Key Leadership Challenges of Business Owning Families (Cont.)

Conclusion

Lest there be any confusion, the author is not arguing for centralization in the hands of one person of all the leadership tasks outlined above. Beyond a certain minimum size of business or business-owning family, this would be almost impossible and probably dysfunctional for all parties involved.

Lastly, it is vitally important that the leaders create systems to maximize "buy-in" of the fundamental values of the family by as many people as possible in the family, the ownership group, top management and the board of directors. The writing of family protocols, while a difficult and often time-consuming task, may be the most effective way to arrive at maximum "buy-in" by the key people concerned. As many business-owning families have learned, this very process may be as important as the end product. ■

Phil Noble from Grant Thornton thanks speakers

Upcoming Events & *Programs*

Navigating the Business Family Relationship: The Road Map

This two-part seminar provides business family members with insights, ideas and strategies for running their business more effectively and managing transitions.

Presenters: David C. Bentall and Dr. Nancy Langton

Road Map – Part One April 23-25, 2004
Please note this date change.

Building an Effective Board

Creating an effective board for a family business can be one of the most important steps towards family harmony, business effectiveness, and successful succession. Learn how to attract and select a strategic, powerful board for your enterprise.

Presenter: Marjorie Engle (Allen, Gibbs and Houlik)

April 1, 2004
Space is limited in this workshop. Register before March 10th to ensure a seat.

Family Legacy Series Dinner: Business Families—Working Together The JR Shaw Family Story

Presented by The T. Stenner Group of CIBC Wood Gundy.

Join the JR Shaw family in a candid discussion of the evolution of one of western Canada's largest and most successful diversified businesses. Family members will share their personal insights and experiences with the integration of family issues with the management and growth of a complex business enterprise. The Shaw story—from the early days of growth to the challenges that lie ahead—highlights the issues unique to business families everywhere and provides a rare opportunity to learn from a prominent Canadian business family. This evening reception, dinner and informational program is presented for your whole family to enjoy.

Featuring: JR and Carol Shaw with their four adult children Jim, Heather, Julie and Brad Shaw (Shaw Communications Inc. & Corus Entertainment Inc.)

Mark this date in your calendars:
May 11, 2004
5:00pm to 9:30pm
Fairmont Waterfront Hotel, Vancouver, BC
We hope to see you there!

For more information about our programs please contact Lynne Jamieson at 604.822.0083 or lynne.jamieson@sauder.ubc.ca

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The Business Families Centre is a joint venture between the Sauder School of Business at UBC and the Family Business Community. The BFC is committed to assisting business families, their advisors, and their enterprises through research, programs and academic education.

To find out more about:
- how your business family can become involved in the Business Families Centre at the Sauder School of Business at UBC
- how to make your tax deductable contribution to the Business Families Centre
- opportunities for sponsorship of BFC events and courses

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A newsletter for friends of the **Business Families Centre**

Legacy *Matters*

DEC 2003

The 2003/04 academic year marks the beginning of the second year of programming for the Business Families Centre at the Sauder School of Business at the University of British Columbia. In addition to offering a number of educational seminars and events specifically designed to develop leadership expertise for family businesses, we have expanded learning opportunities for business families with the introduction of the annual Outstanding Lecture Series.

The inaugural **BMO Harris Private Banking Outstanding Lecture** was presented on November 18, 2003 to over 100 people at the Pavilion Ballroom of the Sheraton Wall Centre Hotel. The event was a wonderful success and participant feedback has been excellent.

The Business Families Centre extends our sincere thanks to all of our sponsors for their support of this event and their vision in providing the opportunity to their business family clients to learn from Dr. Alden G. Lank, of the most distinguished researchers and consultants in the field of business family studies worldwide. Dr. Lank and Dr. Daniel Muzyka (Dean, Sauder School of Business) spoke on the themes of Leadership and Entrepreneurship in the Family Enterprise. The following day Dr. Lank presented a full-day intensive workshop on Critical Success Factors for Family Businesses to over 35 members of business families.

For those of you who missed this important event we are please to offer you an opportunity to read this article by Dr. Alden Lank summarizing the Key Leadership Challenges of Business Owning Families. You can also visit our website at *www.sauder.ubc.ca/bfc/events/lecture/cfm* to view copies of the presentation slides from both Dr. Lank and Dr. Muzyka.

The BMO Harris Private Banking 2003 Outstanding Lecture and Workshop was proudly sponsored by:

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SAUDER SCHOOL OF BUSINESS
THE UNIVERSITY OF BRITISH COLUMBIA

Key Leadership Challenges of *Business Owning Families*

By Dr. Alden G. Lank – Stephan Schmidheiny Professor of Family Enterprises Emeritus, International Institute for Management Development (IMD), Lausanne, Switzerland

Professor Alden G. Lank discusses key leadership issues for the business owning family

There are two key terms in the title of this article that need defining at the outset: "leadership" and "business-owning families"—both of which have almost as many definitions as there are students of these subjects. For me, leadership is the process that attempts to influence the behavior of others so that they will commit wholeheartedly to the accomplishment of specified objectives. Business-owning families are those that through a corporation, partnership, proprietorship or other form of legal entity control the voting equity thereof.

There are four generic categories of leadership challenges that must be addressed by business-owning families: Family as family, family as employees, family as owners and family as board members. Each is discussed briefly below.

Family as Family

The meta objective of any family, whether or not it owns a business, is to become strong and healthy so as to be able to survive both good and bad times as an intact, caring unit or entity. This is the key leadership challenge of family leaders. To do so involves building the processes necessary to create, clarify, reinforce, revise as required and police the key values that define what it means to be a member of a given family.

It is not uncommon for business-owning families to reflect their key values in relationship to the family as family in documents that can be called protocols. My analysis of many of these "position papers" indicates that there are three major headings that regularly reoccur:

1. religious or cultural values
2. values on how to relate to other family members
3. values on how to relate to the outside world.

In cohesive families, these core values are seen as the glue that binds.

Family as Employees

Business-owning families, however, must go beyond making explicit their values in regard to family as family and think hard about their values concerning employment of family members in the business. The leadership challenge in this instance is to create the processes that will establish the rules of the game in regard to joining, staying and leaving the family enterprise and seeing that these rules are honoured by all concerned—in the family and in the business. To create the family personnel policy, answers are needed to questions such as:

Daniel F. Muzyka, Dean, Sauder School of Business discusses the attributes of entrenpreneurs in relation to the family enterprise

1. Who are considered as family for purposes of this policy?[2]
2. Is employment in the family firm a birthright or a merit-based earned privilege?
3. What are the prerequisites for entry—minimum age, outside experience, a university degree, potential to hold a senior management position?
4. What are the conditions of employment over a career—salary, reserved positions for family, fringe benefits, right to training/education, job rotation?[3]
5. Who monitors career progression of family members and how?
6. How are grievances of family members handled and who is the final arbiter?

A written family personnel policy, ideally even before it is needed, can play a hugely important role in reducing unnecessary conflict as expectations can be managed and controlled more easily.[4]

Family as Owners

There are three key leadership challenges under the rubric of family as owners. The first is to ensure that processes are established to set up the guiding principles within which the board of directors and the management are to operate in regard to important financial criteria such as: return on equity, debt/equity ratios, dividend payout ratios, risk, portfolio balance, etc.

More broadly, the owners must establish the basic business principles for which the board of directors and management will be held accountable. Included here would be answers to questions such as:

1. What is the code of ethics governing how the business is to be managed?
2. What kinds of business are prescribed and proscribed?
3. What will be the basic structure, e.g. holding vs. operating companies?
4. Will non-family investment be allowed in the operating companies?

The third basic leadership challenge for the family as owners is to create the processes to ensure the creation and maintenance of what I call "enlightened family owners." To remain "enlightened," family owners must:

1. keep informed on the family enterprise and its progress
2. become and/or stay educated in the language of business[5]
3. understand the legal rights and obligations of owners
4. consider the need to create stock liquidity mechanisms such as an internal stock market
5. verbalize through appropriate channels realistic but demanding expectations in regard to the performance of the business
6. spread the good news about the importance of family businesses in the economic and social development of the nation[6]
7. share some of their wealth with those who are in need.

Family as Board Members

Arguably, it is the role of the family as owners to take the lead in establishing the rules of the game in regard to the board of directors and how it should function. However, given the critical importance of governance of the business, I have chosen to make it into a separate category.

Under this subtitle, the family must establish the rules of the game for the board in regard to issues such as:

1. role
2. administrative processes
3. structure
4. officers
5. composition (number, profile, family vs. non-family, internal vs. independent, etc.)
6. election process
7. terms of office
8. compensation.

The fundamental leadership challenge faced by the family as board members is to ensure that the process is in place to determine how the board will operate so that good governance is practiced. Leaders should also ensure that the parameters established by the family for the board are being totally respected.

Diana Reid from BMO Harris Private Banking introduces 2003 Outstanding Lecturers Alden G. Lank and Daniel F. Muzyka

The Meta Leadership Challenge

The most important leadership challenge of all, in my view, can be stated in the following way: To create and maintain the processes to ensure that future leaders will be identified, supported and activated to undertake leadership roles in the family as family, the family as employees, the family as owners, the family as members of the board of directors and in the business.

[1] This article is based on the presentation (with the same title) made at the inaugural Outstanding Lecture organized by the Business Families Centre, Sauder School of Business, University of British Columbia that took place in Vancouver, British Columbia on 18 November 2003.

[2] The difficult issue here often is the inclusion or exclusion of in-laws.

[3] The key concern here is the extent to which family members are to be treated the same as or differently from non-family employees. My advice is to keep the conditions the same as much as possible. Otherwise, the business may be accused of nepotism and the best non-family employees may leave.

[4] The recommendation on putting the policies in writing applies to all the issues raised in this article.

[5] Critical here is the ability to read profit and loss statements, balance sheets, source and application of funds statements, etc.

[6] Business-owning families do themselves and their businesses a disservice by not speaking out publicly more often about the undeniable benefits that family enterprises bring to society.