

Changing Lanes

Transition planning for entrepreneurs and family businesses

Summer 2008 | Issue 3

with compliments from

Dave Somerville, CFP



Transitioning the Intangible Assets

Transitioning a business is not an event but rather a long-term process. Behind the obvious transition of ownership and day-to-day management is the more subtle transition of authority and leadership.

Mechanically, handing over authority is relatively simple but in reality, it is very difficult for entrepreneurs to let go of the control of their business. It takes time to gain confidence in a prospective successor. Add to that the preparation required to ensure that leadership goes hand-in-hand with that authority and it's easy to see why transitioning is a such long-term process.

Leadership is the key to transitioning a number of intangible but essential assets. Effective leadership of a family business encompasses much more than just making the business decisions. Equally important is having a personal passion for the business and the family's connection to that business, and the ability to transmit that passion to other members of the family and business. Leadership is also required in the transition of the purpose, power and professionalism of the family business.

In this issue we will examine the various components required for comprehensive leadership of a family business.

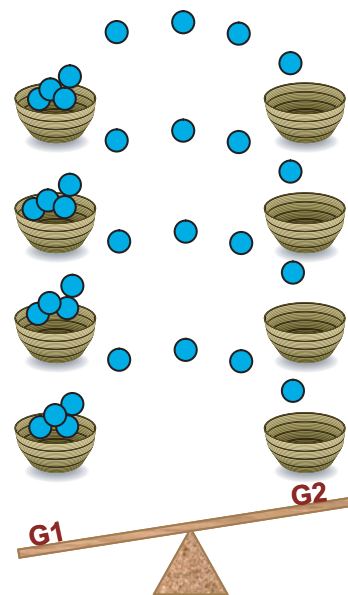
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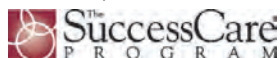
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Transitioning the Intangible Assets

- Purpose**
- Passion**
- Power**
- Professionalism**



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Leading the Way.....to What?

Leadership is one of the foundations of a successful business. To many, leadership means power and control. However, leadership of a family businesses encompasses much more. Here are some of the often forgotten aspects of leadership.

1. Future-focused. Leadership requires a focus on building the legacy of the family business. A leader should be able to envision and describe where the family and the business can go – the horizon that is the ultimate destination. They also need to have the drive and ability to lead the family and business to that horizon. Good leaders not only understand and believe in the purpose of the business but are also able to articulate what the business could look like 30, 40, or more years ahead, and how the current and future generations will benefit from being a part of it. Leadership is also necessary to ensure the family remains intact during and after the business transition and that they can all enjoy the benefits of staying connected.

2. Principles. Families should be clear around their reason(s) to be connected to each other. They should understand the purpose for their wealth, whether that wealth is invested in a family business or not. A strong leader will be able to help the family articulate those reasons.

More than likely, the reasons for the family to stay connected are based on their guiding principles. For many, it is a strong belief in stewardship. They believe it is their responsibility to take the wealth that has been created by a previous generation, use it and build on it during their reign and then pass it along bigger and better to the next generation. This principle applies even if the family decide to sell the business at any time.

It is critical that the leader truly believes in the principles that are upheld by the family and can help the next generation continue to live up to these principles.

3. Multi-generational. Leadership at the different generational levels is very important to a successful transition.

When working with entrepreneurially-led businesses we often have three different generations to consider. The first generation is referred to as G1, the children as G2 and the grandchildren as G3. It is important to cultivate leadership in all generations, both within the family system and in the business system.

Building leadership skills in succeeding generations can begin in the family system. When the children in one family reach twelve, they are offered \$1,000 to invest in a not-for-profit organization. Each child has to first select a cause that they consider worthwhile and present the reasons for their choice at the family meeting. When granted the monies, they follow through on the donation.

At a family council meeting for another family business, the three generations in attendance were stalled discussing the direction of the business in its current format. A member of the third generation demonstrated her leadership development when she spoke up to articulate what family involvement meant to her. She wanted to finish her education and have a start in business on her own so that she could prove her competency to herself. While she's really proud of the family business – whether the family is in this business or another business was not important to her – it is just a business after all. A good family relationship with the members around the table was more of a priority for her. The prospect that the family members might be willing and able to work together was what excited her most. Her statements had quite an impact on the group – giving them the perspective that there is a much longer-term focus within the G3 generation than with G1.

4. Complimentary leadership styles. There are many different styles of leadership, a number of which will likely be at work in family or non family-owned businesses simultaneously. The director-type person who drives the wealth engine may not be the best person to keep the family



A leader should be able to envision where the family and business can go – the horizon that is the ultimate destination.

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Leading the Way.....to What? *continued*

or principals communicating, while the visionary may not be the individual best suited to leading a team mandated to develop internal systems and processes. It's highly unlikely that one person can provide all the leadership styles required to accomplish the goals and objectives of the family and the business.

Leadership is not just stepping out and articulating the future. While there definitely needs to be someone with out-front leadership, other forms of leadership are very effective behind the scenes. People can show leadership when supporting those who are stepping out – by acting on items and following through. Therefore, people can also lead by following.

So often we hear comments about how family members don't have the skills to be involved in the businesses. When we dig further, we often find that there is a family system overlapping the business system. In these situations, families – especially parents and siblings – have put other family members in a box and labelled them.

True leaders have a combination of both *nature* and *nurture*, that is, they are born with a talent that is nurtured along the way.

Jane Hilburt Davis

When you know someone as a small child growing up, it is very easy to predefine their abilities. This predefinition may or may not be true. We often forget that many people are willing to search out new information and learn new skills. Most of us are on life-long learning curves. So it's only fair that if we are prepared to constantly challenge ourselves, we should be given the opportunity to learn the skills that will enable us to provide leadership within our family and/or our family business. If a family member is lacking a skill set, it is critical that you test whether or not they are willing to acquire that skill set.

It is also vital to assess each individual's natural abilities and instinctive talents. Everyone should understand how they instinctively act when in group and work environments.



They have to work twice as hard and be twice as smart...

There are a number of very effective tools that can provide insight into how people naturally approach situations. One particular behavioural assessment tool goes beyond what a person **can** or **cannot** do. It evaluates behavioral characteristics to determine what the person **will** or **will not** do. It identifies their compatibility with a specific role or position in terms of their aggressiveness, sociability, responsiveness, social adaptability, structure, and leadership. This can be a great foundation for growing a leader.

5. Mentoring and Development. Ensuring others are mentored, both inside and outside the business, is an important part of the leadership role. It is also critical in developing leadership for subsequent generations. G1 cannot fully understand what it is like to be G2 or G3 in a family business. The business has been created by G1 and the business reflects who they are. However, G2 is defined by the business. They have to work twice as hard and be twice as smart to be accepted by those around them. It is tough to be G2 in a business. G1 needs to show leadership by providing mentoring and/or support to G2 in order to build the leadership skills which will ensure the continuity of the family business.

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What is a Transition Plan?

In the last issue of Changing Lanes, we looked at the importance of incorporating a Communication Plan into your Transition Plan.

In keeping with the leadership theme, let's take a closer look at the Successor Development Plan that is also a key component of the greater Transition Plan.

While this plan is typically created within the Management Circle, we know that its roots lie in the Family/Personal circle. Grooming a successor begins with the founding generation displaying leadership

and building a stewardship philosophy in the family unit. If the second and subsequent generations feel the passion for the business, then there is a good chance they can develop other key leadership skills as they become more involved in the business. Mentoring and personal development plans should be implemented for all prospective successors.

As leadership skills develop, selection of a successor(s) should be formalized with an assessment of required versus current skills, and an action plan created to address any gaps. 


The Successor Development Plan

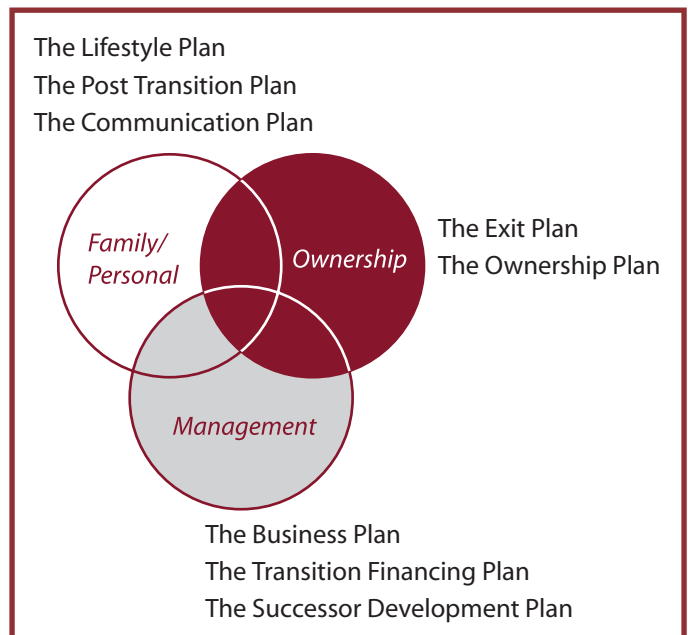
- Training and development
- Selection process
- Roles and responsibilities
- Contract / agreement

Leading the Way....to What? *continued*

Family members are more likely to realize their full potential with the guidance of someone with more experience than themselves. Helping each family member choose a mentor – a trusted and experienced individual who can assist them with career, training and skill development decisions, is certainly a key component of any Successor Development Plan.

In preparation for leadership within the family business, Personal Development Plans should be created for all family members involved in a management role. These plans detail the individual's objectives, current skills and abilities and desired skills and abilities. They also include action steps for achieving the objectives. Each plan can be monitored and assessed on a regular basis.

Remember that transitioning works when families understand why they are together and what they can do as a team as opposed to individuals. As a team, they have the opportunity to achieve greater heights and can pass that opportunity to another generation. In order to get to that spot, there needs to be leadership – out-front leadership and behind-the-scenes leadership. Leadership to the future is what is important. Every team needs strong leadership. 



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