

Changing Lanes

Transition planning for entrepreneurs and family businesses

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with compliments from



Capital Wealth Management

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Why Formalize the Business?

When any business moves forward without a critical road map, it is headed toward a dead-end future.

Laird Norton Tyee

In their latest study of family businesses, Laird Norton Tyee reported that 95% of respondents believe they manage their family-owned business just like they would any other business. Yet almost half had no formal plan for the business, a whopping 65% didn't require family members to have any specific qualifications or experience to work in the business, and less than 29% had a plan for the inevitable change in leadership!

The survey concluded that, despite the respondents' optimism about the future, "these enterprises face challenges both now and in the near future, that will determine their long-term viability." The greatest of these challenges arise from the lack of formality within family businesses.

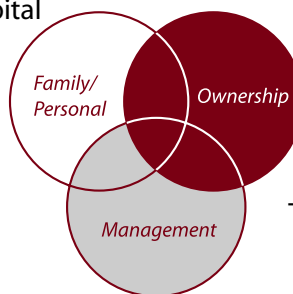
In this issue of Changing Lanes, we explore the complexities that present considerable challenges for business families, to see why it is critical to formalize or professionalize the business and meet the differing objectives of the three main entities: the family, the ownership and the management of the business.

Inside....

| | |
|-------------------------------|---|
| The Seven Complexities | 2 |
| Separate Family from Business | 3 |
| Prevent Loss of Identity | 4 |

The Emotional Capital

- Empathy
- Support




The Wealth Capital

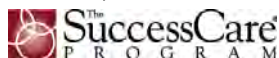
- Stewardship
- Fairness

The Wealth Engine

- Competition
- Opportunity

While the continuity of a family enterprise is dependent on common interests and healthy relationships within the family unit, too much emphasis on any one circle can throw the structure off-balance, increase the level of complexity, and subsequently diminish the longer-term viability of the business. 

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The Seven Complexities

As a family business grows, so do the issues and the need to professionalize.

In the formative years, there is little need for formality in the business. Generally speaking, decision-making, ownership, and power is in the hands of one or two and the organizational structure is simple. However, growth requires change and change increases the complexity.

While recognizing that a strong family unit contributes to the success and continuity of the business, family enterprises struggle to effectively balance the priorities of both business and family. The good news is that by bringing some formality and structure to the business, the following typical complexities can be managed.

No clear definition between family and business

With the principles and values of the family at its core, the DNA of a family company is considerably different from that of a non-family business. A non-family business can rigorously apply a 'bottom line' policy in all its operations, strategic planning and decision-making processes, whereas a family business will more often make decisions based on what is believed to be in the best interests of the family, employees, customers and suppliers who depend on it for their lifestyle. This melding of family and business causes a myriad of issues.

Family members can lose their personal identity

While a family working together for a common goal can be an extremely powerful force, it is very easy for succeeding generation family members to feel they exist only as a cog in the proverbial wheel. This is especially true today when as many as four generations can be found working together. The differences in work styles, motivation and personal needs are poorly understood.

Unresolved Conflict

Time and again, the media reports how conflict has resulted in litigation and destroyed not only the business but also family relationships for multiple generations. Families need to be more conscious of addressing differences and being proactive in finding a common interest and ways to create positive conflict.

The Seven Complexities

- 1 *No clear definition between family and business*
- 2 *Family members can lose their personal identity*
- 3 *Unresolved conflict*
- 4 *No clear vision or direction - only dreams*
- 5 *Lack of trust or "we focus"*
- 6 *Lack of communication*
- 7 *Lack of clarity around responsibilities, roles and rights*

No clear vision or direction - only dreams

As the business grows, responsibility must go hand-in-hand with the privilege of being the owner/operator. Business decisions impact both family members and employees directly and also affect the community at large, so it is important that the business has a clear, unified direction. Unfortunately most business owners fail to identify a clear path forward, preferring a more "gut feel" approach to making decisions. This results in a feeling of uncertainty about the business and an increased likelihood that it will be unable to anticipate the challenges ahead.

Lack of trust or "we focus"

Trust means to depend or rely on others and is a fundamental requirement of a successful business and its inevitable transition. Within a family enterprise, trust is developed from a "we focus" or common interest around the philosophy and direction of the business. Unfortunately, many family businesses have been afflicted with the "entitlement" virus; a "what's in it for me" disorder that quickly spreads to other family members.

Lack of communication

While it might seem obvious that a lack of communication will cause complexity in any business, most family businesses work on a need-to-know basis. This complexity stems from the early stages of the business when there was little need for communication. Unfortunately, poor communication leads to many of the stresses that manifest themselves as negative conflict.

continued on Page 3

Changing Lanes


Transition planning for entrepreneurs and family businesses

The Seven Complexities *continued*

Lack of clarity around roles, responsibilities and rights

Few family businesses manage the division of roles and responsibilities from a purely business perspective. Many businesses were created as an outlet for a specific skill set or talent of the founder who later finds herself struggling with tasks that conflict with her natural strengths. In addition, privilege or entitlement often leads to unqualified family members in key positions and sometimes roles are even created to fit the applicant. Failure to professionalize the distribution of roles and responsibilities breeds a false perception of rights, role confusion and greater conflict.

So as a family business owner or member, what can you do to address these complexities? The first step is to recognize the issues facing your own business. This and subsequent editions of Changing Lanes will further examine the seven complexities.


The second step is to call us to discuss a proactive approach to managing the issues. 

Separate Family from Business

The melding of people and relationships with the demands and objectives of the business world is a major source of complexity within the family business. Too often the dividing line between family and business is hard to discern. Where does the business end and the family begin?

Priorities for the business differ greatly from those for the family. While the family is all about empathy and support, the business should operate with policies, processes and best practices to the fore.

Even though the family unit is the core of the business, there must be a clear distinction between the two entities. While it is true that a strong family unit is vital to the success of the business, it is crucial that the two entities function separately and that the rules, expectations and system of governance of one do not overflow to the other.

The following stories illustrate just some of the ways the objectives of the family circle can spill over to the business circle and vice versa. 

Where should the focus be?

When the boys took over the business after their Dad retired, it was expected that Scott would take on a management position. It was quite a change for Scott who was used to the variety that comes with being out on the road and meeting lots of people. Now he was spending 95% of his time at a desk. He felt trapped.

Scott didn't realize until it was too late just how exhausted he was from trying to adapt to this new role. He didn't want to let the family down so he struggled on. He sunk deeper and deeper into despair until eventually he had a complete breakdown.

It's fairly common for family members to be assigned roles in the business that don't align with their capabilities. Unfortunately, when the focus of one area of a family business encroaches upon the objectives of another circle, one or both can suffer.

It took a while, but with the family's support, Scott has made a full recovery. Instead of focusing on the needs of the business (competition and opportunity), the family shifted to the objectives of the family circle (empathy and support). Scott's back at the plant now, but in his previous role, doing what he does best.

Cathy has worked in the family business since finishing college 20 years ago. Her father just turned 65 and if her mother has her way, Thom will likely retire in a couple of years.

As the only "offspring" directly involved in the business, Cathy feels she should be the one to take over when Thom retires. She certainly believes she has more knowledge of the business than Brian, her sister's husband, who is currently controller of the shipping division. She is a somewhat concerned that she might be overlooked because of her gender. Thom had his hopes set on his son taking an interest in the business but Derek has other aspirations. It's possible that Thom will shift his attention to the only other male family member in the business.

It's not always easy to separate family from business when it comes to choosing a successor. In the family circle, everyone is equal, but in business it is about choosing the best candidate for the job. Neither Cathy's gender nor the fact that she has been there longer should have any bearing on who eventually becomes CEO. Skills and personality assessments will help Thom make the right decision.

Derek is upset with the entire family. He brought his girlfriend over for dinner the other night, but the family were all so absorbed in discussions about the business, they hardly even noticed she was there.

The family dinner table is certainly not the forum for business discussions. More importantly, conducting business during family functions frequently leaves those not directly involved in the business feeling alienated and undervalued. For a family business to survive beyond the first generation, it is important to protect and treasure opportunities to connect as a family.

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Prevent Loss of Identity


While there are many benefits to being connected to or directly involved in the family business, there are certainly personal challenges too.

In many families, succeeding generations believe it's their destiny and their duty to carry on the family tradition. To them, the family legacy or heritage comes first and working in the business is a privilege, a way to remain an integral part of the family and build the family name and reputation.

Unfortunately, the enthusiasm often wanes as their own identity is overshadowed by the business. After years of having their ideas dismissed or their authority questioned, some feel so undervalued or stressed they turn to destructive behaviour to cope. Addictions such as alcoholism, drugs, or gambling are not uncommon.

Others join the business for the more obvious benefits and perks but then fall victim to the "golden handcuffs" ~ they are tied to the family business because after so many years they don't have the experience or education to work anywhere else. Some families end up having to deal with extra-marital affairs or divorce, depression or other emotional problems, and even aggression and violence.

Yet non-family employees and outsiders view a family business as the utopia of today – a place where family members are guaranteed well-paid jobs with lots of perks and freedom, and no worries about being laid off or fired. Often next generation family members are either mistrusted by the rest of the employees or considered nothing more than a management pawn.

With all the pressures that go hand-in-hand with being a family employee, it's no wonder that many become disillusioned and lose their identity and sense of self-worth. Unfortunately, both the business and the family suffer. 

Who are They?

Blake was having a bad day at work. A deadline had been missed and Blake's head was on the block. He did what any of us would do under stress – he vented to his co-workers hoping for some empathy. Unfortunately that didn't work for Blake because he is the boss's son and second generation in the family business.

Second generation family members are held to a different standard than non-family employees. They are constantly under the microscope. It's like being a celebrity with the paparazzi watching every move. They are expected to be twice as smart and work twice as hard as the rest of the staff.

Shelly is also second generation in the family business. While being evaluated by a senior manager, she was told that even though she might be competent in her job, he didn't believe she deserved the role she had been assigned.

Shelly found herself in a dilemma. As a non-family employee, Shelly would be able to go home and vent to her family about what had happened, but if she vented as the daughter of the boss, there would surely be repercussions for the senior manager. There was no one for Shelly to talk to, so she had no choice but to keep quiet. Caught in no-man's land between employee and owner, it is understandable that Shelly feels she has lost her personal identity.

Both Blake and Shelly could find support in the form of a peer mentoring group for members of business families. This forum would allow them to not only share their frustrations but learn how others handle similar situations. They would gain confidence in dealing with the paparazzi that exists in every family business. They would also learn how to accept the reality of their role as second generation.



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