitably come with it. Without this “big picture” commitment, family enterprises will almost inevitably fail.

Oftentimes, the family’s Mission Statement or Statement of Values will provide this sense of purpose, but if not, it must be clearly stated in a different format (most appropriately in a comprehensive Family Constitution). For more than almost anything else, it’s what will see a family business through—generation after generation.

3. Process is Paramount; Product Follows.

   We sometimes tend to focus on the products, or outcomes of our plans. We wonder, “Do we have the right policies in place related to employment, family code, education, retirement, mission?” and so on.

   Having policies in place is vital, but the truth is that it’s impossible to anticipate in advance every policy that will be necessary. Inevitably, the day will come when the family is faced with an important issue to resolve, for which no policy has yet been developed. The family’s ability to deal with that surprise will depend on its communication skills, problem solving abilities, capacity to reach consensus and develop win-win solutions, and to collaborate effectively…often under conditions of extreme pressure.

   So, “process” is the approach the family takes when thinking, meeting, and discussing the issue which must be addressed, and for which no current policy applies.

   When the family engages in policymaking, it is bringing members together saying, “Let’s discuss and agree on how

we're going to make the best decision or resolve a problem whenever required." The more times a family does that (perhaps with professional assistance), the more it develops the critical skills of listening, communicating, collaborating, and making good decisions together; that's what's really important. That's also why, even though a policy or practice may be working well, it's useful to go through the process of reviewing it every few years. Doing so allows the process to provide the advantages it does, over and over again.

And while the product is undoubtedly important, remember that the *process* you go through is likely more important than the product or results you come up with. It's the skills sharpened in the process of working together as family that count. By discussing, considering options, learning together and, yes, struggling and arguing together, family members learn how to draw out the best of each other, come to know each other better, become more tolerant of one another, and learn how to come to consensus as a group.

A Merit-Based Enterprise

A guiding principle for a successful family enterprise must be that merit plays a critical role in determining who's qualified for employment and promotion, how people are compensated, how a successor will be chosen, who'll be included on committees, and so on. Privileges must be earned, competence respected and valued, and paternalism discouraged.

At the same time, policies must be in place that recognize and support the concept of merit in the family, and the sooner they're established, the less likely the chance of the ne'er-do-well, out of work uncle or cousin being hired.

Insistence on this principle is in the very best interests of the family and the business. Caring parents don't put their children in the position of knowing they were hired because they're the owner's children, rather than on merit. In such an event, the children will then be uncertain as to whether they're indeed capable of handling the job, and will be deprived of the valuable opportunity of proving themselves, and developing the self-confidence that comes from meeting challenging and objective criteria.

Further, if the family doesn't consistently operate a merit-based enterprise, the family members most likely to enter the firm will be the least competent, while the most competent members will be inclined to seek out challenging merit-based opportunities where they know they can shine. If they see that the family business isn't run professionally, they'll know that if they join it, they run the risk of being forced to "carry" less competent family members, and constantly feel the pressure of having to make the business successful in spite of them. That approach makes absolutely no sense.

In this context, the most successful families we advise will start any of their children joining the firm at, or near the bottom, rather than in an executive position. This allows young family members to learn what it's like to do the work associated with lower paying jobs, to learn a variety of aspects of the business, and to consider which of those aspects they find most interesting and appealing.

Family Philanthropy

Sooner or later in their development, most families show an increased interest in philanthropy. Almost invariably, this is a part of their fundamental value system, one which says it's important to give back to the community or society which helped them achieve long-term business success.

Some families provide education to family members so they can become more effective in their philanthropic activities as individuals. Other families encourage and facilitate development of foundations by branches of the family, or focus on philanthropic activities by contributing to already-existing foundations in their home communities.

Creating a foundation or contributing in some other form of philanthropy brings several benefits to the family as well as to the community, and society at large. For one, it creates more opportunities for family members to associate with other members of the family at large, further strengthening family ties. It also affords the opportunity to acknowledge, appreciate and respond to the family's good fortune. I've noticed too, that families who actively engage in philanthropy often seem to raise children who are less spoiled by their wealth, who feel less "entitled" than some others, and have a better likelihood of becoming grounded, responsible business owners.

Charitable Giving Promotes Growth and Learning

- Develops leadership skills.
- Encourages group decision making.
- Family can resolve differences in a mature way.
- Avoids overindulgence.
- Family can discover how to make a difference in the lives of others.

Habit #5

THEY DEVELOP SOUND GOVERNANCE

Successful families understand that companies and families don't operate effectively without rules that are fair and equitable for everyone, and which give everyone an opportunity to be heard on matters that affect them. Family councils, assemblies, and meetings are normal components of the governance structure of the most successful families.

What is Family Governance?

It's a system of policies, structures, processes, and shared values designed to ensure direction, control, and accountability of the enterprise, as well as the unity and commitment of its owners.

People support what they create, so it's vital that members of the family enterprise contribute to its governance.

What Does it Look Like Without Governance?

- Exclusion and secrecy create divisions.
- An attitude of "divide and conquer."
- Lack of accountability.
- Assumptions and rumors run amok.
- Bribery.
- Procrastination.
- Selective amnesia.
- Nepotism.
- Confusion and chaos.

My experience convinces me that some form of family structure is essential to the continuity of the family enterprise. Whereas the structures related to ownership (Board of Directors) and management (CEO/President), are generally well-defined and understood, those related to the business of the family are less so. Again, I note the importance of creating a Family Constitution—the document that incorporates governance issues related to all three circles.

Family Council

An excellent forum for discussing and guiding the business of the family is the Family Council.

Why a Family Council?

- Creates a space for family decision-making.
- Creates a space for family education.
- Creates opportunities for and encourages family members to participate and lead outside the confines of the business.
- Fosters communication and discussion.
- Develops and strengthens family ties.
- Envisions an active future and creates mechanisms for change.

Responsibilities of the Family Council

Meaning and Purpose:

- Identify family mission and vision.
- Promote core values and principles.
- Create meaningful family experiences.
- Guide family philanthropy.
- Encourage a sense of family history.
- Initiate ceremonies and foster traditions.
- Create opportunities for family involvement and contributions.

Education and Development:

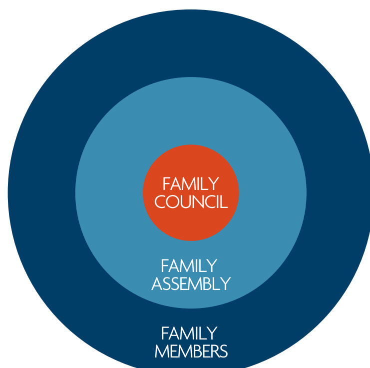
- Build interpersonal skills and competence.
- Encourage understanding of and leadership in the business and in philanthropy.
- Initiate programs for personal development and mentoring.
- Offer family life and parenting training.
- Cultivate social and professional networks.

Leadership and Decision-Making:

- Initiate and develop decision-making processes for the family.
- Create policies for family succession, code of behavior, hiring and promotion and others as necessary.

Family Assembly

The Family Assembly typically includes all family members who are above a certain age. The Assembly provides an opportunity for members to learn about the family enterprise and a platform for connecting with other family members. Its members discuss issues and exchange views related to the family, the business, and its ownership. The Family Assembly is responsible for electing members of the Family Council and typically meets once or twice a year.



Council of Elders/Heritage Owners

In larger families (those numbering 40, 50 or more), the most successful create Heritage Owners (or a Council of Elders) who act as mentors or coaches with the goal of ensuring that individual family members receive the attention, support, or assistance they might need in order to develop to their maximum potential.

The Importance of Family Meetings

The most successful families I know recognize the importance of holding family meetings, usually once to three times a year. Distinct from business-oriented meetings, these meetings focus on matters that are important to the family. These include: discussions around the family's mission, planning for the future, the education and development of family members both younger and older, and exploring philanthropic possibilities. They also offer opportunities for integrating newly-acquired in-laws, sharing stories and experiences, getting caught up with family members who live in other parts of the country or the world, as well, of course for having some good old-fashioned fun. The highlight of most Family Meetings is when the family leader takes the podium and shares stories about the origins of the company, about successes and challenges the family has faced over the years, and some recent business or family highlights.

They should be designed to encourage the attendance of as many members as possible, so they must have interesting agendas, perhaps including outside speakers that would be of interest. Attractive settings can also serve to encourage large attendance; perhaps a warm weather locale during the winter months with a variety of activities that families can enjoy during free time, such as swimming, hiking, golf, or biking.

A note of caution: While organizers might consider combining

a family meeting with a family business meeting, perhaps out of budget considerations or a wish to "kill two birds with one stone," I'd urge that this be avoided. Here's why: business meetings can sometimes give rise to periods of acrimony, conflict, and heightened tension among family members, with the result being that the joy and happiness are sucked out of the entire event. Family meetings are intended as fun times; don't do anything that could jeopardize the fun aspects.

Why Family Meetings?

- To ensure family members talk and listen to each other.
- To share family stories and history.
- To identify shared family values.
- To provide opportunities for dialogue on family members' goals, ideas, and perspectives.
- To plan for the future.
- To educate.
- To build decision-making skills.
- To identify possible conflicts early, and resolve them before they escalate.

Allow for Graceful Withdrawal

In most family enterprises, there's a tendency to attempt to protect the business by making it difficult, both technically and psychologically, for family members to sell their shares. On the technical side, shares may be assigned artificially low prices and payouts may be stretched over long periods. Psychologically, the selling member may be made to feel as if they're abandoning the family, or being abandoned by it—no more invitations to family events, or meetings.

The rationale for this misguided approach is generally that by discouraging stock sales, the business won't have to come up with

the money to purchase the stock, and so the money will remain available for future expansion.

My experience with the most successful families however, is that they often take just the opposite approach to the sale of stock. They make it easy to sell, and for several good reasons. For one, they realize that in the long run, it's probably more manageable to have fewer owners. Second, they understand that if they make it difficult to sell, they'll not only have a larger number of owners, but that some of them are likely to be disgruntled and inclined to be negative influences. This can lead not only to internal family strife, but also to the possibility of litigation and the attendant bad publicity. Third, forward-looking families appreciate that if someone wants out, it's likely to be less expensive to buy them out today than it will be to do so a few years down the road when share value has increased.

As well as facilitating a desired stock sale, successful families do so gracefully, separating a business decision from any possible future family retribution. The sellers are not made to feel as though they've abandoned the family; nor are they made to feel as if the family will abandon them. Ironically too, families who take this approach almost invariably report that the sellers are less aggressive in their negotiations. Further, they report that those who wish to sell often prove to be the type who will not be good long-term team members or contented owners.

As part of easing stock liquidity, these forward-looking families sometimes even pay a 10% to 20% premium on the stock's value in order to make it more attractive for someone to leave, fully confident that the stock value will continue to grow, in the belief that a potentially disruptive influence has been removed.

And this brings me back to the point made earlier about the

importance of creating policies to address important issues like these, and to do so before the need arises. But equally important, the family needs to maintain and display a positive, supportive attitude towards those who choose to sell stock, allowing them to do so easily, at a fair price, and in an atmosphere of goodwill. Remember, the goal is to concentrate ownership of the enterprise in the hands of those capable of, and committed, to moving it forward.

Transparency About Retirement

Sooner than later, the family needs to have a retirement policy in place. When the business leader doesn't attach a retirement date to their succession plan, they may be inclined to adopt a perpetually rolling five-year plan. At 60 years of age, for example, he announces that he'll be retiring in five years, and will turn things over to his successor. Five years later, at age 65 he says, "Well, we didn't get everything done I'd wanted to in order to prepare for the transition, so I'll go when I'm 70." What he really means is that he'll go at 70—if everything gets done that he decides needs to be done (whatever that is) in order for him to retire at that time. It's a vague, open-ended scenario that's open to all kinds of interpretation, it can lead to frustration on the part of the successor and uncertainty and dysfunction within the enterprise.

It's far better to have a clear, firmly-stated policy that includes a mandatory retirement age. But note that there's no magic or ideal retirement age; that's a decision that must be made by each family based on its circumstances. What's more important is the clarity of the policy.

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that there's no magic or ideal retirement age; that's a decision that must be made by each family based on its circumstances. What's more important is the clarity of the policy.

There are several good reasons for adopting a firm, clear policy on this matter. A mandatory retirement age creates growth opportunities for others in the organization, both family members and others. In a company where people can hold executive positions until they die, there's very little opportunity for future growth or upward mobility. But when there's a set age for retirement, younger people can see future possibilities for themselves, and employment by the company becomes more desirable to talented outsiders.

A set retirement age also forces the succession planning process in a family business. When the business leader knows that they must retire in five years, for example, they're forced to consider future scenarios, company structures, management responsibilities, and successor training. With no specific retirement date on the horizon, there's less pressure to address these vital issues.

In addition to establishing a specific date or age for retirement, there's another important consideration to be addressed simultaneously; the matter of transfer of control. Senior leadership must pass three things to the next generation: *responsibility, authority, and ownership*. One expert puts it this way: "If you as the incumbent CEO pass on only the *responsibility*, you are essentially saying, 'I'll be the CEO, but you do the job.' If you pass along *authority*, you're saying, 'You're the CEO. You do the job. But really, I'm in control and I can change my mind any time I want.' No succession is complete until ownership control has transferred to the successor generation."[1]

1. p. 50 J.L. Ward, Perpetuating the Family Business.

Habit #6

THEY DEVELOP AND MENTOR SUCCESSORS

Successful families, like successful business leaders, understand that one of their primary responsibilities is to mentor and prepare the next generation of leaders. Proactive mentoring activities address the challenges of a lack of communication and trust, as well as the lack of adequate preparation being given to the next generation, both of which bedevil families as they struggle to successfully transition leadership from one generation to the next.

Provide Education for the Next Generation

In the early days of the family business, the owner-manager lives and breathes the business, and the children are often exposed to it from an early age. Often they're interested and enthusiastic about getting involved in it, and in many cases they visit and perhaps even work in it in some capacity, perhaps on weekends or during summer vacations. Often too, the expectation is that they'll join the business as adults.

In the next phase of the business' growth though, now that those dabbling children are working in or running it along with their siblings (G2), they may wish to avoid appearing to pressure their children (G3) into joining the firm; some may even discourage them altogether.

Also, by this time, it's possible that some family members don't live in the city where the business is located, and get no exposure to it. Others simply may not be interested in working in the business, instead preferring to pursue other callings.

But despite geography or a lack of interest, these family members may nonetheless become owners of the business. And you want

them to be proud and interested owners, who understand the business' history and the contribution it's made to the family, the community where it's based, and perhaps, society at large. You can help them do so by giving them a taste of the business, beginning as early as age 8 or 9 in thoughtful, positive, and educational ways.

One of my favorite examples is the family that owns an amusement park. Each spring, before it opens to the public, they take the youngest generation on a preview tour, trying the new rides and viewing the year's new television commercials.

When the kids reach perhaps 14–16 they begin to do paid work for the company—work like cleaning up the park, painting posts, or helping unload new merchandise. In time, they'll able to regale their kids with stories of how hard they were made to work—for minimum wage. They can also be taught skills that are important to the family in the successful management of its business; things like the interpersonal skills of active listening and effective communication, customer care and service, punctuality, and reliability.

Educating kids about the family business isn't the same as pressuring them to join it. Positive exposure encourages pride in the business they may own one day, even if they never work in it. By providing these opportunities (and not sheltering them from it), you give them the freedom to choose their own future after learning enough about the business to make an informed decision about whether to join or not. And ironically, the earlier the exposure they receive, and the less pressure they feel, the more likely they are to decide to come aboard.

The Family Development Initiative

I've previously discussed the importance of improving the communication skills of family members as a means of enhancing

interactions, reaching consensus, and making good decisions. In this section I want to develop that idea further, proposing that the family commit time and resources to supporting personal growth and development initiatives for its members.

One of my client families regularly provides *special education events* for its members. They do this by inviting expert speakers, authors, newsmakers, and politicians to make presentations at family meetings. Topics have included how technology is changing society, the challenges posed by an aging population, opportunities in philanthropy, and so on. Another family regularly invites outstanding motivational or inspirational speakers, often selecting them with a view to appealing to its younger members.

Another area for consideration relates to ways of celebrating *family history, culture, and values.* Grandparents in one family have formed a group and run programs for children whose ages range from about 6 to 12. One program involves discussion of the family tree, complemented by photos and stories about how their ancestors came to this country, and how the family business began. Another family runs a similar program, and includes members new to the family, like in-laws and spouses.

In larger families, those numbering 40, 50, or more, the most successful create Heritage Owners or a Council of Elders who act as mentors or coaches with the goal of ensuring that individual family members receive attention, support, or assistance in order to ensure that they develop to their maximum potential.

Some families have initiatives designed to help members be successful in the business, for their sake, and for the sake of the business. These initiatives take the form of a formal or informal program involving career counseling, vocational aptitude testing

and coaching, or mentoring for young people who are considering careers within the family business. Some provide these services to family members regardless of whether or not they plan to join the business, in some cases helping them find the path in life that's right for them.

The smartest business families I know understand that their businesses will be best served when they attract the best-suited family members. They also understand that when family members are happy outside of the business, they're likely to be supportive of the family and its business too.

Family Leadership and Succession

In the earlier stages of the family business' growth, it's typical that the leader of the business is also the family leader. But as the business matures, and if the leadership is the same, the message could be taken that whatever the family is doing—be it having a reunion, a retreat, a family picnic or a meeting—it's all being done to promote and protect the business. But that's not the point of family leadership. So in a longer-term family enterprise, leadership roles are often split.

That split acknowledges that the family may well want to have a reunion, a retreat, or a meeting that has nothing to do with the business, and that it would be held whether the family owned a business or not. The family leader's role then is to nurture the family spirit and ensure that the joys and challenges associated with family are not overshadowed and swallowed up by the demands of the business.

And so there needs to be as much attention paid to family leadership succession as there is to business succession. In most cases, the family leader is a voluntary, unpaid role. But I know of one situation where the family leader is paid the same amount as the

business leader. In so doing, the family is sending a very powerful message about the value they attach to the role of family leader.

There are different skills required of a family leader than may be most valuable to the business leader.

The Family Leader needs to be seen as interested in all aspects of the family dynamic; their leadership skills come from different areas, often in a volunteer organization. I've also seen a trend to family leadership being assumed by a group—perhaps of older aunts or uncles who've worked in the business—or by Elders or Heritage Owners. Truth be told though, the family leadership role can be filled by anyone who has the uncanny ability to "herd cats," and bring cohesion and loving care to a relatively large, geographically diverse, and multi-aged organization. The key thing to remember is how important the family side of things is to a thriving, long-term family enterprise, and to plan as effectively for family leadership succession as is done for business succession.

Be a Good Role Model

An often-overlooked aspect of creating successful family businesses is the importance of proactive parenting, or being a good role model. It's almost impossible to overestimate how much good parenting affects the future of the family and its business. Ironically, I see many examples of adults working so hard in the business that they badly neglect this key responsibility.

Much of the proactive parenting or role modeling takes place in family meetings that have an educational purpose. All the skills and values that are important to the family, including the heightened ability to communicate effectively, to think beyond your own interests, to make well-reasoned decisions and the goal of seeking fairness and justice for others—these are the skills and values that children learn best by seeing them practiced and

applied in their own family. Those matriarchs and patriarchs who recognize the value and importance of preparing their successors for the transition, and who are proactive in taking steps to ensure their preparation, are the parents whose families are most likely to achieve a comparatively smooth and successful transition.

Second you need to model—not just preach—core values, in order to successfully pass them on to the next generations.

If you want your children to flourish and become productive adults (and that is, after all, the goal of any caring parent), you need to commit to two major responsibilities. First, you need to give them what all kids need: plenty of love and plenty of your time, definite limits, realistic expectations, and strongly fostered self-esteem. And you need to know and nurture each child's unique qualities.

Second you need to model—not just preach—core values, in order to successfully pass them on to the next generations. I believe that the necessary core values include the following:

- Consistently setting a good example.
- Modeling and teaching:
    - » that responsibility accompanies privilege.
    - » the intrinsic value of work.
    - » generosity.
    - » that wealth is a privilege, not an entitlement.
    - » that we often learn more from our "failures" than our successes.
- Consistently encouraging, nurturing the confidence, and building the self-esteem of your children.
- Encouraging full participation in wealth transition discussions from all family members (including spouses).

- Mentoring family members, showing them that you believe they have potential and showing them through your actions, how they can become better.

Help Children to be Productive

"Happiness requires four things: Having something to do, having someone to love, having something to look forward to, and having something to believe in."
—Lou Holz, Philosopher and former Head Football Coach at Notre Dame

Here are a couple of sure-fire approaches to helping children be productive:

A) Being Productive Builds Confidence

Let's face it, wealthy kids are much more likely to be sheltered and overprotected than other kids, but those who haven't learned to deal with daily life are, in their own way, as handicapped as the children of the poor. Rich kids are often given the advantages of music lessons, dancing classes, private schools, one-on-one coaching in various sports, travel and summers at the beach or in Europe. But these same kids lack grounding in many of the practical skills that others learn because they have to: cooking, cleaning, doing laundry, changing a tire, and sewing a button. Children develop great confidence when they know that when something is broken or doesn't work, they can fix it. Helping to develop a child's competence and self-confidence is one of the greatest gifts a parent can provide a child.

But before I get too deeply into the rationale for parents' expecting that their kids will find ways to be productive, let's step back for a moment and consider what it fundamentally is that caring, nurturing parents are trying to achieve as they raise their

> **...what you're trying to do is create responsible, self-reliant, creative people. Self-reliant meaning that they can take care of themselves. Responsible meaning that they're accountable for their own actions. And creative, meaning they come up with their own dreams, and set out to achieve them.**

children. Bruce Feiler, the author of *The Secrets of Happy Families* surely has it right. He describes it this way: "...what you're trying to do is create responsible, self-reliant, creative people. Self-reliant meaning that they can take care of themselves. Responsible meaning that they're accountable for their own actions. And creative, meaning they come up with their own dreams, and set out to achieve them." (p. 109) So the question becomes, "Is there a greater likelihood that the heir will become responsible, self-reliant, and creative by working or not working?"

According to the research, and based on my own experience, not needing to be productive is likely the toughest challenge facing young inheritors. Many get stuck there, and never take the step forward into true self-reliance. In fact, many young heirs stumble when a large amount of money lands in their lap before they prove that they actually *can* support themselves. The fear that they may actually not be able to do so can morph into debilitating, terrifying paralysis. You see, in order for young people to becoming fully-functioning adults (i.e., self-reliant, responsible, and creative) they need to know that they're able to take care of themselves; that they can stand on their own two feet. The experience of seeking and finding a job, getting paid and living on earned income is not only an important life passage, but also one that builds confidence and self-esteem, and one for which there is no substitute.

Insisting that wealthy children find their own work can offer another advantage, too. One of the biggest mistakes made by wealthy parents is being overprotective of their children. While it's understandable that we wish to protect our kids from the "rawness" of life, the truth is that we usually learn more from our mistakes or failures than we do from our successes. The workplace is a great laboratory for both success and failure, and young adults should be afforded the opportunity to experience both. Protecting them from the possibility of failure is *not* doing them a favour. They *must* learn by doing. So, reinforce the idea that they're to become self-reliant and productive, that they're expected to make a difference in the world, and that they're to create something special. Encourage them to experience "the thrill of victory and the agony of defeat." And of course, if you're walking the walk, as you've no doubt done on your road to affluence, they'll get that message too.

What are some of the other reasons for making it clear that you expect your heirs to be productive? For one, there's the discipline that's required and developed through having to turn up at a job on time every day, to meet someone else's expectations, and to deliver projects and tasks on time...in short, to be a responsible, contributing member of a team. These contributions in turn provide experience in the real world, experience that will become invaluable later on as greater and greater responsibility is assumed and the heir's career develops. This discipline and experience in turn can help the heir find fulfilling work, their passion, even their true purpose in life. By expecting your heirs to do all of the above, you are helping them experience one of life's greatest achievements; the excitement of "becoming," the process by which a person becomes a fully developed person, and by which an artist becomes an artist.

To start miles ahead of everyone else might sound wonderful, but not understanding the work and effort it takes to get there

does a disservice to children young and old. Depriving them of the opportunity to learn, “Hey, I can do that,” is just wrong. Money that’s just doled out, removing the need to work, robs people of the excitement of “becoming”; money without purpose is soul sapping. Children separate from parents by going out into the world and proving that they can earn their own way. Not having to do that perpetuates an “eternal adolescence,” and a never-ending emotional dependency. And by the way, it’s also a good idea for parents to emphasize that wealth is subject to evaporation, sometimes very quickly, so on a very practical level heirs should have a career to fall back on. It’s for all of these reasons that family leaders should insist that their heirs be productive and find meaningful work, as in doing so, they become better leaders in turn.

Money that’s just doled out, removing the need to work, robs people of the excitement of “becoming”; money without purpose is soul sapping.

B) Work and Inheritance: Not Mutually Exclusive

While growing numbers of matriarchs, patriarchs and family leaders are open to the idea of expecting their heirs to find or create productive work, many plan to leave them an inheritance as well. This raises the questions, “How much?” and “When?”

Let’s explore some of the traditional perspectives on these questions.

In their groundbreaking book *The Millionaire Next Door,* authors Stanley and Danko state their conclusions succinctly. People become wealthy through hard work, by living a frugal lifestyle, and by plowing their profits back into the business, the stock market, or real estate. They have little time for rich kids who receive substantial cash or other financial gifts until they’re in their late 40s,

or even early 50s. They invented the phrase *Economic Outpatient Care (EOC)* to describe these financial gifts that wealthy parents give their adult children and grandchildren, and they consider such EOC to be a mistake. They're okay with the provision of some cash from time to time (for tuition, to invest in or to start a business, or to help purchase a house) to help get them going, but on the assumption that money won't be needed or given again. They believe that, generally, adult children who sit around waiting for the next EOC cheque aren't very productive; they don't have to be. And they argue that too much "help" can ruin an heir's work ethic, encouraging idleness and self-absorption.

Clearly, there are plenty of examples of exactly what Stanley and Danko describe. But we've seen several situations where an early financial gift has been used to invest in education, start a business, or help a special-needs child with no expectation of further assistance. When properly prepared, the likelihood of an adult heir being "ruined" by such a gift is diminished, but by no means eliminated. Remember, there's a 70% failure rate in the transfer of wealth from one generation to the next.

> **the right amount to give to children is *"enough money so that they would feel they could do anything, but not so much that they could do nothing."***

Billionaire investor and philanthropist Warren Buffett expresses a different view. He's been quoted as saying he believes the right amount to give to children is *"enough money so that they would feel they could do anything, but not so much that they could do nothing."* [1] It's a lovely phrase, the intent of which is to make children wait for the bulk of their inheritance, so that they're forced to

1. Fortune Magazine, September 29, 1986, p. 18. Richard Kirkland, Jr., *Should You Leave it to the Children?*

work. Perhaps the amount designed to make them "feel they could do anything" would be used for educational purposes, for training in a specific area of interest, to fund a non-profit, or to invest in or start a business. His point is that wealthy parents should fund children to a level that gives them freedom to decide *what* to do, while forcing them to do *something.*

A third perspective on the questions of "How much?" and "When?" suggests that heirs be given enough that they don't have to work, but with the expectation that they *will* if they wish to continue to live in the manner to which they've become accustomed. This approach implies a somewhat broader definition of "work" than the others. It suggests finding a purpose, a passion, a calling...something that might not necessarily pay all the bills. Maybe it's a commitment to caring for children, to community service, or to the arts. This approach might be perceived as being more value-driven than others discussed above, and would provide a golden opportunity for parents to have a value-based discussion with their children before deciding on a course of action.

Then there's the more traditional (some would say "old fashioned") idea, which posits that the heirs get nothing at all when they're young. They're therefore forced to work, and to wait, for an extended period of time—or until the death of the patriarch. This position is rooted in the Calvinist tradition that places a heavy emphasis on the ethic of hard work, frugality, and not making things too easy for the younger generation. While this option does require that the heirs work, it has some risks attached. One is that if an heir somehow came to believe that they might inherit early, and were then informed that they'd have to wait "a long time" or that they'd inherit "some day" (whatever either of these phrases actually mean), it could lead to feelings of resentment or betrayal on the part of the heirs towards their parents.

Perhaps more importantly, this approach implies a perpetuation of the "we don't talk about money in this family" syndrome, which as we have seen is one of the major factors contributing to the 70% failure rate on the transfer of wealth from one generation to the next.

Habit #7

THEY TAKE STEPS TO ENSURE BUSINESS CONTINUITY

Exit planning is not the same as estate planning…though both are necessary.

Exit planning and estate planning are inseparable for business owners. But few estate-planning advisors are trained exit planners, and few exit-planning advisors are well informed regarding estate planning. As a result, large gaps can be left in owners' estate planning *and* exit planning.

Typically, when owners think of business continuity, they think primarily of ensuring that their families will be protected in the event of their death or permanent disability. Thus in most cases, any discussion of how an owner's death will affect his or her family is left to the estate planners. But estate planning isn't enough, because if advisors sit back while owners engage in estate planning without a clear focus on their business exit goals—and what it takes to achieve them—their estate plans will likely fail, and some will fail miserably. Exit planning and estate planning are inseparable for business owners. But few estate-planning advisors are trained exit planners, and few exit-planning advisors are well informed regarding estate planning. As a result, large gaps can be left in owners' estate planning *and* exit planning.

Consider the case of Clint Harkness, a fictional business owner:

After months of conversations, Clint Harkness' insurance advisor finally convinced him to put together an estate plan. Clint was married, had two young children, and owned a thriving general construction company. He had a couple of key employees who managed all the business' projects.

As part of the discussion, the estate planner suggested to Clint that he consider doing something to ensure that his two key people would stay with the company for the long haul. Clint waved his hand dismissively and said, "I don't have to worry about them leaving. I pay them plenty." That was the end of the discussion regarding any exit plan for his business; he assumed the business would carry on and the key employees would remain in his employ.

And then one day, two months later after signing his will, powers of attorney, and related documents, as Clint bent over to unbuckle his ski boots, he dropped dead. "Fortunately," thought the insurance advisor and the estate planner, "at least his estate plan is in good shape." But three months after Clint's death, both his business and his estate were bankrupt.

Here's what happened. Shortly after Clint's death, his two key employees realized that the business could not survive without him. They felt badly for Clint's family, but they decided that their first responsibility was to their own families. They quickly found jobs with new employers who had contacted them shortly after Clint's death. Without their supervision, the projects the company had underway faltered. Lack of progress put the construction contracts into default, and the bond company eventually foreclosed on the company's assets. The bond company then successfully filed suit against Clint's estate for the bond default.

Clint's estate plan worked insofar as it properly transferred his estate at death to the intended beneficiaries. The problem was that there was nothing to transfer. The business and the value of Clint's estate had evaporated.

Business continuity is a means of handling a variety of transfer events and consequences that impact the business and the remaining (or new) owner when the original owner leaves. It's about preserving and protecting the business should its most important asset, its owner, die or otherwise become incapable of continuing in the company.

Four Vital Issues

While ownership succession is the most obvious problem facing the company in this situation, it's only one of four vital issues:

1. Ensuring continuity of business ownership.
2. Loss of financial resources—corporate and personal.
3. Loss of key talent—you, the owner.
4. Loss of employees and customers.

In this section, we'll examine how each of these problems affects both sole-owner and multi-owner companies, and we'll examine solutions for each problem.

The Problems

Problem #1 Ensuring continuity of business ownership

In a *solely owned* company, continuity of business ownership is **the** critical issue. In fact, there's no continuity unless you take steps now to create a future ownership group or owner.

In a *multi-owner company,* continuity of ownership is not an issue when a funded (with life, disability, or critical illness

insurance) buy/sell or business continuity agreement has been implemented. The problem is that most owners (and their advisors) fail to keep their buy/sell agreements up-to-date and, as a result, those agreements often create more problems than they resolve.

Problem #2 Loss of financial resources—corporate and personal

Sole owners typically give little thought to the loss of financial resources (represented by the owner and his financial statement) used for the benefit of the company. Without a replacement for that financial strength though, the business may not survive, despite a plan in place for continuity of ownership. Further, an owner's sudden death or incapacity may cause other stakeholders to review or discontinue their relationship with the business.

For example, if you've personally guaranteed the company's line of credit or permanent financing, your sudden death or departure will cause the bank to reconsider its lending relationship with your company. (Remember, this was our family's situation when my father passed away, and the bank called our construction loans.) And if you lease space or equipment, it's likely that you personally guaranteed that lease. While the lessor may be unable to do anything to terminate the lease (provided payments stay current), he's unlikely to renew the lease without the successor owner's guarantee backed by personal assets.

In a *multi-owner company,* if you as an owner are a principal source for financial funding (such as bond guarantees, line of credit guarantees, etc.), your death can put enormous pressure on the business to perform, or face the risk of third parties refusing to lend or make guarantees on behalf of the company.

Problem #3 Loss of key talent—you, the owner

As a s*ole owner,* your death likely has the same impact upon your business as does the loss of any key person. Your talents, experience, relationships with customers, employees, and vendors may be difficult to replace, especially in the short term. This was certainly the case in Clint's example. Without planning, few businesses have the financial resources or successor management to weather this storm.

Multi-owner companies seem to avoid many of the problems endemic to single-owner companies. But as it relates to the loss of key talent, this is only true if surviving owners can readily compensate for your loss. To the company, your death is the same as the loss of a key person. If the remaining owners do not have your experience or talents, the business suffers as sorely as if it had been solely owned. Unless there's a key employee (co-owner or not) to fill the void, the business is wounded, perhaps mortally upon the death of the co-owner who was the marketing guru on whom other owners relied to provide new clients, oversee the operations of the company, or maintain most of the industry, customer, and other key relationships.

Problem #4 Loss of employees and customers

A common and natural consequence of a *sole owner's* death is the speedy emigration of employees and customers, unless an existing continuation plan is implemented immediately. Without such a plan, the key and non-key employees will wonder where their next paychecks are coming from. Typically, they leave for greener and more secure pastures. When the workforce leaves, contracts can't be completed and are breached, work is unperformed and creditors call in their paper. The resulting losses often require payment by the owner's estate, as was true in Clint's case.

Companies with *multiple owners* must cope with the normal retirement of their owners. In most cases, retirement imposes a significant cash drain upon a company. In a death scenario, the surviving owners must be capable of keeping both employees and customers. Simply having a successor-owner is not sufficient. These successors must be able to maintain cash flow as well as the confidence of the business' employees and customers. Confidence is best gained and maintained by having a written, well-capitalized continuity plan.

The Solutions

Solution #1 Addressing the Continuity of Business Ownership

How can the type of disaster that befell Clint's family be avoided?

Two strategies can be effectively used in *sole owner* companies. The *first* is to create and implement a plan to allow the business to continue after you're gone. Since there's no co-owner, you must provide for the business' continuity (even if it's owned by your estate or a trust for the benefit of your family) by securing the continued services of your important employees. Do everything you can to prevent them from leaving because they're indispensable to the business' continued existence. Secure their continuation by compensating them at a substantially increased level (usually 50% to 100% more than they ordinarily receive). This is best accomplished through use of a "stay bonus."

A stay bonus is a written, funded plan providing monthly or quarterly bonuses, usually over a twelve- to eighteen-month time frame, for employees who remain with the company during its transition to new ownership. It should apply whether the business is transferred to a third party, to employees, or to family members. The stay bonus provides a cash incentive for your important employees (perhaps 20% to 50% of the workforce) to stay; hence its catchy name.

Typically, the stay bonus is funded with life insurance in an amount sufficient to pay the bonuses over the specified time. The life insurance may be owned by the company or outside the company in an estate tax-sensitive trust. The plan is communicated to the important employees when it's created so they know a plan exists and consequently, that thought, planning, and money to pay their salaries will ensure continuation of the business.

The *second* strategy of single-owner continuity planning is to do exactly what Clint did not do—communicate your continuity wishes now. At a minimum, you must communicate in writing your wishes as to what should be done with the business upon your death or permanent incapacity.

Among the items that should be included in your statement are the following:

- Designate key employee(s), or others who can be given responsibility to continue and supervise business operations, make financial decisions, and oversee internal administration.
- Name advisors and other friendly competitors who should be consulted in the ownership transfer process.
- If you wish the business to be sold, say so. At the same time, list the names and contacts of businesses who've expressed interest in acquiring your firm, or who you think would make an appropriate successor.
- Indicate clearly if your wish is that the business be sold to key employees, continue in the family or be liquidated. Make the choice while you're alive.
- Share the information above with your spouse and your advisors.

From a continuity standpoint, *multi-owner companies* often survive the death of a single owner, provided measures have been

taken in the form of an up-to-date, adequately funded buy/sell agreement which allows the remaining owners to acquire the deceased's interest in the business. A persistent problem though is that these agreements tend not to be reviewed and updated to reflect current reality. For example, many don't reflect current business values, and don't completely address the many possible transfer events such as:

- death,
- disability,
- transfer to a third party,
- termination of employment,
- retirement,
- involuntary transfer due to bankruptcy or divorce,
- business disputes among owners.

Specifically, my experience in reviewing many of these documents is that they rarely address the situation from the perspective of whether the company has (or the other owners have) an option, or a mandatory requirement to reacquire the ownership interest.

To summarize on this point, the biggest risk to the continuation of co-owned businesses isn't the death or disability of one of the owners. Rather, it's that the events listed above are considered once, memorialized in an agreement—and then forgotten. The result is that as circumstances change and the worth of the business increases over time, they can become dated and irrelevant to present circumstances.

Solution #2 Addressing the Threat to Business and Personal Financial Resources

In both *sole owner* and *multi-owner companies,* the problem of dealing with unexpected losses or unexpected financial

complications can be effectively resolved by using sufficient life insurance to fund the anticipated need. But while it's an important part of the solution, it's merely a means to an end—a source of cash. Realistically, if the business is to succeed long term after your death, it'll need more than life insurance. It'll need successor management, motivated by ownership or cash (both current and deferred). The only way to make certain the business continues without you is to make certain that the business is more than just you.

Having said that, any long-term solution—like putting successor management in place—can't succeed without having adequate funds from the outset. And this is a point often overlooked by both owners and their advisors. The loss of an owner often dries up the company's financial wellsprings. It dries up bank financing, often guaranteed by you. It dries up equipment and other financing, often guaranteed by you. It dries up bonding capability, guaranteed by you. And it can dry up adequate capitalization… supplied or guaranteed by you. These vital resources can see the business through difficult times and into a brighter future, but it's unlikely that successor management or ownership can replace your balance sheet with theirs.

A company's loss of financial resources can be mitigated by placing money (lots of it) in company coffers when you depart. A fully funded (with life insurance) buy/sell agreement (at a current valuation) merely buys out the deceased owner's interest. By itself it doesn't place one penny in the company's bank account. For that reason, few companies have adequate cash to survive an owner's death.

To address this loss of financial resources for both its current and future needs, a business requires insurance on your life in an amount to replace its immediate losses *and* to provide it with

ongoing capitalization. These insurance proceeds will enable the business to grow and prosper without you and your personal balance sheet.

Solution #3 Addressing the Loss of Key Talent—You, the Owner

In a *solely owned business,* the key employee is almost always the owner. Usually, it's the owner's entrepreneurial drive, experience and dedication that stimulate the business. Losing its key employee—you—is a blow from which many businesses can't recover. If your business is a mirror image of you, it's unlikely that any amount of key person life insurance or other source of cash will suffice. You must strive to create value (within the company and distinct from you) in the form of successor management, capable of filling the void left by your unexpected departure.

In a co-owned business, the loss of an owner is not as drastic, provided that your co-owner(s) can carry on without you. If your co-owner(s) can't replace you, train employees to perform the same or parts of the same role as the dearly departed. The same approach must be taken if you desire to sell the business for top dollar during your lifetime. In either scenario (a sale or transfer of ownership due to death or disability) the underlying need is the same: capable employees must be available to assume responsibility for running the business.

In a lifetime transfer, if the owner is ready to leave but the business can't thrive or at least survive without her, the owner is forced to remain operating the business until successor management is identified and trained. When an owner dies however, the absence of prepared successor management can be more devastating because you aren't available, and the best hope is to provide the company with adequate cash (in the form of insur-

ance proceeds) so that the business can survive until replacement management can be located and trained.

As you know, finding and training your replacement can take years, so it's important to start early. Remember, at some point, you'll no longer be running your business; possibly due to death or disability. Hopefully, your absence will be due to a sale and smooth transition to a key employee, to a capable family member, or to an outsider. Regardless of the cause, your business will survive and thrive only if you've found, trained, and motivated your replacement before you leave the business. So get started now.

Solution #4 Addressing the Loss of Employees and Customers

As Clint's situation demonstrates, the death of an unprepared owner often precipitates a series of bad-news events for the business. Chief among these are the departures of both employees and customers. The loss of employees is followed shortly by defaults under contracts; and because of the business' inability to perform promised work, customers inevitably move to other vendors.

Employees usually move elsewhere because they fear the business won't survive, thus jeopardizing their salaries and future employment. In situations where the departed owner's leadership is hastily transferred to someone who's not a recognized successor, both employees and customers understandably grow uneasy; an unease that leads to migration to new employment and new suppliers.

These personal and business concerns must be quelled quickly by implementation of an already-developed, well- known, and well-funded plan. Employees must be aware that the plan exists,

that it guarantees their compensation, and that it names the successor owner. With these assurances in place, most employees and customers will stay with the company.

Business continuity issues can generally be divided into two categories: those that occur while the owner is alive, and those that arise on the owner's death. In the case of transfers during an owner's lifetime, you have the luxury of time to find and to train your replacement. Not so in the case of death. In order to survive your demise, your company must have adequate cash (almost always provided by insurance on your life) to survive. In the long run, a successful business is one you can either sell for top dollar and exit in style, or one that can survive and thrive despite your earlier exit, either through death or disability.

(See Appendix–Business Continuity Planning: What Difference Does It Make?)

But Wait: There's More!

Let's consider a situation where a business owner dies or retires, and as the result of having a buy/sell agreement fully funded by life insurance, receives the full, fair market value of their ownership interest in cash. The owner's family is made whole, in fact better than whole, because they've replaced an illiquid, closely-owned business interest with cash. What could be better?

Owners generally want to continue their current standard of living after they exit, and some won't exit if it means living on less income. But even a fully funded buy/sell agreement that pays the owner's family full value for his or her ownership interest likely doesn't provide enough investment capital to replace the owner's current income.

I'll use Jack to illustrate the problem:

Karen and Jack were equal co-owners of Karen and Jack's Dispensary, a ten-year-old business worth $5 million according to a recent appraisal. Karen and Jack each receive annual salaries of $375,000.

One dark and stormy night, Jack was struck by lightening and was fatally wounded. His estate received $2,500,000 from Karen—full value of Jack's ownership interest and for which Karen had an insurance policy on Jack's life for the full purchase price.

Before Jack's death, he and his family (a wife and three children) lived on Jack's salary. After Jack's death, the $2,500,000 of sale proceeds generated about $100,000 to $125,000 each year—about a 4%-5% return. Even though Jack's estate received the full value of his interest in the business, his family's income plummeted by about two-thirds, from $375,000 to $125,000.

This disparity can be attributed to the current headwinds pushing against investment returns and the disparity between the income that a business produces for its owner and that of investments of an equal value.

Simply having a buy/sell agreement that correctly establishes the current value of the company will likely not provide the level of financial security the departing owner's family needs. Using appropriate levels of life and disability insurance, owners must undertake the estate planning and exit planning necessary to ensure that they, or their estates, receive full value for their business interests, and at the same time ensure that their family can maintain the lifestyle they desire.

For this reason, I generally recommend that in addition to the

amount of insurance required to cover the full amount of one's business interest, the business owner carry an amount of life insurance equal to 20 times their personal income. In Jack's case, with an annual salary of $375,000, insurance coverage of $7,500,000 generating a 5% return would replace his income and allow his family to maintain their lifestyle.

CONCLUSION

We began our discussion by documenting the massive transfer of wealth that's currently taking place from one generation to the next, and will continue to take place for decades to come. In Part I, we demonstrated that both families and businesses have historically had a poor track record in successfully managing this transfer, and we outlined the most common challenges faced by family businesses in attempting to do so. In Part II, we discussed the Seven Habits of Highly Effective Family Businesses—strategies and approaches that, if implemented consistently and effectively over time, can significantly increase the likelihood of achieving successful, structured transitions for business and wealth.

Along the way, I've shared personal experiences that have shaped my life, and strengthened my determination to assist others in avoiding some of the mistakes my family made. Experienced and knowledgeable counsel (which we provide), combined with an open mind and determination on the part of our clients to be successful, is a powerful mixture—one that goes a long way to ensuring a successful structured transition for businesses and personal wealth.

It's my hope that this book will provide a framework for *your* structured transition.

Thanks for taking time to read it. —Keith

ABOUT THE AUTHOR

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President, Founder and Business Family Advisor

Keith Brown is the founder and president of *Financial Confidence™ Advisors Inc.* He's a financial advisor and industry leader in risk management and financial planning who helps business owners, executives, and their families reach their wealth goals. With over 30 years of financial planning expertise, Keith helps individuals from a variety of backgrounds and professions identify, clarify, and eliminate risk.

Achievements

Since entering the financial services industry in 1981, Keith has achieved significant success both independently and within leading industry companies. He's achieved Million Dollar Round Table (MDRT) status several times, including Court of the Table honours, a designation that denotes exceptional professional knowledge, client service, and ethical conduct. He's a 5–time recipient of *Prudential Insurance Company of America's* "Leading Manager in Canada" title, and in 1999 was named *Sun Life Financial's* "Top Manager in Canada."

Expertise

Keith is well-known across Canada for his ability to manage risk, solve complex issues, provide tax efficient solutions, and preserve family harmony. Keith's extensive industry experience has led him to develop the 6-Step Financial Confidence™ Program,[1] which builds trusting relationships, provides transparent dialogue, and addresses the needs of his clients and their trusted advisors.

Keith has also created a process that supports business families to successfully identify, articulate, and preserve their family values. He's a recognized insurance expert and has appeared as a guest speaker at ADVOCIS, the Canadian Institute of Chartered Accountants, the Conference for Advanced Life Underwriting, and the Canadian Association of Insurance Brokerage Agencies.

Qualifications

Keith is a Certified Financial Planner (CFP), a Chartered Life Underwriter (CLU), a Chartered Financial Consultant (ChFC), and an Institute of *Family Enterprise Advisors* Family Enterprise Advisor (FEA). He earned his Certified Exit Planner (CExP™) Designation from the *Business Enterprise Institute* in Denver Colorado in 2014.

1. www.financialconfidence.com/services-unique-risks-2/six-steps-to-a-financial-plan/

APPENDIX

Business Continuity Planning: What Difference Does it Make?

None of us like to think about what might happen to our businesses or our families if we where to die or become disabled. Owners who do let that thought cross their minds stay awake nights worrying about it, push the thought to the back of their minds or engage in serious business continuity planning.

Business continuity planning can protect your rights in a number of important ways. If you and your co-owner have a significant business dispute or if your co-owner:

- become disabled,
- leaves the company due to retirement or termination,
- decalres bankruptcy,
- dies, or
- divorces,

your business continuity agreement can dictate what you will pay for the departing owner's interest. In addition, if you die or became disabled, the business continuity agreement could protect your family's right to it's share of the company. If you do not have a co-owner, there are other ways to protect your company and your family.

Most owners live to see the day they leave their companies, but some do not. The purpose of business continuity planning is to make sure that if you are not there to run it, your company–and your family– will continue.

For that important reason, we've designed a short list of questions–one for sole owners and one for co-owners–to help owners assess where they are on the business planning continuum. In other words, in answering these questions, you can determine how prepared you and your company are, or are not, should the unexpected happen to you.

Sole Owners

1) Do you have a written plan for your business if the unexpected happens to you? YES ☐ NO ☐

2) Have you identified a person who can operate the business in your absence? YES ☐ NO ☐

3) Have you identified a person who can manage the finances of your business in your absence? YES ☐ NO ☐

4) Would your death jeopardize your company's ability to secure or maintain financing arrangements? YES ☐ NO ☐

5) Is the plan for your disposition of your ownership at your death coordinated with your plans for an exit from the business during your lifetime? YES ☐ NO ☐

6) Do you have a specific written strategy or plan to retain employees critical to the operation of the business if you cannot due to your death or disability? YES ☐ NO ☐

Co-Owners

1) Do you have a current buy-sell agreement in place? YES ☐ NO ☐

2) Have you communicated your continuity plan to senior management? YES ☐ NO ☐

3) Would your death jeopardize your company's ability to secure or maintain financing arrangements? YES ☐ NO ☐

4) Is your plan for the disposition of your ownership at your death coordinated with your plans for an exit from the business during your lifetime? YES ☐ NO ☐

5) Do you have business continuity insurance in place? YES ☐ NO ☐

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I would like to acknowledge all of the family businesses, family leaders, family members, their executive teams, and all the professional advisors that my team and I have worked with over the years. They've taught and continue to teach us how powerful family businesses can be for themselves, our communities, and the economy.

Bjorn Kristian Gjertsen was a mentor, friend, and valued client, who also taught me important life lessons. He was the leader of a company that now has third generation members working in it. He passed away in 2008, and I miss him terribly.

I dedicate this book to all those who have done and who continue to do, the valuable and challenging work necessary to build stronger families and stronger businesses.

NOTES

Inside You'll Learn:

- The Most Common Challenges Facing Family Businesses
- The Seven Habits of Highly Effective Businesses
- About the Amulet and The Wise Swiss Gentleman
- The Corrosive Effect of Sibling Rivalries
- Why Most Businesses Fail To Successfully Transfer To The Second Generation
- The Importance of Sound Family Governance
- And much more...

Keith Brown is the Founder and President of Financial Confidence Advisors Inc. For over 30 years, he has worked with hundreds of self-employed individuals and business families to help them prepare for their futures and ensure business continuity. Keith is well known across Canada for his ability to manage risk, solve complex issues, provide tax-efficient solutions and preserve long-term family harmony.

His extensive industry experience has led Keith to develop the Financial Confidence Program--a Six Step System that builds trusting relationships, provides transparent dialogue and addresses the needs of his clients and their trusted advisors.

Keith has also created a process which supports business families to successfully identify, articulate and preserve their family values. Keith is a Family Enterprise Advisor (FEA), Certified Financial Planner (CFP), Chartered Life Underwriter (CLU), Chartered Financial Consultant (ChFC) and Certified Exit Planner (CExP).

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