

LEGACY MATTERS

Family Business Policies: Why You Need Them

by Craig E. Aronoff and John L. Ward

Consider these questions:

"What happens if my brother thinks my nephew should be promoted, but I disagree?" "What happens if my cousin gives his wife company stock and then they get divorced?" "What happens if we have to fire a family member?" "With eleven family members on the board, shouldn't some be getting off?" "How can I tell my daughter that she needs to get more work experience before joining the family business?" "Even if I'm not in the business, I own shares. Why shouldn't I get the same financial information as family who are in the business?" "Why should your spouse get paid more than mine?" "What do you mean, you took a \$100,000 loan from the business?" "Why can't I be on the board?" "How can your son work in the family business and run another business at the same time?" "Shouldn't the business buy its group health policy from me? After all, I am family."

Such questions can be the stuff of family business nightmares. Agreeing on solutions to such problems in advance can depersonalize issues and insure greater objectivity. Those agreed-on advance solutions or agreed-on processes for finding solutions are policies which guide relations between the family and the business. Following are some reasons why you need them.

Policies help avoid problems and conflicts before they happen. They eliminate or reduce future tension. When families take the time to identify and discuss issues that might lead to future disagreement and tension, they are actually determining the most important areas in which policies might be needed.

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As one family-business owner once told us, "I've learned that successful family businesses do a good job of anticipating future issues and talking about how to deal with them as a family before they become issues."

Families that go through the policy-setting process actually affect expectations and therefore, we believe, moderate and possibly eliminate the prickly issues that typically arise in family businesses. Family members have contemplated the issues, they know what the consequences will be, and they know what the family stance is on each. As a result of their deliberations and the fact that they have a good battery of policies in place before the need, sometimes the issues just don't even arise.

The policy-setting process strengthens and unifies the family. Some families avoid creating policies because they fear the conflict that might occur as a result of addressing a sensitive issue. But if a family can't handle conflict during a policy-setting process, imagine the conflict when the issues are live and real-time. When family members work on creating policies, they learn to communicate with each other on difficult issues, solve problems together, address issues as a team, put their thinking together on paper, and resolve differences.

The process of policy setting helps the family build skills, gain confidence, and increase its ability to face issues as a family. And because no family can ever anticipate every problem it will face or develop a policy on every issue it must deal with, the skills and confidence gained by developing policies can help it cope with unexpected issues.

Further, policies unify family members by helping them run in the same direction, not only now but in the future. We find that when families re-read certain policies together at family meetings, such as a code of conduct or a mission statement, it solidifies them as a family. It helps family members all understand what they have agreed to and brings them a little bit closer to one another.

Policies make things explicit. Families often set policy without intending to. Any decision that sets a precedent creates policy. But it is an implied

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Craig Aronoff is the speaker for the Family Business Day Outstanding Lecture Series (Lecture: October 26, Workshop: October 27).

Co-founder and principal of The Family Business Consulting Group, Inc., Aronoff is a leading consultant, speaker, writer, and educator in the family business field.



Aronoff has consulted with hundreds of family companies in the U.S. and abroad on issues including generational transitions; business and family governance processes and structures; family missions and values; decision making and conflict resolution; managerial development; family compensation and dividend policies; family meetings; and more.

With co-author John L. Ward, Aronoff is perhaps the most prolific writer in the family business field. He has authored, co-authored or been editor of more than thirty books, including the 20-volume Family Business Leadership Series and is executive editor of The Family Business Advisor.

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THE UNIVERSITY OF BRITISH COLUMBIA



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Business Families Centre

A Word from the Chair

Succession Planning: Start in the Right Place

by David C Bentall, Chair, Business Families Centre

Arguably, when it comes to family business, no topic is more important than succession planning. It is vitally important for the future of the family and the business. Yet, quite frequently, the succession planning effort begins at the wrong place.

Stephen Covey popularized the phrase, "Begin with the end in mind," and it is hard to argue with the wisdom of his statement. However, when it comes to succession planning, what *is* the end that we should have in mind? When thinking about this critical topic, where should we start? Let us consider the options.

A strategic planner might say that planning for the future of the business is the first priority. Ultimately, they are right, at least in one sense, because if the family enterprise fails, the need for succession planning becomes irrelevant. Without a vision for the future, a family business is at risk of working on details which may not serve the real objectives. Looking at the big picture would be a logical starting place.

Some may say we should start with considering what the owners or the elder generation would like to see happen to the business. After all, they are the ones who own the business; we should ask them what they want to see happen in the future.

However, if you ask a tax advisor, you will hear that planning to minimize taxes when transitioning from one generation to the next is essential. Skillfully choosing the most tax effective strategy is critically important to avoid foolishly squandering all that has been achieved with the business over many years.

A financial expert may suggest that the key to succession planning is to proactively assist the elder

generation to withdraw some of their resources from the company. They would stress this is important in order for "mom and dad" to enjoy their well-earned retirement years. In addition, they might point out how important it is to create an environment where the successor generation can begin to run the business with more autonomy. This can only happen if everyone is confident that any miss-steps in the business will not cause financial hardship for the elders. Failure to create this situation has often been the "Achilles heel" of many good succession plans.

If we asked a human resource professional where to start, they would likely emphasize the importance of training and mentoring for successor candidates. While the would-be successors may or may not be

with each other. In addition, we were initially made co-owners with our cousins, again through a series of estate freezes. In nearly twenty years of being co-owners, we were never asked if we wanted to be business partners. An involuntary shareholder arrangement of this sort is a host for many problems. Often, a family who inherits shares may not see the responsibility that comes with the ownership of the company. When the younger generation is not involved with the business operation, often they will not be as committed as their parents to the ongoing concern of the business. Alas, many who wind up in this situation get caught up in political debates over power, rather than thinking about the health of the enterprise.

In contrast, Fred and Ron Mannix (Manalta Coal, AL-

"Asking the next generation what they hope and dream for in their lives may be the optimal place to start the succession planning process."

family, and the options may not be obvious, grooming the future leadership of the business is essential.

Each of these considerations is a valid place to start the succession planning process. In fact, beginning the process with any of these priorities would be constructive and could lead to some good results and potentially a good plan. However, the story with succession in my family illustrates a common and risky oversight not considered above.

In our family, my siblings and I were beneficiaries of what was essentially an estate freeze. While this was good tax planning, we were never consulted about whether or not we wanted to be partners

berta) were asked by their father many years ago if they were interested in owning the family company. They were interested, so he gave them the responsibility to develop a co-ownership agreement and a strategy for the future, which they were to submit to him for approval. It took five years and much iteration, but they eventually created a plan that met with their father's approval, and the shares in the company were transferred to Ron and Fred.

Asking the next generation what they hope and dream for in their lives may be the optimal place to start the succession planning process. If they are interested in owning the family enterprise, then considering how this could be accomplished becomes

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policy. No one really talks about it or questions it openly. Family members just adhere to it because they think that's what's expected of them or because "that's the way we've always done it."

When family members go through the process of consciously creating policy and putting it in writing, however, they are making policy explicit. The process enables family members to question assumptions and understand differing perspectives. And all can participate in making decisions about how they will govern themselves in the future.

When policies are not explicit, family members are free to interpret decisions any way they choose. The chances for misinterpretation, misleading information, and miscommunication increase. But if policies about how future decisions are to be made are fully discussed and laid out in advance, the family has a template from which to proceed. And chances are increased that family members will all be on the "same page."

Family members become more educated on many levels. Creating policies requires them to become even more knowledgeable about the business itself but also necessitates becoming familiar with and knowledgeable about the issues being discussed. Employment policies, for example, require investigation into employment practices. Compensation policies mean learning what

compensation practices are being followed in the family's industry. Shareholder agreements call for educating yourself as a shareholder so that you can participate effectively in the discussion. In other words, when done right, the process of developing family business policies requires thought and homework.

The family-business continuity-planning process is enhanced. In the largest sense, policy development is about continuity planning -- that is, how we prepare and educate the family to continue into the future as a successful, healthy and strong business-owning family.

When a family creates policies, it is looking at all the elements that go into family-business continuity - the family's mission and vision, its values and beliefs, its principles and philosophies, its covenant or pledge (that is, what the family expects from the business and what the business has a right to expect from the family), and the business' strategy, culture, performance, and governance.

When family members work together to create policies, they discover what is important to them as a family and as individuals. They gain major skills in communicating with one another effectively. They learn the art of compromise, in its finest sense. Creating policies helps the family sort out its values and know what it stands for.

REASONS TO DEVELOP A POLICY GUIDE

1. Avoid or solve problems before they occur.
2. Reduce future family tension.
3. Strengthen the family with experience in coming to agreement.
4. Clarify your family's positions and reduce misunderstandings.
5. Help the family sort out its values and know what it stands for.
6. Improve future decisions by insuring that policy formation is informed and objective rather than made in the heat of battle.
7. Create more enthusiasm for and knowledge of the business.
8. Increase the likelihood of long-term business and family success, survival, prosperity. 

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2005-2006 EVENTS & PROGRAMS

For more information on our programs, visit our programs page on our website:

www.sauder.ubc.ca/bfc/education

REGISTRATION

www.sauder.ubc.ca/bfc/register

604.822.0102

Road Map Program

Over 90 per cent of businesses today are family-owned and operated. By the year 2017, more than three-quarters of family business leaders will retire, resulting in the largest transfer of assets in Canadian history. Are you prepared for an inter-generational transition?

Navigating the Business-Family Relationship: The Road Map is designed to provide business families with insight, ideas and strategies for running their businesses more effectively and managing transitions. This transformational seminar focuses on relationship and communication issues unique to the family business enterprise. You'll engage in thought-provoking discussions, share ideas with other business families, and learn from the experience of experts in the family business field.

Road Map: Part One

UBC Robson Square, Vancouver

Sep 15-Nov 17, 2005 (5 of 10 Thursday nights)

Road Map: Part Two

UBC Robson Square, Vancouver

Sept 23-25, 2005 (Weekend Fri-Sun)

Road Map Deluxe: Parts One & Two

Whistler, BC

May 14-19, 2006 (6 days: Sunday-Friday)

Instructors:

David C Bentall, Chair, Business Families Centre and President, Next Step Advisors

Dr Nancy Langton, Professor, Sauder School of Business, University of British Columbia

Learning Outcomes:

- Examine new ways to handle the unique challenges of the family business enterprise
- Create an action plan to build on strengths and address weaknesses in your family business
- Develop communication skills that will help you negotiate family conflicts and reach a consensus
- Create a long-term plan for change and growth in your family enterprise
- Learn to identify and separate business from personal concerns
- Identify and assess issues within your own family business
- Explore and learn from the experiences of other family businesses
- Define your family values and beliefs

Road Map Information Session

Limited Space Remaining!

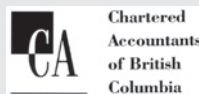
Sept 8, 2005 4:30 pm - 6:00 pm

UBC Robson Square, Vancouver

At the 90-minute session the program instructor David Bentall, and family members that have participated in the program, will explain the benefits of the Road Map for family and business. There is plenty of time for questions.

Breakfast Briefings

The Business Families Centre is coordinating these three seminars with the Institute of Chartered Accountants of British Columbia (ICABC).



Addressing Conflict in the Family Firm

October 18, 2005 (Breakfast: 7:30-9:30 am)

Facing conflict in working relationships is often difficult. Conflict can result in either problem-solving and positive resolution, or an all-out war - particularly in the family-run firm! Conflict can prevent collaboration and cause relationship breakdown unless it is addressed with skill and awareness. In this briefing you will learn to recognize areas of potential conflict, the roles that tend to get played in conflict situations and how to develop strategies for resolving difficult issues in a constructive manner.

Learning Outcomes:

- Understand conflict and manage emotions
- Understand your personal conflict style
- A tool kit for addressing conflict

What Makes Family Business Unique

March 9, 2006 (Breakfast: 7:30-9:30 am)

Families in business can belong to one or multiple circles of relationships: family member, owner and/or employed in the business. These different roles can sometimes conflict. People located in different parts of the system are likely to have different perspectives on the same issue. This session will discuss the importance of identifying, clarifying and setting boundaries within the three circles to improve communication and reduce conflict.

Learning Outcomes:

- Identify and separate the business, family and ownership roles and issues
- Examine structures and mechanisms that ensure successful communication between family, business and owners
- Explore and learn from the experiences of other family businesses

The Ownership Life Cycle

April 6, 2006 (Breakfast: 7:30-9:30 am)

Family enterprises may pass through several major ownership stages. The different ownership types for business families are: Founder, Owner Manager, Sibling Partnership, and the Cousin Consortium, with each having its own challenges and opportunities. Learn about some of the unique characteristics of each ownership type, the dilemmas that each experiences, the predictable obstacles faced in each ownership stage and how the business family can successfully navigate through these issues and plan for their future.

Learning Outcomes:

- Identify common ownership stages and types
- Understand the challenges of moving from the founder stage to a sibling partnership
- Understand the need to develop a family vision when approaching transition phases
- Examine structures and mechanisms to navigate the obstacles of the ownership life cycle

Governance Workshops

The topic of governance is essential to business families, especially in the context of continuity to the next generations. These workshops will cover the uniqueness of family businesses, mistakes to avoid, understanding the normal forms of conflict and communication in the family business, determining if you are a family-first business or a business-first business, and more.

Research has proven that families who address these various governance issues have a higher rate of success in transitions from one generation to the next. In this series we will teach about governance structures in all three subsystems of a business family: the family, the business and the ownership - and how they relate to each other.

For the Family

November 29, 2005, 8:30 am - 12:30 pm

We will explore the importance of establishing a family council as a vehicle for governing family life, as well as how this body should interact with the business.

Learning Outcomes:

- What role a family council plays in helping build communication within the family
- How to establish a family council
- What topics should be included in discussions at a family council, and what ones should be covered elsewhere

For the Business

February 2, 2006, 8:30 am - 12:30 pm

We will explore why some of the most successful family businesses have created a board, with independent members, to assist them in governing their private companies.

Learning Outcomes:

- The roles a board can play in assisting a family business
- How to recruit for a business family board
- Some of the unique characteristics of a family company board

For Ownership

March 28, 2006, 8:30 am - 12:30 pm

Power in a family business lies with the ownership. This is why many struggles in a family relate to the "ownership circle". We will explore how to manage this vitally important area.

Learning Outcomes:

- Why it is important to have regular shareholder discussions in a family business
- How to handle conflict in a business family
- What topics family shareholders should be considering

a path worth exploring. If they are not interested in owning the business, either as a team or as individuals, then the stage may be set for either a private or public sale of the business.

The next generation is usually consulted last (or never) regarding succession, often because the parents and their advisors assume that they want to own and operate what may be passed down to them. In addition, owners seldom ask the successors if they want to be in business with their siblings, or if they are interested in learning what it takes to become knowledgeable owners.

With many business families, it is difficult to start a conversation about future ownership - quite a concern, given how critically important this topic is. The subject is seldom raised for several reasons.

There are many other succession matters to be dealt with, and the professional advisors working with business families have other priorities to attend to (as mentioned above). Few have been trained and have the experience to discuss ownership succession, and have the capabilities to assist with the preparing future owners for their roles. Each profession often considers these matters to be the responsibility of another.

Mom and Dad are generally not trained to talk about "ownership" of the business with their children. They are typically too busy running the business to discuss ownership succession, and they are concerned this action would create a sense of entitlement for the children. In addition, succession of management is a more tangible and pressing concern that needs to be dealt with - so ownership succession is relegated to the background.

Nonetheless, it is time that the family members who are in business together start having these conversations. In many of the family discussions I have been involved with, the next generation has been invited to share their dreams for the future. After acquiring this information and creating a foundation, family businesses are then able to discuss the specifics of ownership succession for the family business.

There are many factors to consider and many elements to incorporate into a good succession plan. It might be wise to start by first asking the children this question: "Would you like to own this company one day, or not?" If their answer is yes, they can be invited to consider how and when this might happen, and assist them in their training.

Approach succession planning by "beginning with the end in mind." Determining who will ultimately own the business is the best place to start, and will pave the way for future generations to become more knowledgeable owners, while simplifying the other succession decisions.

By starting in the right place, it is likely that everyone involved in the process will arrive at a better place in the end! 

Business Families Centre

SAUDER SCHOOL OF BUSINESS
UNIVERSITY OF BRITISH COLUMBIA

800 Robson St, Vancouver BC
Canada V6Z 3B7

tel 604.822.0102
fax 604.822.8496
email bfc@sauder.ubc.ca
web www.sauder.ubc.ca/bfc

2005-2006 EVENTS & PROGRAMS

A New Paradigm for Advising the Family in Business: A Multi-disciplinary Approach

The program will include lawyers, accountants, academics and consultants discussing governance and succession planning issues for family businesses. Following the lectures, a panel will discuss a case study on a multi-disciplinary approach for succession planning. Continental breakfast and a networking lunch are provided.

Presented in co-operation with:



THE
Continuing Legal Education
SOCIETY OF BRITISH COLUMBIA

Agenda

November 16, 2005 8:30 am - 4:30 pm

Registration and Continental Breakfast

Opening Address

- Wendy McLean - Continuing Legal Education Society of BC - Program Lawyer
- Josephine Nadel, LL.B - PricewaterhouseCoopers LLP, Director, Centre for Entrepreneurs and Family Business

Keys to a Successful Family Business Succession

- David Bentall - Chair, Business Families Centre at Sauder School of Business, UBC
- Dr Nancy Langton - Business Families Centre, Sauder School of Business at UBC - Academic Director

Governance Systems, Succession, and Wealth Transfer Strategies

- Josephine Nadel - PwC LLP

Tax Strategies for Succession Planning

- Claude Rinfret, CA - Deloitte & Touche LLP

(Networking Lunch)

Giving Legal Effect to Succession Plans

- Robert Carrothers - Legacy Tax & Trust Lawyers

Review of Strategic Ownership, Exit Strategies and Valuation Issues

- Pirooz Pourdad - PwC LLP, Corporate Finance

A Multi-disciplinary Approach for Succession Planning - Case Study

Panel discussion participants:

- Claude Rinfret - Deloitte & Touche LLP - Chartered Accountant
- Robert Carrothers - Legacy Advisors Law Corp. - Barrister and Solicitor
- Michael Bentley - Sierra Mountain Minerals Inc. - Chief Operating Officer; M64 Management Inc. - President
- Peter Vaughan - TGIM Group Inc. - Registered Clinical Counsellor

This panel will offer their professional perspective on implementing innovative approaches to resolve complex family, business and ownership issues.

Outstanding Lecture Series

Developing Family Business Policies

Lecturer: Craig Aronoff, Ph.D

As you consider the future of your family business, you need policies to guide decisions inside the business and about the relationship between the family and the business.

At this lecture and workshop, Craig Aronoff will guide you through a process enabling you to determine what policies your family needs at its present stage, and help you create those policies. He will discuss the rationale for policies and help you look at issues different policies raise. He will offer thoughts on the implementation of policies, as well as guidelines for when policies need to be revisited and revised.

As you formulate your policies in the workshop, you will create a manual. You will build your family mission statement, policy for joining the family business, shareholder agreement, statement about philanthropy, code of conduct and more.

The Outstanding Lecture Series is sponsored by:

BMO  Harris Private Banking™

and is a component of Family Business Day on October 26, coordinated by the Canadian Association of Family Enterprise (CAFE).



October 26, 2005

Lecture: 4:00 - 6:00 pm

October 27, 2005

Workshop: 8:30 am - 12:30 pm

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.

Contact us 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 deductible contribution to the Business Families Centre
- opportunities for sponsorship of BFC events and courses