MARCH 2005

A NEWSLETTER FOR FRIENDS OF THE BUSINESS FAMILIES CENTRE

LEGACY MATTERS

Clear Boundaries Make all the Difference for Family Business

by DR. DENNIS T. JAFFE, Ph.D.

In order for family members to navigate between family membership, ownership and management roles it is necessary to create clear boundaries.

The American poet Robert Frost said, "Good fences make good neighbors." Since the same family members may be involved in both ownership and management of the family business, while others may only have one of these roles, in order to navigate effectively between family membership, ownership and management roles, it is necessary for a family enterprise to create clear differentiation and boundaries between them.

A boundary is defined as "the point where something ends and something else begins."

Think of a family—say two parents, and their adult son—having a meal together. Their relationship is informal and playful. Then, consider what changes when they act together as three one-third owners of a business, looking after the health of the business and the effectiveness of its management. In that role they are not primarily father, mother and son, but become three partners, with a shared interest. To add to the complexity, what if the son is the CEO of the business, and the parents, though owners, have recently left active management of the company they founded. Can the parents tell their son what to do? The parents emotional investment in the future of the company, and their relationship with their son—who they still see as a young man, very unsure of himself—will certainly come into play. The challenge is to make sure the emotions don't lead people to become involved in ways which confuse employees, undercut decisions and stifle necessary innovation.

I recently worked with such a family. When they talked, they were not sure which role they were speaking from. The parents tried to be good parents, while the son was trying to be a CEO, and also please his parents. As business founders, the parents felt free to come to the business and tell employees what to do. The employees weren't sure how to respond to them. This is a classic example of how a family business can be confused, even paralyzed, by boundary confusion.

The learning process for this trio was about creating appropriate boundaries, and having the discipline to maintain them. When they had a conversation, they had to define whether they were acting as owners, parents and adult children, or managers. For each role they had to clearly define what they could and could not do. In fact, only the son was a manager. The son had to have full authority to act as CEO, and not be overruled by the other owners. But the owners group could ask the CEO to leave, or hold him accountable for results. When they did so, they were acting as owners. And the parents had to see their son not as a child, needing guidance, but as an adult manager, and peer owner, of their business. Of course, as parents, they could decide to leave their 2/3 interest to their son, or to someone else.

To help define clearly the boundaries and roles, we created a Code of Conduct for the trio as a Board of Directors, that contained explicit rules for how much authority the son, as CEO, had to act, and when he had to consult his "board."

There were also limits to what board members could do—e.g. they could not talk to employees without informing their son, and would not overrule or question his decisions to employees. The goal of a good family business boundary is that it clearly defines the role, expectations, authority and behavior for family members as they move between roles. While it is easy to say that family considerations should not influence the business, in fact, for a family to move from a family first, to a business first mentality, requires the creation of clear and explicit boundaries.

Probably the major source of difficulty in a family business comes from the many aspects of relationships that cross system boundaries. When people are in such dual or triple relationships, they have to ask themselves if what they want to do, or are about to do, is appropriate for the role they are acting within. Can a mother come to her CEO son and ask/tell him that he should hire his cousin, who needs a job? I have seen a business where the mother actually gave her nephew a job without telling her CEO son! Imagine the consequences if the nephew is a failure, or the message that employees get when he shows up to work one day, clueless about what to do, or when the CEO son sees him at work without having hired him!

Good boundaries are needed in other dimensions of the family. In other cases, family members have business discussions at family dinners, leaving the family members not in the business to feel left out. Many families create times when there are to be no business conversations, to help support the boundary to the family.

There is a boundary between the parents and their children. Certain things that the parents feel and do are private, and should not be shared. A family faces boundary confusion if a father talks to a son or daughter about issues in his marriage, or if one sibling goes to her mother whenever she disagrees with something her sister and business partner does. In a family business, members may be together even more than other families.

There can be such a thing as knowing too much about each others' lives. A young adult in a family business often feels pressure to socialize all the time with the whole family. A daughter / manager may have married a man who respects and likes the family, but who wants to create his own family with her. The boundary issue for the young nuclear family is how to create a boundary of privacy so that they do not feel obligated to do everything with the family. For example, they may want to take a cruise for the holidays, rather than go to the family retreat to ski. The parents may take the efforts of their child to create a boundary as an affront to the family. Tension ensues. Part of growing up and becoming independent is the task of creating one's own identity, and not feeling like a junior part of one's original family. This is made more difficult in a family business where the generations are business partners.

Another kind of boundary is between the family owners, their employees and the community. There is information about the family finances that is not to be shared. As a young person grows up in the family business, he or she must learn that there is a boundary between the affairs of the family, who may share both intimate details of their lives, and about their business and finances, and what can be shared with employees and friends. They learn the boundary of privacy. As a child grows up and becomes privy to business information about the family, he or she must learn that such information is not to be shared except with appropriate advisors.

It is always a temptation to bring long-time employees, who are also friends, into the issues of the family. In a business one brother talked with his brother and co-CEO about the time schedule for a new product in development. Not satisfied with the timetable, the brother went to a key employee in charge of that area with his brother, and asked for his own assessment. A communication breakdown known as a triangle was created—where an issue between two people—in this case the co-CEO brothers—is transferred to another relationship where there is less conflict. As a result of confiding in a third person, the two people directly involved become more distant. Triangles abound across family business boundaries. Here is a true example. A CEO/son, and his brother-in-law, who was a manager in one of the family businesses had an argument, and the brother-in-law resigned and walked out. He went home and told his wife, the CEO's younger sister that her brother had fired him. She in turn called her mother, who talked to her husband about what their son was doing to his sister. Just three hours later, the son got a call from his irate father—the Chairman and majority owner—to tell him that he had better do something about this.

Every family is full of humorous and aggravating stories of boundary violation. But we are also sensible enough to see that they are inevitable in a family business. So, what can a family do to create useful boundaries that reflect the realities that they are both family members and business partners? First, they can recognize that such boundaries exist, and that as a family member, one's role changes in different situations. Asking one another if you are talking to them as a family member or colleague may help clarify what is going on. Second, as they grow and new generations move into the business, a family can create an explicit statement of the rules that pertain in ownership and management of the business for family members. They make things clear, and help people understand what behavior is appropriate in each role. Finally, and most difficult, family members can learn to see their relatives through different lenses in different roles, and separate family-based feelings (rivalry, jealousy, competition) from those that fit with the business and ownership roles.

The irony of Frost's statement is that boundaries seem to separate things, rather than link them together. Clear boundaries are such a paradox—they separate things, but in so doing allow individuals to grow and thrive, decisions to be made clearly and appropriately, and people to know more clearly who they are and where they stand, when they are together.

UPCOMING EVENTS & PROGRAMS

Registration

online at:
www.secure.commerce.ubc.ca/bfc/regform.cfm

by telephone 604.822.0102

Visit our website at **www.sauder.ubc.ca/bfc** for more information about these educational programs for business families and their advisors.

The Interdependence of Family, Ownership and Business Entities:
Breakfast Briefing Series

This series will teach an appreciation of the issues of all business families and the tools and structures to address these issues.

June 9, 2005
March 9, 2006

Outstanding Lecture Series

October 2005 - Lecture & Reception (tentative)
October 2005 - Full day workshop (tentative)

Governance & Succession Planning for the Family Business: A Multi-disciplinary Approach
In Association with CLE

November 17, 2005
Full day conference

Family Legacy Series Dinner

February 28, 2006 (tentative)

The Centre's fourth annual gala dinner

Navigating the Business Family Relationship: The Road Map

Over 80% of Canadian businesses 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? If you have been through this transition, is your family business functioning as effectively as it could be?

"Navigating the Business-Family Relationship: The Road Map" was designed by the Business Families Foundation for business families and is offered by the Business Families Centre.

The Road Map Program is as it says - a "road map" to future business prosperity and family success. It is designed to provide business families with insights, ideas and strategies for running their businesses more effectively and managing transitions.

This two-part seminar series focuses on relationship and communication issues unique to the family business enterprise. It teaches participants how to communicate more effectively and understand the different perspectives of those involved in business, the family and ownership.

This unique program provides family members with valuable skills that will help them move through the process of business leadership succession so that both family and business concerns are properly addressed.

Road Map is designed to be respectful and sensitive of the issues you are facing as a family. The expert facilitators create an atmosphere that fosters and supports communication between family members. This provides the building blocks that lead to constructive and meaningful change for business families.

Real-life stories and scenarios are used to demonstrate principles. Your family will acquire practical skills from the case studies used that are grounded in solid academic principles.

The Road Map course is a series of 10 consecutive units that fit together to provide an integrated whole. Each module addresses pertinent future issues, trends, opportunities and challenges. The course delivers the tools and skills necessary for a business family to learn how to manoeuvre the road ahead and continue safely on their journey.

SEMINAR TOPICS INCLUDE:

- Managing the different relationships within a family business;
- Developing communications skills to negotiate difficult business decisions;
- Establishing boundaries to balance personal concerns and business priorities;
- Planning for change and growth within the business;
- Different ownership models and responsibilities;
- Preparing for and managing ownership transition;
- Dealing with newcomers;
- Relinquishing or taking on a leadership role;
- Developing a Business Family Code of Conduct;
- Developing Shareholder's Agreements;
- Conflict management mechanisms for the family, the business and the owners;
- Exploring family values and beliefs and their impact on the planning process;
- Understanding the interdependance of the three organizations planning triangle;
- Identifying and selecting appropriate governance structures;
- Examining leadership continuity and succession planning.

WHAT PARTICIPANTS HAVE SAID

The Roadmap Program was tremendously helpful both personally and professionally for our family—significantly enhancing our understanding of family business in general and providing a new perspective on our own businesses. In addition, the three-circle concept provided us with a unique approach to identifying and dealing with family and business communication issues. A very good interactive program offering expert guidance ... I would recommend this program to any business family.

Dee Miller, Vice-President, JJM Group

The program was a great venue for increasing communication within your business family. It provided a clear understanding of the role of a shareholder, family member and active business member and how to distinguish between them. As well, the course was well laid out and entertaining—a must for business families.

Garry Zlotnik, President, Zlotnik, Lamb and Company

This is the best course that I have ever taken —at any time, at any place. I most highly recommend it.

Michael Bentley, President, M64 Management

The Roadmap course proved to be a productive venue for dialogue between my father and I by giving us the tools and skills to collaborate on a mutually beneficial course of direction for ourselves as individuals, and for our company, Accent Inns.

Mandy Farmer, Vice-President, Accent Inns

The course provided our family with a wonderful opportunity to discuss potentially difficult topics in a structured setting. By the time we completed the first session of the road map, we had really come together as a family and had some important discussions that I do not believe we would have had otherwise. The course really opened us up to deal with issues that can be quite uncomfortable to talk about.

McLean Family

Governance Series:

For the Family - November 29, 2005
For the Business - February 2, 2006
For Ownership - March 28, 2006

We live in a time where we hear a great deal about the importance of good corporate governance.

The topic of governance is essential to business families especially in the context of continuity to the next generations. Business families have many things to gain from implementing governance structures. Research has proven that families who engage in family meetings and/or family councils have a higher rate of success in transitions from one generation to the next.

In this series you will learn 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.

Custom Programs

The Business Families Centre will work with your company or association on a one-to-one basis to develop learning experiences tailored to your needs.

Our top ranked speakers are available to develop a customized learning experience for your family, employees, members or clients.

WHO SHOULD ATTEND

To experience maximum value from the Road Map program we encourage you to attend with other family members and, if applicable, with more than one generation of your business family. It is a great idea to attend with family business executives, potential and current successors, and family siblings, cousins and spouses.

BENEFITS OF ATTENDING ROAD MAP

Attending these seminars will help you:

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

LOCATIONS & DATES

In recognizing that each business family is unique, the Business Families Centre offers the 10 Road Map units either in two parts held over two weekends, or in 10 consecutive weeks.

Current dates and times for the program are:

Road Map One
April 8-10, 2005
UBC Robson Square, Vancouver
Times: April 8th: 2-6 pm (reception 6-7 pm)
April 9th & 10th: 8:30am – 4:30 pm

May 13-15, 2005
Okanagan University College, Kelowna
Times: May 13th: 2-6 pm (reception 6-7 pm)
May 14th & 15th: 8:30am – 4:30 pm

Road Map Two
September 23-25, 2005
UBC Robson Square, Vancouver
Times: Sept. 23rd: 2-6 pm (reception 6-7 pm)
Sept. 24th & 25th: 8:30am – 4:30 pm

Road Map One and Two
September 15th – November 17th, 2005
Every Thursday evening
Times: 6-9:30 pm

We believe in the value of the Road Map program and want to make it as accessible as possible for business families. If you are interested in the program but unable to attend any of the dates listed above, please phone Suzanne Bergin at 604-822-0102.

For further information please view our website: www.sauder.ubc.ca/bfc/education/road_map.cfm or phone 604-822-0102.

A Word from the Chair

Family Business is Good Business

by DAVID C. BENTALL

As 2005 approached, I was asked to predict what I saw ahead for the year. I stated: "I predict that 2005 will be the year that Canadians begin to recognize that family business is the economic engine of our economy." Allow me to explain why I believe this.

Firstly, over 80 percent of all companies in Canada are family businesses. (Meaning effective control of the business lies with a family, and more than one member of the family works in it.)

Secondly, these enterprises are estimated to account for 70 percent of all new jobs, and 50 percent of our GNP!

Thirdly, universities across the nation are now studying family companies more than ever before, and they are spreading the word that family business is good business.

Fourthly, research is showing that family firms outperform non-family firms financially, and even publicly traded firms that are controlled by a family are demonstrating that they can produce better returns for their shareholders than non-family companies.

The word is going to get out! Family business is good business, and we at the Business Families Centre are going to help spread the word, and also help these firms to continue to thrive!

If you are part of a family firm, be proud of that fact. The owners of one of the worlds most respected corporations are so convinced that being a family business is good, their slogan now reads: SC Johnson,......a family company.

Let's be proud of who we are, and what we have achieved as business families in our country!

Be a Part of Building the Business Families Centre

The Business Families Centre is building a team of volunteers that can provide support, specific skills, expertise and enthusiasm to our many initiatives. Please take this opportunity to contribute to the strength of our organization and the future of business family education and research in British Columbia.

We have opportunities where you can contribute on a one-time basis or make it ongoing – from one hour to many!

Business Families Centre Volunteer Opportunities

Marketing and Sales Committee: Participate in the development and execution of a marketing plan for the Business Families Centre. Provide input into everything from product, pricing, promotions, distribution and understanding the market.

Programming Committee: Members of this committee will be focusing on the educational needs and interest of business families and their advisors and developing courses that meet these needs.

Academic Committee: The purpose of this Committee is to develop the outline of course curriculum to be offered in an MBA specialization in Family Business Studies.

Fundraising or Sponsorship Committee: Can you assist us in raising money to support research and education in the area of family business?

Special Event: We need your help in all aspects of organizing our Family Legacy Dinner i.e. logistics, marketing, ticket sales, AV, decorations, sponsorship, volunteer management, programs etc.

Market Research: Would you be willing to participate in focus groups that will discuss things such as program content, marketing strategies and website usability?

Desktop Publishing: We are looking for volunteers to do graphic design and desktop publishing for brochures, e-mail campaigns and newsletters.

Administration: Would you like to help us update our database, make phone calls, and support the volunteer committees by taking minutes?

Website: Do you have website usability expertise? If so, we could use your help.

Writing: We need writers that can turn the information presented at our seminars into articles for the Business Families Centre newsletters and for distribution to other media.

Photography: We use photographs taken at our special events and activities in our newsletters, on our website and for promotional materials.

Grant and Proposal Writing: Do you have a knack for writing proposals? You can help us take advantage of these opportunities.

Virtual: Many of our initiatives involve time spent on the internet. For example, researching potential funding sources, family business leaders, and writing proposals.

Even if you live outside the Lower Mainland, you can participate via the internet, fax and phone.

We invite you to join our volunteer team—it will mean a lot to you, and even more to us!

Please contact Edie Doepker at 604-822-3289 or Suzanne Bergin at 604-822-0083 to join our volunteer team.

Our Advisory Board

The Business Families Centre is a unique marriage of academic excellence and real-world business insights. Our dynamic advisory board guides the Centre in its mission to provide your family and business with educational events, programs and research to help your business family grow generation after generation.

David C. Bentall (Chair), *Next Step Advisors*
Michael Bentley, *M64 Management*
Sylvia Bosa, *Bosa Ventures Inc.*
Katherine Bright, *Sauder School of Business, UBC*
Martin Charlwood, *Uniglobe Travel (International) Inc.*
Edie Doepker, *Sauder School of Business, UBC*
Dr. Nancy Langton, *Sauder School of Business, UBC*
Dee Miller, *JJM Construction Ltd.*
David Richardson, *Investor First Financial Inc.*
Dr. Marc-David Seidel, *Sauder School of Business, UBC*
Peeyush Varshney, *Varshney Capital Corporation*
Garry Zlotnik, *Zlotnik, Lamb & Company*

Ex Officio Member
Dr. Daniel Muzyka, *Dean, Sauder School of Business, UBC*

Honorary Members
Philippe de Gaspé Beaubien, *Business Families Foundation*
Nan-b de Gaspé Beaubien, *Business Families Foundation*

Our Professional Advisory Committee

The Professional Advisory Committee assists the Board and Business Families Centre in the ongoing process of fulfilling the vision and mission of the Business Families Centre. Members of the Professional Advisory Committee include professionals from a broad spectrum of disciplines, all of whom provide services, counsel or advice to business families. The main purpose of the Professional Advisory Committee is to provide technical expertise, knowledge and information on issues and concerns relevant to business families and their advisors.

Josephine Margolis Nadel, (Chair), *Director of the Centre for Entrepreneurs and Family Business, PricewaterhouseCoopers LLP*
John Bathurst, *Regional Director Wealth Services, BMO Harris Private Banking*
David Bentall, *Chair, Business Families Centre Advisory Board, Sauder School of Business, UBC*
Robert B. Carrothers, *Legacy Advisors Law Corporation*
Dr. Nancy Langton, *Academic Advisor, Business Families Centre Advisory Board, Associate Professor, Sauder School of Business, UBC*
David J. Raffa, *President, Harris Road Consulting Ltd.*
Claude Rinfret, *C.A., Western Director of Tax, Deloitte & Touche LLP*
Malcolm Ross, *President, Invest-a-Flex Financial Strategies Ltd.*
Thane Stenner, *First Vice President, The T. Stenner Group of CIBC Wood Gundy*
Peter Vaughan, *Registered Clinical Counsellor, TGIM Group Inc.*
Dr. Malcolm Weinstein, *President, Weinstein Management Ltd.*

Welcoming "Outsiders" into the Family Business

by MARK A. ZLOTNIK, CA, CLU, TEP

To ensure effective corporate governance in a family business, it is often prudent to engage an outside director (i.e.: non-family member). We have done this with great success at Zlotnik, Lamb & Company, where my father, three siblings and nephew work together. This article explains why we engaged an outside director, the criteria we used to select this person, and the benefits we have experienced as a result.

Objectives

Interpersonal dynamics can sometimes impact management's ability to be objective in running a family business. In light of this, Zlotnik, Lamb & Company engaged an outside director to:

1. Provide independent advice on various compensation issues, especially those related to family member-managers.
2. Supply independent viewpoints on how the business is positioned, strategically and otherwise.
3. Act as an arm's length "sounding board" on day-to-day issues.

An outside director doesn't necessarily need to know your business, but he or she should certainly have strong business experience. Having an informed yet objective outlook should help the outside director guide other directors' thinking on matters of potential conflict.

Criteria

There are many factors to consider in selecting an outside director, and some will be specific to your business or industry. At Zlotnik, Lamb & Company, we focused on the following six criteria:

1. Credentials: An outside director should have a complementary business background. We chose a retired partner from one of Vancouver's leading professional accounting firms. He possesses a wealth of knowledge about the financial matters we help our clients with.
2. Chemistry: An outside director should have a good rapport with the other directors. They must trust him or her. They should also feel comfortable sharing their deepest concerns with this person.
3. Independence: An outside director cannot be perceived to be closer to one or more directors than to the others. There must be a shared and substantiated belief that this person is acting solely in the best interests of the company.
4. Poise: Debates involving family members can sometimes become heated. To be effective, an outside director must be able to "attack the problems, not the people." He or she should have a calming influence on the other directors.
5. Involvement: An outside director should not simply attend quarterly meetings. He or she must be willing to attend corporate functions, interact with company personnel, and provide ongoing advice and counsel as required.
6. Respect: Falling out of the above points is one of the most important ingredients for success – respect. A family-dominated board will not respect an outside director's advice if this person does not have the credentials, chemistry, independence, poise, and level of involvement required to be effective in the role.

Results

Since we recruited an outside director two years ago, we have experienced the following benefits:

- Increased Business: Our outside director has helped us identify and pursue a number of excellent business opportunities since his appointment.
- Focused Meetings: Directors meetings have been calmer and more productive since our outside director joined the team. Before his arrival, our meetings could become informal, even familial – with Minutes and Action Plans being overlooked.
- Reduced Conflict: Our outside director has helped us look at the road ahead with greater clarity and vision. This has allowed us to meet as directors and discuss contentious issues without having to wear safety helmets. It has increased our company's effectiveness and profits. And it has brought our family closer together.

Mark Zlotnik is a shareholder in a family-controlled, Vancouver-based financial advisory group called Zlotnik, Lamb & Company. His areas of specialization include estate, tax and compensation planning for family businesses and privately owned companies. He is also a planned giving consultant.

Business Families Centre

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

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