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# Changing Lanes

*Transition planning for entrepreneurs and family businesses*



**LOFTUS ALLEN & Co.**

CHARTERED ACCOUNTANTS and FAMILY BUSINESS ADVISORS

with compliments from



Terri Heggum-Allen, C.A.  
Steve Allen, C.A.

## Avoiding Collisions on the Family Business Highway




The **Family Business Highway** aptly portrays the journey to building, and ultimately transitioning, a successful family enterprise.

Travelling the **Family Business Highway** is rife with potential collisions resulting from the differing objectives of the family/personal, ownership and management aspects of the business. The seven complexities highlighted in prior issues of Changing Lanes explored many of the fender benders business families typically encounter. Not only can families benefit from an awareness around how to manage these everyday obstacles, they also need to know how to prevent the more serious collisions that can stop them from reaching their preferred destination.

Successfully navigating the **Family Business Highway** and avoiding major collisions requires a roadworthy and reliable vehicle. This vehicle provides the alignment between the family and the business so should be designed to:

- Adapt to the poor road conditions resulting from a downturn in the economy.
- Recover from the potholes that appear when there is a crisis in the industry.
- Deliver good fuel consumption to stay the course.
- Brake safely to avoid collisions with the other vehicles on the highway.

In a family enterprise, this vehicle is called **communication** and is essential to arriving safely at the ultimate destination – a strongly connected family unit that has a clear purpose in life. This edition of Changing Lanes examines the features required for such a vehicle. 

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## The Communication Vehicle

A family business should unite a family, not break it apart. It should be a medium to provide for the well-being of all family members rather than cause strife among family members. It should be a source of pride for the entire family instead of a source of friction and frustration.

Every business family needs to invest in a vehicle that will not only unite the family but ultimately meet the objectives of both the family and the business.

What type of vehicle are you driving? Maybe it's time for a new one. The vehicle you choose to use in traversing the family business highway should be able to provide:

- A strong connection between your family and business through a **common purpose**.
- Clarity and consensus around how this **common purpose** will be realized.

The **common purpose** is a destination that enhances the success of both your family and your business. There are tangible methods you can use to define and adopt this common purpose. 🚗

## Identify the Common Purpose

Determining your destination or common purpose begins with clarifying your family's core principles. In most families, their whole philosophy – their values, beliefs, standards and attitudes – has been founded on these principles.

Our principles are what Stephen Covey describes as the **True North** – a direction that is constant regardless of how the compass is positioned. So your principles are the reference point or map for your journey. They will help you choose your destination and travel in the right direction.

Understanding and getting consensus on “who you are” is therefore the first step in designing a communication vehicle that can nurture a cohesive family unit and a legacy for future generations. This is a process that should involve the entire family so that even those who are not directly involved in the business will feel connected to the bigger goal. Together you can work on ways to meet the objectives of empathy and support within the family unit and how to stay connected through generations to come.

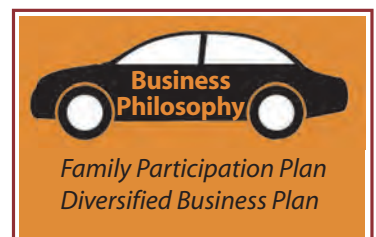


To be truly effective, this process should then address your guiding principles for the business. From the greater clarity around *who your are* and *what you stand for*, it will now be much easier to define your overall Business Philosophy and, as a family, buy into the beliefs that are the basis for how you conduct business. In addition, you will have more insight into the role the business must play in embracing a common purpose that ultimately achieves the family vision.

Your Business Philosophy should determine how you address the overlap of family and business, specifically the rules of engagement for the nuclear and extended family. These guidelines are called a Family Participation Plan and consider issues such as:

- Expectations of family members in the business.
- Compensation for family in the business.
- Decision-making processes for family members.

The Business Philosophy is also the foundation of a well-diversified plan for the day-to-day running of the business – a plan that can weather road conditions resulting from any number of external forces.



The introspection into what is needed to provide for the continuity of your family, and the role the business can play in achieving that legacy, leads you to the final component of establishing a common purpose – a definitive philosophy for the stewardship of the family assets. We call this the

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## Identify the Common Purpose *continued*



Ownership Philosophy and its objective is to ensure clarity and consensus around the management of the family wealth. For example, if the overreaching philosophy is to preserve the family assets, then policies around future investment and/or ownership of the business should uphold that principle.

A very effective way to document the Ownership Philosophy is to craft an Ownership Plan and a Shareholder Agreement

### Where Are You Now?

*The **Where Are You Now** Discovery Questionnaire is a key first step in engaging your family and other stakeholders in identifying that common purpose. Together you will be able to uncover the building blocks and obstacles to reaching your destination.*

*This confidential questionnaire explores each person's viewpoint on the thirteen areas that are key to the success of a family business:*

- ✦ Business Planning
- ✦ Business Values
- ✦ Communications
- ✦ Compensation Plans
- ✦ Connectedness
- ✦ Contingency Planning
- ✦ Decision Making
- ✦ Estate Planning
- ✦ Future Uncertainty
- ✦ Guiding Principles
- ✦ Harmony
- ✦ Ownership
- ✦ Succession Planning

*The results are amalgamated to produce a report that highlight the areas where you can better equip your communication vehicle for a more meaningful and ultimately successful journey.*

*You can either complete the questionnaire online or request a hard copy version. To get started, simply give us a call.*

from the key wealth transition principles rather than settle for the typical ineffective documents that exist today.

And so the design of the communication vehicle begins to unfold. The next step is to create the structures that will ensure the communication is effective.

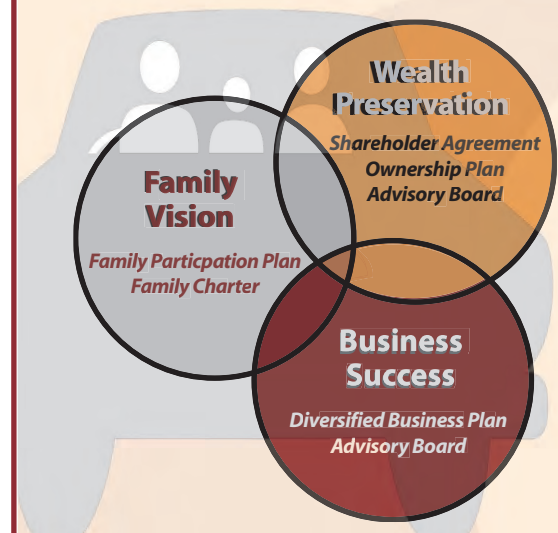
***From family vision to business success and wealth preservation, there is a lot riding on this vehicle. Not only does it carry a precious cargo – your family – but it is also the only way to unify the goals of the family with the business and create that common purpose.***

***So take the steps to avoid those major collisions. Invest the time to equip your communication vehicle so that your common purpose can be embraced and effectively maintained. The outcome is a map for the family's future – a long-term plan that identifies the vision and how it will be attained.***

## Wheel Alignment

Hitting potholes on the Family Business Highway will undoubtedly throw your vehicle off balance. Keeping the wheels aligned with an equal focus on the family, the management, and the ownership areas of the family enterprise is necessary to ensure a smooth ride on the journey. Consider the map below for ideas on how to keep that balance through appropriate communication channels. These channels will be explored in this and upcoming editions of Changing Lanes.

### Equipping the Communication Vehicle



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## Family Participation Plan

There is no doubt that a family business is stronger when run by people who see an alignment between the organization and their personal passion and direction in life. This alignment begins with communicating to family members how they qualify to participate.

A **Family Participation Plan** is that communication tool. It is a detailed roadmap for involvement in the family firm, both at the ownership level and in the day-to-day operation of the business. Its objective is to prevent any misconceptions around how and when people are eligible to participate in the generation and preservation of the family assets. As it documents the criteria for employment and/or share ownership, all family members, including extended family, are very clear about their eligibility and accountability for both.

For example, a Family Participation Plan should clarify whether or not in-laws or stepchildren can own shares, and also communicate the overriding policy for compensating family members who work in the business. Consider the following

list of questions that are often addressed in a Family Participation Plan.

- What is the overall vision for family participation in the ownership or management of the business?
- How does a family member qualify to be an owner?
- How do new owners pay for their interest?
- How do they exit again?
- What are the criteria to work in the business?
- What is the process for hiring family members?
- How are roles allocated?
- How is compensation determined?
- How are family members mentored in the business?
- Who will be responsible for their continued personal development?
- How is their performance evaluated?
- What is the criteria for future leadership of the business?
- What are the policies for breach of confidentiality, employment with competitors, or dealing with suppliers who are family members?
- What are the consequences for a violation of the family or business code of conduct?

For more information on how to map out a Family Participation Plan, give us a call. A comprehensive plan will help you keep that all-important alignment and prevent a collision between family members. ■

### Why Join the Family Business?

#### Ought to

*You have a sense of loyalty or are expected to join (birth order/gender)*

#### Have to

*You might otherwise miss out on financial or social opportunities*

#### Need to

*You don't believe you have any other career choices*

#### Want to

*You see an alignment between who you are/what you want and the philosophy of the family business*



*Adapted from 2005 research by Sharma & Irving.*



**LOFTUS ALLEN & Co.**

CHARTERED ACCOUNTANTS and FAMILY BUSINESS ADVISORS

1388-C Cornwall Rd.  
Oakville, Ontario  
L6J 7W5

905-566-7333  
[www.loftusallen.com](http://www.loftusallen.com)