

Summer 2010

Changing Lanes

Transition planning for entrepreneurs and family businesses



LOFTUS ALLEN & Co.
 CHARTERED ACCOUNTANTS and FAMILY BUSINESS ADVISORS

with compliments from



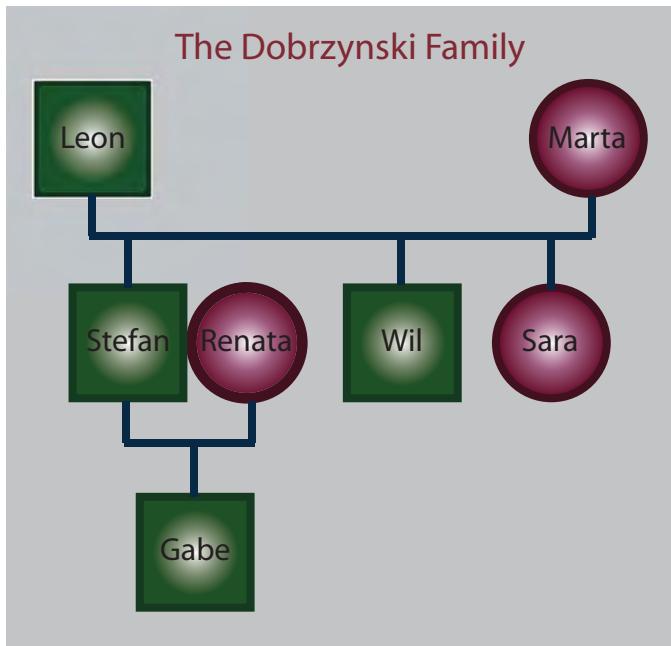
Terri Heggum-Allen, C.A.
 Steve Allen, C.A.

The Day Before Thanksgiving

Marta Dobrzynski was looking forward to Thanksgiving with mixed emotions.

Marta had received some disturbing news during yesterday's medical appointment and was determined that tomorrow she would tell Leon, her husband, that it was time he backed away from the printing business he had founded and devoted his life to for over a quarter-century. Surely Stefan, their eldest son who had joined the business after graduating from university with a degree in commerce, was capable of taking over the role of CEO. Also Sara, their youngest child, was doing a wonderful job in her role in production and Marta could see she would be a great support for Stefan.

At least Marta would have the whole family around for support at dinner tomorrow. Their other son Wil would be home on one of his rare visits. Wil was currently doing some freelance photography work and spent a lot of time overseas covering one major story or another. It was time for Wil to come back and get involved in the family business.



But Wil has other ideas. He was making this trip home for a reason. He had been toying with the idea of accepting a lucrative job offer in Australia and had finally decided it was the right career move. After all, Dad wouldn't even consider him as the successor in the family business – that was clearly Stefan's role by birthright! There was no way Wil could even consider working under Stefan. Stefan had always acted the superior – that was the main reason Wil had left home in the first place.

Inside....

- The Day Before Thanksgiving** 2
- Equipping the Communication Vehicle** 2
- The Role of a Family Council** 3
- Steps to Set Up a Family Council** 3
- Reasons To Avoid Family Councils** 4

Changing Lanes

Transition planning for entrepreneurs and family businesses


The Day Before Thanksgiving *continued*

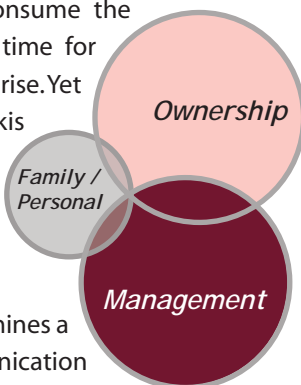
What the rest of the family didn't know was that Stefan had been trying to pluck up the courage to tell his father that he wanted to start his own advertising and marketing business and would appreciate some financial help from Leon to get the business off the ground. When Stefan's wife, Renata, returned to work following her maternity leave, she wanted them to be living closer to her company's head office so she would have a shorter commute and more time to look after their young family.

Sara was also anxious about Thanksgiving. She planned to get Dad's attention at a time when he wasn't otherwise preoccupied and tell him her great ideas for expanding the business. Sara really enjoyed her role in Dobrzynski Printing but felt Leon didn't appreciate what she had to offer. She had been dealt a double whammy – not only was she the youngest, she was also female, and therefore the last in line for any leadership opportunities. This was a last ditch effort to earn a promotion before switching careers to go work with her fiance Joel after their wedding next summer.

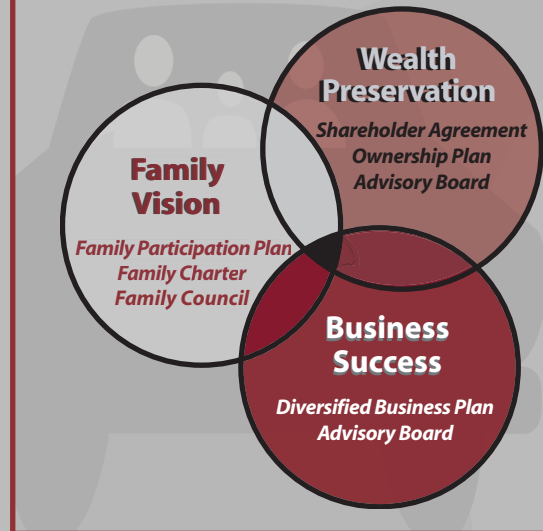
As the family sat down to dinner the next day, Leon looked around happily. He was in his prime and looking forward to the future. He had a wonderful family, the business was doing well, and he had no financial worries. Life was great!

Likely you are wondering how Leon could be so blissfully unaware of the undercurrents. There's no doubt that running a busy company can quickly consume the owner-manager and leave little time for nurturing within the family enterprise. Yet there are ways the Dobrzynskis could have prevented the current imbalance between family needs and those of the management and ownership of the business.

This issue of Changing Lanes examines a critical component of the Communication Vehicle – one that helps create that balance and is a forum for strengthening family ties and creating a unity that runs deeper than the sense of self. 

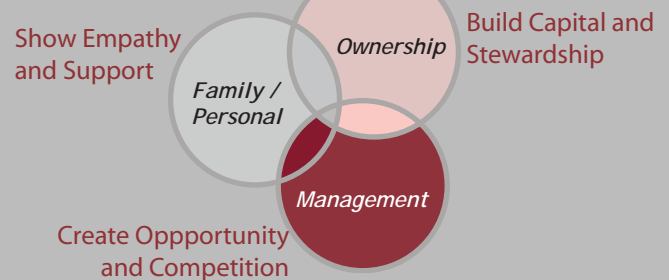



Equipping the Communication Vehicle



Every family will hit potholes such as those the Dobrzynskis are facing. Whether these potholes impact the family or the business, it is crucial that the family has a process for dealing with their concerns rather than allow them to fester to the point where they threaten to destroy family relationships.

In this edition of Changing Lanes we look at a practical way for business families to communicate their ideas, opinions, and expectations, and work together to develop the empathy and support that are the main objectives of the family circle.



We will examine the use of a Family Council – a structure that not only gives every family member a voice and a safe place to be heard, but also gives them the opportunity to develop the policies that will guide their decision-making for generations to come. Most importantly, it is a structure that ensures that much-needed balance between family and business. 

The Role of a Family Council

All over the world, Family Councils have been established at the community, regional and national levels to promote the value of the family unit. They cite effective governance as the key to strong, cohesive families.

Governance is the process whereby decisions are made and then implemented – so it doesn't just apply to businesses and larger organizations. Every family has decisions to make.

Like businesses, families have financial needs, educational needs and of course membership accompanied by rights and responsibilities. They have visions of perpetuity and values by which they live.

Each family needs to develop its own common goals, and the policies and guidelines that will help them reach those goals.

So Family Councils are a forum for governance and are just as effective within the nuclear family. And in the case of a business family, they are absolutely necessary for balancing the needs of the family with the demands of the business.

Consider our top ten reasons for establishing a Family Council.

- 10 Conveys a positive message to the world by showing that the business is committed to good governance.
- 9 Prepares the family for inevitable family reorganizations due to births, deaths, marriages, divorces, plus business and economic downturns.
- 8 Provides a forum to educate family members on confidentiality, effective communication, critical thinking, problem-solving, financial planning and other life skills.
- 7 Provides an opportunity to recognize individual achievements.
- 6 Family members learn about the complexity of running a business and the need for ongoing reinvestment.
- 5 Provides a connection for those family members not involved in the business.
- 4 Provides an opportunity to share, discuss and support each individual's dreams and goals.
- 3 Provides a forum to teach family values and discuss rights and responsibilities.
- 2 Family members learn to be leaders and are groomed for a role as shareholder or director in the family business.

And the number one reason for a Family Council...

- 1 **Promotes consensus-building and family unity.**



Steps to Set Up a Family Council

When the family and/or business is in its formative years, a Family Council is often preceded by an informal gathering of the nuclear family or key stakeholders. The first step is usually to:

- Define the purpose of the Family Council and establish a shared mandate.

For some families, the focus is on keeping the family connected, while others establish a Family Council for the purpose of upholding shareholder interests. Here are some examples of Family Council mandates:

- Promote emotional and social well-being through work-life balance.
- To be a voice for the family.
- Promote our unique family heritage.
- To enhance the quality of life for future generations.
- To build trust and respect for family and business through open, honest communication.
- To prepare next generation leadership of both family and business entities.

- Establish a format for meetings and determine how often the council will meet.

We recommend Family Council meetings include both a business component and a family component. Content will vary depending on what is topical at the time but the early meetings will likely deal with clarifying a common vision and setting policies for next generation involvement in the ownership and management of the family enterprise. Below is an agenda outline for an effective Family Council meeting.

A business component:

- Information or decisions around philosophy, capital and assets.

An educational component:

- Personal development, team-building etc.
- New members are schooled in the family values, culture, and traditions.

A social component:

- Activities to enhance relationships and build traditions.
- Fun is mandatory!

As the family grows in size, communication becomes more difficult so a more formal structure is required. The next steps are to:

Continued on page 4


Changing Lanes

Transition planning for entrepreneurs and family businesses

Reasons To Avoid Family Councils

You are not the first person to initially reject the idea of a Family Council. Many business owners believe Family Councils are only beneficial for families who run large companies. Others fear that Family Councils will open them to criticism of their business management decisions, and invite meddling by people who have no business acumen.

So, yes, if you lack confidence in your leadership abilities or are afraid to hear what others think, there are reasons to avoid establishing a Family Council. If you are afraid that sharing sensitive information among family members will make you vulnerable rather than building a sense of stewardship of the assets that will eventually pass to those same family members, then maybe a Family Council is not for you. Or perhaps you are like Leon Dobrzynski and find it easier to ignore the dreams and fears of family members and plod along pretending that everything is wonderful. Good luck!

For those of you who truly want to create the choice for your business to remain in the family after your reign, we urge you to consider the positives to the aforementioned negatives that are listed in the table to the right. 

Cons	Pros
<i>I don't want to lose my authority</i>	Family members will have the opportunity to learn from you
<i>It might create conflict</i>	It prevents issues from festering
<i>It will become a free-for-all</i>	A well-run council teaches problem-solving and helps build consensus
<i>Our family (business) is too small to need a structure like this</i>	You will have prepared for family growth and when siblings have to make decisions without parents
<i>Don't want to have to give out financial information</i>	You will be building trust and a sense of stewardship before family members inherit the business wealth
<i>No need for the entire family to know what's going on</i>	Family members already have their own perceptions. Giving them the facts is actually safer!

Setting Up a Family Council *continued*

Define membership Criteria.


Generally, all adult members are eligible to participate in a Family Council. This includes those who marry or are adopted into the family. Some families choose to include teenagers who express interest in the structure and are mature enough to uphold the confidentiality.

Develop ARAs (authority, responsibility and accountability) for key roles and/or committees.

Typically these include a chairperson, meeting chair, secretary, social committee etc. An ARA maps out the expectations for those who choose or are chosen to play a lead role. The family also needs to decide how people will be appointed or elected and how long each term of office will be.

Develop meeting rules that include guidelines for communication, problem-solving and decision-making.

As the Family Council is often as much a forum for education as it is for communication, it is advisable to formalize the meetings along the lines of business or not-for-profit boards. The family can adapt some basic meeting rules in the early days or engage a trusted advisor as a meeting facilitator to help them develop their own customized processes.

We are available to help in setting up or facilitating your Family Council meetings. Just give us a call. 



LOFTUS ALLEN & Co.

CHARTERED ACCOUNTANTS and FAMILY BUSINESS ADVISORS

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

905-566-7333
www.loftusallen.com