

Changing Lanes

Transition planning for entrepreneurs and family businesses



LOFTUS ALLEN & Co.

CHARTERED ACCOUNTANTS and FAMILY BUSINESS ADVISORS

with compliments from



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Keep Your Vehicle Roadworthy



Thom Penmaen has a vision. His vision is to pass the business to his three children. However, his greatest fear is that they won't see eye-to-eye and the increasing sibling rivalry will escalate to the point where either or both the business and the family relationships are permanently damaged. So paralyzing is his fear that he isn't planning appropriately for his impending exit. With no concrete plan, his business is spiraling towards an involuntary sale.

Just outside of town, Kurt Harrowfield sleeps much easier at night. He too is focused on passing the business to the next generation and looking forward to it becoming a legacy for his grandchildren. He knows his eldest daughter is happy in her teaching career but is confident that the two younger siblings will take over the family firm. They get along well together so it should be smooth sailing ahead. However, Kurt has failed to consider whether or not his adult children will be able to agree on how they will run the business once Kurt is out of the picture, or if the eldest daughter's children will be eligible to work alongside their cousins when the business passes to the grandchildren.

Despite their differing outlooks, both Thom and Kurt have failed to see the importance of a communication forum for discussing their family philosophy and ensuring the business and ownership philosophies are aligned.

This edition of Changing Lanes continues the examination of the **communication vehicle** that is critical to delivering you and your family business safely to your preferred destination. It explores the one component of a roadworthy vehicle that is fundamental to ensuring balance between the family, ownership and management areas of your business. 

Inside....

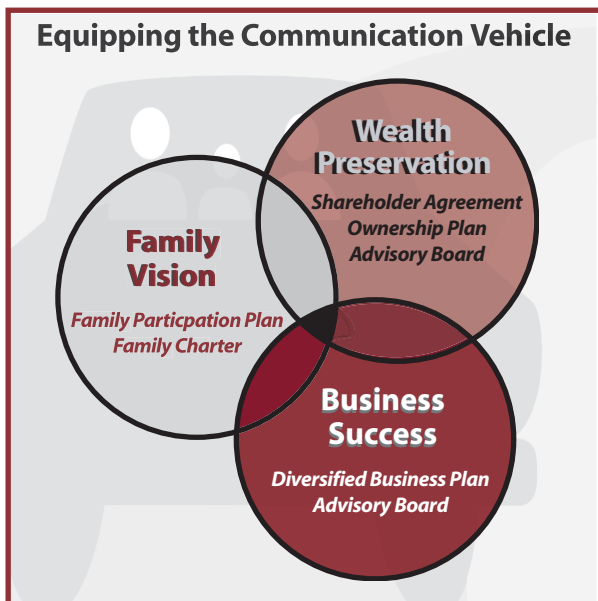
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The Communication Vehicle

In the last issue of Changing Lanes we explored the need to have a clear destination – a common purpose – for your family business. Getting to this destination requires a roadworthy vehicle that is well-equipped with plans and policies that document and align the objectives of each area of the business. We liken this fully-equipped vehicle to what Randy Carlock and John Ward (in their book entitled *Strategic Planning for the Family Business*) call **Parallel Planning** or *combined family and business plans that are mutually supportive of the other's needs and goals.*



However, maintaining the roadworthiness of the communication vehicle is just as important as equipping it with the right components. For the majority of business families, the **process** of developing the policies and plans pays huge dividends. Not only do individuals discover a lot more about each other and how the business operates, they also strengthen their family connection, develop a clearer *we-focus*, and learn some very valuable communication and decision-making skills for their role as a Director or shareholder in the business.

There is indescribable value from a family working together to develop a Family Charter, Family Participation Plan, Diversified Business Plan or Shareholder Agreement that can guide and connect the family for generations to come. Read on to learn more about the power of a Family Charter. 

The Family Charter

A charter is an agreement or document outlining the conditions under which a body is organized, defining its rights and privileges.

Given the overlap between the family and business circles, there is little doubt that your family's philosophy will impact the success of your business, specifically around how the business is run and how decisions are made. Developing a document that communicates this philosophy will not only help guide future generations as they develop plans and policies for the business, but will also promote support for what is important to the family, and ensure clarity around the rights and privileges that are part and parcel of membership in any family. We call this document a **Family Charter**.

Developing a Family Charter begins with defining and communicating your family's principles. In most families, their whole philosophy – their values, beliefs, standards and attitudes – has been founded on a few core principles. So these principles are essentially the reference point or map for your journey on the family business highway. They will help you choose your destination and travel in the right direction. Using these principles, your entire family can work together to:

- Create a Family Creed or Mission Statement that will communicate your family's founding principles and how they contribute to the continuity of the family heritage. To paraphrase John D. Rockefeller Jr. – such a creed depicts “the things that make life most worth living.” (See a copy of the Rockefeller Creed on page 3.) What a truly powerful way to pass a legacy to future generations!
- Create an ethics policy that outlines the rights and responsibilities of family members. In order to uphold the family principles both inside and outside the business, this policy also contains guidelines around how the family will deal with unacceptable behavior or conflict of interest. Such a policy is critical to maintaining an environment that supports mutual respect.
- Define an overarching purpose for your family wealth that upholds your principles. As Mahatma Gandhi wisely noted, wealth without work can be very destructive. Through a Family Charter, you can ensure that the current and future

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The Family Charter *continued*

generations have a clear purpose for the wealth generated from the family business. This purpose can include using the family assets in areas such as philanthropy, citizenship and neighborliness.

- Develop your business and ownership philosophies. These philosophies are the keystones for the rest of your communication vehicle. In the last issue of Changing Lanes you saw how the business philosophy is impacted by both the family circle and the business circle. Similarly, the ownership philosophy resides in the overlap between the family and ownership circles. Through the process of developing your Family Charter you will first clarify these philosophies and subsequently communicate the thinking behind how strategic, reinvestment, participation, compensation, asset distribution, and/or operating decisions are made.

In essence, a Family Charter is the foundation of your entire governance structure – a structure we aptly call the **Family Business Senate**. It lays the groundwork for effective governance in each of the Ownership, Management and Family circles. It serves to maintain and enhance respect, trust, stewardship, leadership, relationships and reputation. *(Learn more about the Family Business Senate on Page 4.)*

While your Family Charter can never anticipate all the questions and challenges that will arise, the process of developing and maintaining the document certainly affords the opportunity to develop a cohesiveness that will be invaluable in managing future issues and obstacles. What better way to build family unity and make the shift from an entrepreneurial business to a family business! 

While the wording in this document might be somewhat dated, it provides a great example of the power of a Family Creed and the message it imparts to ensuing generations. When devised by the larger family group, it can be even more impactful!

The Rockefeller Family Creed

The Things That Make Life Most Worth Living

by John D. Rockefeller Jr

These are the principles on which my wife and I have tried to bring up our family. They are the principles in which my father believed and by which he governed his life.

They are the principles, many of them, which I learned at my mother's knee.

They point the way to usefulness and happiness in life, to courage and peace in death.

If they mean to you what they mean to me, they may perhaps be helpful also to our sons for their guidance and inspiration.

These are the principles, however formulated, for which all good men and women throughout the world, irrespective of race or creed, education, social position or occupation, are standing, and for which many of them are suffering and dying.

These are the principles upon which alone a new world recognizing the brotherhood of man and the fatherhood of God can be established.

- I believe in the supreme worth of the individual and in his right to life, liberty and the pursuit of happiness.
- I believe that every right implies a responsibility; every opportunity, an obligation; every possession, a duty.
- I believe that the law was made for man and not man for the law; that government is the servant of the people and not their master.
- I believe in the dignity of labor, whether with head or hand; that the world owes no man a living but that it owes every man an opportunity to make a living.
- I believe that thrift is essential to well ordered living and that economy is a prime requisite of a sound financial structure, whether in government, business or personal affairs.
- I believe that truth and justice are fundamental to an enduring social order.
- I believe in the sacredness of a promise, that a man's word should be as good as his bond, that character - not wealth or power or position - is of supreme worth.
- I believe that the rendering of useful service is the common duty of mankind and that only in the purifying fire of sacrifice is the dross of selfishness consumed and the greatness of the human soul set free.
- I believe in an all-wise and all-loving God, named by whatever name, and that the individual's highest fulfillment, greatest happiness and widest usefulness are to be found in living in harmony with His will.
- I believe that love is the greatest thing in the world; that it alone can overcome hate; that right can and will triumph over might.

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Using the Charter in Governance

Essentially governance is the process by which decisions are made and subsequently implemented.

Good governance is not always easy to attain, especially in a family business that has very differing objectives for the Family, Ownership and Management circles, and just as many overlapping areas that add to the complexity.

The **Family Business Senate** was designed to not only help families understand and manage the complexities but also create appropriate structures to enable effective governance.

A Family Charter is the foundation of the **Family Business Senate** concept. It is the cornerstone of an effective governance process.

With the development of a Family Charter that delivers a common purpose for both the family unit and the business entity, families have a stronger foundation upon which to build open and honest communication.

The Charter also provides the basis for a Family Participation Plan that clarifies how family members can participate as shareholders and Directors in the Ownership circle and/or qualify for a role in the day-to-day management of the business.


Finally, the Charter sets the stage for the development of the *communication, problem-solving and decision-making*

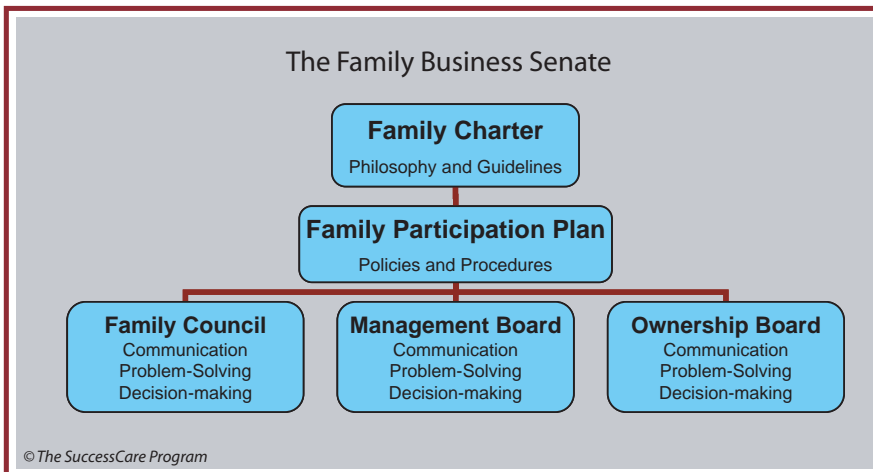
techniques that are essential to effective governance. With greater awareness of the overreaching family business philosophy through a Family Charter, families can take the next step to create forums that will sustain the differing objectives of each of the three areas (family, management and ownership) yet at the same time encourage inclusiveness, participation, transparency and accountability.

Such forums include a Family Council or similar structure where family members can gather to discuss and develop documents like a Family Charter or Participation Plan, an Ownership Advisory Board that focuses on the preservation

of the family assets, and a Management Board that oversees the management of the wealth engine itself. These structures are valuable forums for engaging and grooming future generations and extremely important in professionalizing the governance of a family business.

So whether your exit

strategy is an external sale to someone outside your business, or an internal sale to family or management, a Family Business Senate will help you enhance the value of your investment by formalizing the governance process. You will not only find it much easier to make group decisions but will be more likely to have the buy-in that will ensure those decisions are implemented. 



Can you make the shift from “me” to “we”?

If you envision your family carrying on the business, we recommend reading: **Exit Right ~ A guided tour of succession planning for families-in-business-together.**

This book delivers a 20,000 foot view of the succession planning process and contains action steps you can take as you address each of the key questions posed by the authors.

You can purchase **Exit Right** online at:
www.successcare.com/category.cfm



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