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FOR MULTIPLE GENERATIONS

SAUDER
School of Business
Business Families Centre

LegacyMatters

The Basics of Governance in a Business Family System

BY **JENNIFER HALYK**
BUSINESS WRITER
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Governance is a hot topic, given the many corporate scandals we have seen over the past decade, and the subsequent rise of investor demand for executive "say on pay" policies. But governance—and good governance, specifically—in family enterprise is an entirely different matter. Most commonly, business families come to see the need for more formal governance structures when their business is undergoing a transition period, or when they realize they need a better forum for communication within and between the three groups involved: the family; the business members and the owners. One expert likens a business family without governance structures to a swarm of young children in a soccer game: they simply don't know how to play their own position. There is confusion about who does what, and who goes where. So when family members are all chasing the same ball at the same time, it's time to implement governance structures.

Governance structures can include a council for each of the family and owner groups (the "family council" and "owner's council"); as well as an advisory board or a board of directors for the operating business. While a formal board of directors may not be necessary for some family firms, several researchers assert the benefits of any type of board (advisory; directors; governors), which can include independent (or non-family) members.

The highest and most effective forms of good governance in family enterprise ideally provide clarity for all those involved by:

- providing a channel for each family member's voice
- clearly delineating each person's role in the family, the business and/or as an owner
- increasing communication within each group and also between all parties
- synthesizing a vision and future goals for the family, the business and the owners
- evolving with the needs of the family, the business and the owners

John A. Davis, a founding father of the family enterprise field and creator of the "three circle model" of the family business system says that for a family governance system:

"The rare family in business may have a more elaborate family governance structure, with a separate meeting for family-owner-managers or a separate council for family shareholders or periodic meetings between shareholders, the board, and management. I prefer the simplest structure that does the job and the three components [of family governance: periodic family assemblies; family council meetings; and a family constitution] are all most families in business need" (Davis).

The key function of governance structures for family, owners and business members is the facilitation of communication and interdependence within the members of a group and also between the groups. Canadian governance expert and IFEA designate Irene Sieferling stresses the importance of family members working toward a common vision through governance structures:

"What's your common vision? Who makes what decisions and what are the values that make those decisions? And how do you then unify the voice and the input from those three distinct constituents [family; owners; business members] from the family enterprise?"

In terms of a governance structure for the business, some family firm experts posit that it is a complicated and time-consuming endeavour. But Bill Sheffield, a long-time corporate director, IFEA designated family enterprise advisor and IFEA board member, says that it doesn't have to be that complicated (see page 5 for the full article).

While governance structures can certainly help a business family, there is no template; and although there is no shortage of literature on governance best practices, they are not a catchall solution for every challenge. Like succession planning, governance structures are unique to the family, and the most important thing is that a family begin the process, and implement the structure, at a pace and in a scope that is most appropriate for all involved.

When it comes to finding the governance structures that will work best for your family firm, as one lawyer and family business advisor says, "the best solutions are those arrived at by the family, following its own process" (Barbara Hauser, Beyond Basics, April 2009).

AUTUMN 2012
IN THIS ISSUE:

From our Executive Director

JUDI CUNNINGHAM
EXECUTIVE DIRECTOR
BUSINESS FAMILIES CENTRE

Welcome to the Autumn edition of Legacy Matters, the Business Families Centre's quarterly newsletter. This month, our focus is on governance, including best practices for business families. This is where you will always find the most up to date information on the latest BFC news and programming, and an emphasis on the latest research and education for business families.

We are very excited to be working on several groundbreaking projects this season.

Firstly, we have been collaborating with the Institute of Family Enterprise Advisors (IFEA) and have pioneered the first and only formal designation for Canadian business family enterprise advisors. This new certification will serve as a benchmark for anyone working in the field of family enterprise. Please keep an eye out for our next issue of Legacy Matters, which will feature more information on IFEA.

To that end, we have welcomed a new cohort of participants into our Family Enterprise Advisor Program, including many accomplished professionals with an appetite for learning more about family enterprise. We have already witnessed many 'aha moments' as they learn more about business families.

On another note, we say farewell to our longstanding Chair of the Board this month. Lorraine Cunningham gave us an incredible six years of service and dedication. Her expertise in family enterprise is difficult, if not impossible, to match. We pay tribute to her this month with a profile and a heartfelt thank you from everyone in our community. As her sister, it has been truly rewarding and enlightening to collaborate with her in guiding the direction of the centre. Although she is, of course, irreplaceable, we have found an excellent candidate for the new Chair of our Board, Mr. Sasha McLean, whose family was honoured at our Family Legacy Series Dinner last year, and whom you will hear more about in our next issue.

On that subject, we are excitedly anticipating our annual Family Legacy Series Gala on October 25th—an elegant affair which never fails to impress. This year we honour the Stanton family of the Running Room, North America's largest chain of running stores. As we have seen every year since we began hosting this event, the most rewarding aspect is that the families in the audience learn and benefit from hearing the stories of other successful business families. Please visit our website for more information.

And last but certainly not least, we are ecstatic to be launching Research Matters, a series of white papers aiming to raise the level of awareness and education in the field of family enterprise. While we will feature key highlights of Research Matters in this newsletter, the full text of the papers will be available separately, to everyone in our family enterprise community.

This is a very exciting time for us here at the BFC, and an exciting time for family enterprise. We encourage you to contact us, and get involved. We want to hear from you, whether it's by phone, email, or social media. Get in touch, give us your feedback, and let's keep learning, together. We welcome your feedback, and thank you for your continued support.

Introducing Research Matters: Where Theory And Practice Meet


SAUDER School of Business
Business Families Centre
BUSINESS FAMILIES CENTRE'S WHITE PAPER SERIES

ResearchMatters

Research Matters in the Family Enterprise Field: Where Theory and Practise Meet

"Begin at the beginning and go on till you come to the end: then stop."

Why does it matter, and why should it matter?

We are very excited to introduce *Research Matters: Where Theory and Practice Meet*, the Business Families Centre's series of white papers aimed at education for enterprising families

In keeping with our mission and in pursuit of increasing education and awareness among business family members, advisors, and professionals in the field, the Business Families Centre is launching a series of white papers to initiate further discussion about, and foster a stronger appetite for, the latest research in the growing field of family enterprise studies. Complemented by personal accounts from business family members, practitioners and professionals at the forefront of the field, our series is an ambitious and uncompromising look at the issues that have nothing less than a critical effect on our businesses, our communities, and our economy. In this inaugural paper we take a look at the field of family business research and practise as an emerging independent discipline. We address the struggle for a definition of the term family business; outline its distinctiveness as compared to non-family firms; and address its significant contribution to the economy. To read the full white paper, click here.

News and Highlights

Tribute to our outgoing Chair of the Board of Advisors, Lorraine Cunningham

Our outgoing Chair of the Board of Advisors, Lorraine Cunningham, President and CEO of Cunningham Group, spoke to us about her term as Chair of the Board for the past six years; the growth of the BFC over the last ten years; and the vision she shares with her sister, Judi Cunningham, Executive Director of the BFC, for education within enterprising families. Lorraine relinquishes her position to incoming Chair and enterprising family member Sacha McLean this fall (more on Sacha in our December issue of Legacy Matters).

After six hardworking years with the Business Families Centre (BFC), Cunningham is ready to let go of the demands of the volunteer position—sort of.

"As much as I said that I wanted to let go, I'm not sure that I really wanted to let go," she said. We've had some pretty tough, slogging days since the beginning. When you start something like this and grow it from nothing, to where it is today…there was part of me that thought, maybe I don't really want to step down. I had that conflicted place," she said.

Cunningham took the position as Chair of the Board of Advisors in 2006. When she was offered the position, she only considered it because her sister Judi had left the Director's position. Then—not long after she started working on the board—she recruited her sister back.

"Judi was definitely the best person to do the job," Lorraine said. "Here I [was] doing what I said I was never going to do! And Judi wasn't that keen to come back at first, but [we] were quite persuasive. And the rest is history; she's kind of taken it, and run with it and done some amazing things."

Now boasting a full roster of specialized, educational programs for enterprising families and professional business family advisors, and having had a central role in the formation and establishment of the Institute of Family Enterprise Advisors (IFEA) designation program, both of the Cunningham women have certainly had more than a hand in the centre's growth, from concept to reality.

"In the early days, Judi and I ran the [Family Legacy Series Gala] dinner. We were the ones that started it, and we did everything at the beginning. We sold all the tables, we picked all the décor. We did five of them, just the two of us. The only thing we didn't do was take the money and book the actual seats. So that was kind of how I supported the activities in the early stages," she said, laughing.

Having grown up in their own enterprising family in the marine shipping industry, the two women come by their respective passions for entrepreneurship, and education for business families, quite honestly. Now, both Cunningham sisters see the blossoming of the BFC as the beacon it was meant to be for enterprising families: a hub of programming, research, resources and education for business family members, professionals and trusted advisors who work in collaboration with family enterprises.

"I feel like the centre is finally getting to that place that we've been talking about for so long," she said. "It's happening in the academic environment, we're running all these education programs for advisors, for families; we're coming at it from a variety of angles to get all the people that are in the system educated to understand what's going on, so it's not a mystery," she said.

Lorraine (centre) celebrates with the 2010 graduates of the Family Enterprise Advisor Program in Vancouver

The growth of the BFC, as well as an increasing number of business family resource centres within universities in North America, is a testament to the growing relevance of the field of family enterprise in the past fifteen years. However, many people question the placement of these centres within universities, given that they may appear, initially, to be more business-oriented than education-focussed. Cunningham makes it clear that the BFC's position within the Sauder School of Business was a carefully examined decision.

She says the reasons that the BFC is in the university are many, she says: because education is key to the success of business families, and research is paramount to education. The BFC belongs in the university because it is the birthplace of new research, and it houses the intersection of disciplines that are creating new research in the field of family enterprise.

Furthermore, how better to reach the next generation, than through a place of higher learning?

"We want to start with the younger generation," she says. "We want to start with those students, to teach them what it means to be in a family business, or to work in a family business. They may not be family members, but they may have taken a job in a family business; and if they can understand at an early age what dynamics are at play, and what issues are going on and running behind the scenes, then they don't have to be in reaction to it. They can understand it and appreciate it and work in it, instead of pushing against it or resisting the family dynamics that are happening."

Given the time-consuming responsibility of a board position within a non-profit organization, she is also very clear about her motivation for her work with the BFC in the first place: her younger sister was the primary reason.

"It feels a bit like a blur … People always asked me why I did it; I did this to support my sister. At the end of the day, I did it to support my sister in her efforts, and they became my efforts as well, but my main motivation was to help Judi."

Although Lorraine may be ending her term as Chair of the Board of Advisors, there is no doubt that she will continue to be a pivotal influence within the BFC—and she wouldn't have it any other way.

"It's not like I'm sailing off into the sunset," she says. "I think it's exciting times. I think the Centre is poised for some great things coming up, and I think everybody can feel that. When we talk about what we're going to do, there's an endless list … I'm not going anywhere," she says, laughing.

2012 Family Legacy Series Gala Dinner, Featuring The Stanton Family

On October 25, 2012, please join us for the business family event of the season: the annual Family Legacy Series Gala Dinner, proudly presented by UBC's Business Families Centre at the Sauder School of Business.

This year, John, Jason, and John Jr. Stanton of the Running Room Ltd. share the story of John's wish to purchase quality running shoes from someone knowledgeable about the sport in 1984. New to the sport of running, John had a thirst for knowledge as well as a desire to buy the right product. This entrepreneurial retailer decided to fill a niche in the marketplace by opening a small one-room store in the renovated living room of an old house in Edmonton, hence the name, "Running Room." The concept was highly successful, and the company has since expanded to over 115 locations across Canada and the United States. For the past 7 years, John Stanton Jr. and Jason Stanton have partnered with their father John in this family enterprise success story. Join us to hear more about their inspiring story.

Event Details

October 25, 2012 at The Westin Bayshore 5:30 pm. For more information regarding the Family Legacy Series Gala Dinner, please contact the Business Families Centre by E-mail at bfc@sauder.ubc.ca or phone 604.822.0102.

The BFC is proud to present our 2012 sponsors for the Family Legacy Series Gala Dinner and is still welcoming new sponsorship opportunities. Contact the Business Families Centre for further information.

Inside The Sauder School of Business: The Centre for Operations Excellence

At the Centre for Operations Excellence (COE), our mission is to bridge the gap between academic research and business practice. We engage with industry partners to create practical solutions to operational challenges. As an internationally recognized operations research centre based in the Operations and Logistics division of the Sauder School of Business at the University of British Columbia, we draw on the expertise of our faculty and the enthusiasm of our students to solve real-world problems. Since 1998, we have completed over 100 industry projects, with major corporations in nearly every business sector.

Our partners rely on us to deliver valuable solutions that allows them to make business decisions such as opening new facilities with confidence. Some of these projects have been featured in the national media and have won best practice awards at operations research conferences.

The tools and techniques of operations research can be used to improve decision-making by drawing insights from internal databases. These insights can be helpful for making complex decisions in such areas as planning, resource allocation, staff scheduling, and process improvement.

The success of our past projects can be attributed to:

- Careful planning. We work with the sponsor before the project begins to define a project scope that addresses a key operational challenge in such a way that the project can be completed within the schedule project period (from April to August).
- Technical expertise. The COE project team includes a graduate student as lead analyst, a professor at the Sauder School in the role of faculty advisor, and the team draws on the knowledge and skills of other COE staff members.
- Strong project management. The lead analyst has the support necessary to ensure that project objectives are met on schedule.
- Close collaboration with the project sponsor. By staying in communication with the industry partner at multiple levels, we ensure that our project is relevant to the sponsor's needs.

Summaries of the value delivered in previous COE industry projects are available on our website: http://www.sauder.ubc.ca/Faculty/Research_Centres/Centre_for_Operations_Excellence

To learn more about how investing in a COE industry project can help your company, contact Stuart Donald, COE Managing Director, at 604.822.9711 or stuart.donald@coe.ubc.ca.

Independent Directors in Family Business

BY **BILL SHEFFIELD**

There is plenty of literature in the family business field that addresses governance structures, or the lack thereof, in family enterprises. Further to this research is an ongoing debate about the relevance—or necessity, according to some—of independent (ie non-family member) directors on a family business board. While the parameters of the debate are much larger than we have space for here in Legacy Matters, we can point you to an insightful article on non-corporate boards, originally published in the Journal of Institute of Corporate Directors by Bill Sheffield, ICD.D., in May 2012. Mr. Sheffield a highly experienced corporate director who sits on several boards, including the board of the Institute of Family Enterprise Advisors (IFEA). The following is an excerpt of his article. At this point in the piece, Sheffield is describing some of the advantages and disadvantages of being an independent board member in a family firm. To read the full text, click here.

The advantages of a family-controlled business, or "familiness," are many. Each has an influence on the independent director's role:

- A long-term perspective (patient capital);
- A conservative approach to debt;
- Having the family name on the door guarantees reputational risk is taken seriously. It is "personal";
- Two-way loyalty between employees and the company;
- A loyalty to the country and province that provided the family with the opportunity to build their business.

Another plus can arise in decision making. Recently our CEO, Tom Velan, emailed the board requesting a conference call within a few days to address an opportunity in one of our foreign subsidiaries. A piece of land adjacent to one of our plants was coming on the market. The question was, should we try to buy the property? Everyone made themselves available and in under an hour we reached a conclusion. Opinions on the best use of the land caused vigorous debate, but two things had unanimous agreement: Owning this land was a good opportunity, and it fit into our strategy. A few days later a bid was submitted. In the corporate world, you rarely see such agility and speed.

The most difficult circumstances for the independent director also arise in the decision-making process. As you know, diversity of opinion in the boardroom leads to better decisions. Second-generation family businesses are by definition involuntary sibling partnerships. The founders quite naturally will bring up their children to be entrepreneurs and strong independent thinkers. If, in addition, the family directors have many years of intimate working knowledge of the company, each is likely to have intense beliefs about certain aspects of their business. So yes, there will be times when family directors do not agree and that debate can be vigorous and detailed. This puts the independent board members in the uncomfortable role of unofficial referees. All the big corporation experience in the world won't help you here.

In the words of Ivan Velan, "Having independent directors raises the level of discussion to address what is best for the company and all shareholders. It also reduces conflicts and differences among family board members. However, when forced to vote on resolutions where family board members have differing viewpoints, the independents may not have the detailed company knowledge necessary to determine which viewpoint is correct."

One evening, following a board meeting where we had reached an impasse on what seemed like an irreconcilable issue, I arrived home grumpier than usual. Judy sensed I was irritated the moment I walked in the door. After the appropriate interval, she probed for the cause of my mood. Upon explanation she posed a question that prompted one of those "aha" moments for me. She asked, "Why do you keep doing this?" Without even thinking, my response was, "These are terrific people with a terrific business. They are worth it."

Programs and Events

Road Map Program

The Road Map Program provides a unique, safe and exciting opportunity for growth, discovery and affirmation of your family business and its future. It addresses the shortfall in business-family planning enabling business families to remain healthy and successful over multiple generations.
The Road Map Program is a set of two weekend educational seminars designed with the goal of establishing a plan and charting a course of action for your family, led by experts in the field including David Bentall, Wendy Sage-Hayward, and Ruth Steverlynck.

2013 Road Map Session, Part 1
VANCOUVER: March 1–3, 2013

March 1: 4:00 pm to 9:00 pm
March 2 & 3: 9:00 am to 5:00 pm
Location: Metropolitan Hotel Vancouver
645 Howe Street Vancouver, BC V6C 2Y9

2013 Road Map Session, Part 2
VANCOUVER: April 5–7, 2013

April 5: 4:00 pm to 9:00 pm
April 6 & 7: 9:00 am to 5:00 pm
Location: Metropolitan Hotel Vancouver
645 Howe Street Vancouver, BC V6C 2Y9

VANCOUVER: Nov 30 & Dec 1–2, 2012

Nov 30: 4:00 pm to 9:00 pm
Dec 1 & 2: 9:00 am to 5:00 pm
Location: Metropolitan Hotel Vancouver
645 Howe Street Vancouver, BC V6C 2Y9

Business Boards and Family Councils
Learn how to put leadership structures in place to support future growth as you gain insight into governance structures and processes needed to address the unique needs of the business and the family. Discover how to manage family dynamics, align family interests around wealth, business, and the future of the two. Understand the three main family leadership structures—the Board of Directors; the Family Council and the Ownership Council—and learn how to guide this process for your clients in this workshop-based program.

VANCOUVER: Nov 1–3, 2012
VANCOUVER: Mar 4–6, 2013
TORONTO: Nov 16–18, 2012
TORONTO: Mar 8–10, 2013

Business Family Dynamics
This intensive two-day course introduces you to the concepts fundamental to understanding the business family and its unique challenges, especially during a leadership transition. Gain the tools and understanding required to lead the business families you advise with a special focus on doing so in the current economic climate. Expand your network of professional contacts and learn to rethink the way you apply technical advice in the business family environment.

VANCOUVER: Jan 24–25, 2013
TORONTO: Jan 31–Feb 1, 2013

For further information, including costs, early bird and group discounts, please call Mischa Ragona at **604.827.4604**

Advisor Programs

Family Enterprise Advisor Program (FEAP) - *Become a Leader in Family Enterprise Advising*

Families are becoming more discerning about the advisors they bring into their fold. Graduates of the Family Enterprise Advisor Program (FEAP) put themselves ahead of the curve by being one step closer to receiving their professional Family Enterprise Advising designation (FEA). The FEAP Certificate not only puts you on the path to your professional accreditation—it also provides the world-leading business family advising education that can help you create lasting results for your business—and the families you serve.

FEAP consists of 15 days in the classroom over the course of the year. The next cohort begins January 2013 in downtown Toronto and downtown Vancouver.

For further information on courses and dates:
www.sauder.ubc.ca/Programs/Business_Families_Centre/Programs_for_Advisors/Courses

For further information, including costs, early bird and group discounts, please call Mischa Ragona at **604.827.4604**

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