

Insight for family enterprises presented by the Sauder School of Business

Selling the family business not a panacea for solving problems, say experts

In Canada, family enterprises are unparalleled engines of our economy. Sadly, challenges ranging from interpersonal conflicts to insufficient succession plans too often result in many family-run operations failing to transition to future generations.

This sorry reality has prompted business family experts to urge business-minded clans to consider their options before selling the family enterprise and potentially facing a lifetime of regret.

“Family enterprises grapple with family dynamics and communication issues,” says Diane Friedman, a Vancouver-based business family advisor. “The traditional family as we imagine it is not reality for most (business) families. There are a host of issues – ‘fair versus equal,’ competency, competitiveness, divorce

and mental illness – that no one really wants to talk about, but they become critical to the succession process.”

Noel Golden, a partner at legal firm Borden Ladner Gervais, says common problems and conflicts often stem from the blurred lines between the family, the business and ownership. “In addition, the leader may be resistant to formalizing structures and systems necessary for the business to flourish in a transition. It can be a barrier to building the abilities and independence of the next generation that enable them to take over.”

Often, an inability to communicate about difficult issues leads to entrenched conflict. That conflict may lead to the conclusion that selling the business is the only alternative – but a sale may



When considering the sale of a family business, owners are encouraged to consider not only the economic and workplace ramifications, but also the potential impacts on the family and its members.

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only transfer the conflict into the distribution of assets and beyond, leaving the family mired in regret and recrimination, he says.

To achieve a successful transition, a framework is required for communication, decision-making and accountability within the three realms of family enterprise: the family, the business and the owners, says Mr. Golden. “These decisions affect not only those people directly involved in the transaction – owners or workers – but everyone within the family system. Understanding everyone’s goals and objectives is essential to success and harmony in the family.”

The habit among business owners to overestimate the value of the business is another common pitfall. “Sellers are emotionally attached to their business because it’s been their life’s work,” says Mr. Golden. “But the sweat-equity a vendor puts into a

company is only relevant to a buyer if it shows up in the company’s numbers, financial strength or prospects for growth.”

He suggests a professional evaluation of the business, but warns that even a thorough economic analysis doesn’t provide all the necessary data for decision-making. “You have to assess the family dynamic. Might there be a missed opportunity for the children to continue the life-work of the founder? Do family members involved in the business have replacement activities planned?”

Professional advisers can play an important role, helping families transform conflict into a positive mechanism for change, says Ms. Friedman. “Start early, and be prepared to invest the time. It can take three to five years to prepare a business for sale, and 10 years or more may be more appropriate for a family transition.”

“Customized, objective advice is an integral component in the transition planning process, especially for family businesses. Talking with an expert about your future transition plans is the first step towards maximizing the value of your business for the next generation.”

Sean Foran
Managing Director
Business Transition Planning
& Trust Services, CIBC



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EXPERT OPINION

When determining your business's worth, see the big picture

Dr. Thomas Zellweger

Associate Professor, University of

St. Gallen, Switzerland

CIBC Visiting Professor in 2010,

Sauder School of Business



above market value.

The strongest driver of what we call “emotional value,” the gap between the owner-perceived value and market value, are the intentions of the owners to pass on the firm to the next generation. In the presence of strong transgenerational sustainability intentions, owners had a stronger inclination to overvalue their firms.

Owners also differentiated between types of buyers: comparing acceptable sale prices between family and non-family buyers, we found owners were willing to sell at a 20 per cent discount to family members in comparison to a sale to a non-family buyer.

We also found evidence that, with increasing duration of family

control, the owned firm developed an “heirloom meaning,” inducing owners to further heighten emotional value and acceptable sale prices.

Just as importantly, our research shows that physical and mental stress may induce owners to withdraw and reduce sale prices. We also found that, in cases of overt conflicts among family owners, the owners priced the efforts put into the conflict and sought compensation for conflict-related ‘sunk costs.’

When they think about selling, the values that owners assign to the emotional and social aspects of controlling a firm have a strong impact on their offering prices. In our research, we were able to correlate monetary figures with these emotions – findings that have significant implications for the likelihood of actual sales, as well as for the choice of acquisition targets for potential buyers seeking to acquire privately held firms.

CASE STUDY: REFRIGERATIVE SUPPLY

Family gained financially, but still feels loss of selling business

When the Strand family realized that significant investment would be required to upgrade the equipment within their company – a manufacturer and installer of insulated panels for cold storage warehouses and food processing plants – they focused on the financial risks.

Regrettably, they didn’t consider the risks of an optional sale as thoroughly. “My father started the business in 1969; in September 2006 we sold it to the largest company in the world in our business (sector),” says Larry Strand, the company’s former president.

While he says it was probably a good decision to sell, Mr. Strand notes that he and his sisters still ask themselves if it would have been wiser to keep the busi-

ness in the family. “Could we have made it work? Probably. And if we had taken that next step, it would have been a far bigger business had we decided to sell it later.”

The variables the family didn’t consider, he says, were the loss of identity and pride associated with owning a respected business. “When we sold the business, we believed the new company would keep our family culture. We stayed on as employees, but we’ve all now left with the exception of my father, who provides some consulting.”

The Strand family continues to feel the loss. “We had dinner every Sunday night and talked about the business. Sometimes the discussions got heated, but we enjoyed the business and the prestige associated with it.”

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Before letting internal stresses undo a family business, invest in communication

Over time, successful businesses are those that embrace and adapt well to change. But change can be particularly challenging for family enterprises, says psychologist and family business mediator Barbara Benoiel.

“Traditional family roles can undermine effective communication,” she says. “If your boss asks you to do something, you are likely to ask for more information or even challenge the request if you don’t understand it. But if your dad tells you to do something, that’s less likely. And I’ve heard parents in business say, ‘Well, my kids are too young to be involved in the financial end,’ when the ‘kids’ are 50 or 55 years old.”

To facilitate healthy communication and conflict resolution, Dr. Benoiel works with her clients to create a “structured, semiformal process” called a family council. “It’s not a board of directors or a family meeting, but a place where the family members meet as adults. The structure of the council allows for clear adult-level peer communication in which ideas are shared and consensus is built.”

The family council provides a forum for families to deal more effectively with the conflict that inevitably arises out of change, she says. “In any conflict, some-

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one is asking someone else to make a change in behaviour, belief, process or attitude. But if you don’t have conflict, you may be missing the many opportunities that come with change and growth: lost opportunity, revenue, growth and development.”

If unhelpful family dynamics aren’t addressed, says family systems coach Ian Macnaughton, ineffective communication can eventually undermine the health of the business. “You get poor boundaries, with a lot of people talking indirectly rather than directly. People become afraid that communication is going to make things worse, and become locked into their positions.”

Replacing “reactivity with curiosity” can help families establish new patterns of communication, he says. “You have to be able to suspend some of your own story and actually listen to the other person. Otherwise, people mistrust each other and their own capacity. Family members do not have the opportunity to develop a healthy sense of themselves as psychologically independent individuals, and we see hidden agendas and secrecy.”

Entrepreneurs are used to being in control, says Dr. Macnaughton, so it can be difficult for the next generations to be heard. “I’ve found that if I can convince the parents to listen, the next gen-



Led by a qualified facilitator, family council meetings offer a structured environment in which families can improve communications for the sake of interpersonal relationships and the family business.

PHOTO: ISTOCKPHOTO.COM

eration is much more curious about learning rather than defending themselves against instruction.

Education can help families transcend patterns that may have

been part of their family for generations. “If you can get family members to attend even a weekend workshop, it begins to open up a perspective that there are other ways to think,” he says.

“Hard work, creativity, and long-term thinking are all important elements in the success of any family business, and so is getting the right advice about your finances. Talking to an advisor today about your financial goals and what matters to your business can help you build a strong foundation for the long term.”

Jon Hountalas
Executive Vice-President
Business Banking, CIBC

EXPERT OPINION

Structured approach helps families find middle ground

Q&A with Wendy Sage-Hayward
Instructor, UBC Business Families Centre, Sauder School of Business



helping to address and minimize future conflict.

How does education help family enterprises transcend conflict?

Despite the success of their businesses, many of these families feel that they are dysfunctional and abnormal. When families get together with other families and hear about each other’s experiences, it normalizes their experience.

Research shows that family business has a huge impact on our economy, but it is a complex environment to operate within. These kinds of programs help families understand and come to terms with that complexity. They can then begin to focus on key elements of governance in a supportive environment, so the process isn’t so overwhelming.

It also provides an environment in which to celebrate the business and really acknowledge what it means to be a family enterprise. This feeling of pride is expressed through the organization, which in turn inspires employees.

How can communication tools help?

Developing a code of conduct assists families in talking about and beginning to heal past hurts, and then to explore how they want to communicate and interact with each other going forward. Good governance structures for communication and decision-making create more clarity and serve to reduce conflict. In addition, governance structures provide a forum for handling issues in a timely, open manner.

Creating a shared vision and set of values is also helpful. The family vision creates alignment within the family by providing a focal point for the future they all feel excited about and are motivated to collectively move toward.

Finally, strong leadership and human resource management provide excellent mechanisms for

What are typical sources of conflict within family enterprises?

Different personality and communication styles can cause conflict in all businesses. But in family businesses, the normal conflict that exists in workplace relationships is layered on top of family dynamics. These dynamics include sibling rivalry, generational differences, and old hurts and disappointments, and are exacerbated by the convergence of the family and the business, which are fundamentally different. The family system is private and emotional; the business system is public, rational and competitive.

Together, these dynamics create a complex environment ready for conflict.

CASE STUDY: REFRIGERATIVE SUPPLY

Family council helps clan take chill out of dialogue

Refrigerative Supply, a wholesale distributor of products for the refrigeration, air conditioning and heating industry, is a family business that was founded in 1945 and now has 13 branches across Western Canada.

Like many Canadian business families, the organization is preparing for eventual succession as its second-generation leadership prepares for retirement. “We thought we were very proactive in planning a 10-year horizon for retirement, but we’ve since learned that you almost can’t allow too much time,” says Alison Hamilton, vice president. “It takes a lot of thoughtful planning and effort.”

As part of that process, members of the founding Gibbs and Hamilton families participated in the Roadmap program at the UBC Sauder Business

Families Centre.

One of the primary benefits of the program is the better understanding of challenges that family businesses typically face, and the strategies to address those challenges, says Ms. Hamilton. “We’ve established governance structures, such as a family council, to provide a forum where all family members can be heard and to disseminate information effectively.”

Without formalized communication structures, “it’s very easy to fall into the trap of talking business at the family dinner table,” says Linda Gibbs, who heads the family council. “Now, we ask who needs to be part of each conversation. We keep family time for family.”

As a result, she says, “we’re really enjoying this stage of the business. It’s not all hard work – there is energy and excitement.”

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Family council can help ensure success of a clan and its business

Balancing the needs of a family and the enterprise it owns can be a tall order, one that demands special attention to ensure successful interaction between the two entities, says consultant Ruth Steverlync.

As principal of RES Consulting and a member of the Advisory Board to the Sauder School of Business, Business Families Centre, Ms. Steverlync helps business families navigate the sometimes stormy waters of working together.

“Family relationships are typically distinguished by their high levels of emotional attachment, longevity, complexity and historical memory. By contrast, a business entity is typically focused on growth and higher returns. Relationships tend to be contractual, based on performance and are often disposable,” she says, noting the two systems need to be differentiated before they can be integrated.

Among other things, roles, responsibilities, expectations, rights and obligations must be clarified, and good family governance is often the best vehicle to achieve that.

Ms. Steverlync says within family governance the council represents the family. “It builds and maintains understanding of the family values, family unity and success of family members, and gives voice to the family,” she says.

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While a family council’s structure is a matter of personal preference, most family councils are focused on continuity – preserving the family’s values and traditions, its future assets and family-member relationships.

DJ DeVries, a second-generation member of a Surrey, B.C.-based family-run real estate business, is the eldest of six siblings. While DJ is the firm’s president and general manager, he and his siblings are equal participants in their recently formed family council.

The council, says Mr. DeVries, is helping the family separate and clarify some of the “big issues” that were getting mixed up between the family and the business.

“We are learning not to discuss the business in the family council, but to rather focus on broader issues that affect us as a family, such as our values and how we relate to one another,” he says.

To get their family council running smoothly, the DeVries family initially worked with an external advisor who facilitated meetings and helped the clan address and resolve its bigger issues. Now, a member of the family chairs the council, says Mr. DeVries.

Ms. Steverlync says families need to avoid the “zero per cent/100 per cent” dynamic, where zero is where no emotion



Family council meetings led by a professional facilitator are an effective way for business families to address issues that span the enterprise and personal relationships. PHOTO: ISTOCKPHOTO.COM

is allowed to surface and 100 is where emotions surface in a way that damages relationships irreversibly.

“A code of conduct can be

helpful in allowing important matters to be talked about in a way that will keep relationships strong and the family on the path to success together,” she says.

“When I talk to clients who have successfully grown their business over the years, one of the common drivers of their success is their willingness to look outside of their firms for ideas and advice. Invariably, these enterprises have a broader view of the issues that could have an impact on their industry going forward, and have access to specific expertise to help them capitalize on those opportunities.”

Jon Hountalas
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EXPERT OPINION

Structured approach helps families find middle ground

By David C. Bentall

Adjunct faculty, Sauder School of Business



families can address questions or concerns through healthy dialogue, rather than waiting until tensions erupt in an unproductive manner.

In order for a family council to be more than simply an extension of the business, it’s important to ensure that every meeting includes an item on the agenda devoted to learning. Family education often includes topics such as goal-setting, values clarification, communications skills and conflict management.

Typically, the CEO is the patriarch of the family and it would seem natural to have him head up the family council, but I have found this to be counterproductive. It can serve to reinforce the pre-eminence of the business and also an inappropri-

ate male dominance within the family. It is usually best to hire a professional family business advisor to facilitate the family council meetings, at least initially. Then, over time, the group can be alert for other members of the family to emerge as potential leaders.

The best structure for a family council depends on the size of the family and the stage of the business. However, regardless of the size, family councils are well advised to make decisions by consensus rather than majority votes. Voting tends to create divisions and resentment if a member or a group on the council is consistently voted down, whereas consensus-based decision-making can encourage collaboration and co-operation.

When getting started, family councils should meet regularly to develop momentum – every four to eight weeks is not inappropriate during the first six months. After that, a family council should meet at least twice a year.

CASE STUDY: KAL TIRE FAMILY COUNCIL

Legendary tire dealer puts family council to work

Although Vernon, B.C.-based Kal Tire was founded 57 years ago and is now Canada’s largest independent tire dealer, its family council was established only six years ago.

And while the council has been a great success, family businesses should not delay the formation of a family council, says Kal Tire president, Robert Foord.

He adds that family members need to be engaged in the business as soon as possible. Waiting until the company founder is about to retire before forming a family council creates challenges that can be avoided by acting earlier.

Kal Tire’s 24-person family council includes all adult members of the family and their spouses representing three generations of Foords. It meets twice a year for a two-day session. The first

day discussions focus on the business, and the second day addresses family-related issues such as the establishment of a family foundation.

Although the meetings are conducted informally, they are led by an outside facilitator who sets the agenda and oversees the proceedings.

Mr. Foord says the family council plays an important role in stewardship of the business and helps family members who are not directly involved in the operation of Kal Tire stay connected to the company.

For example, the next family council meeting will be held at one of Kal Tire’s Lower Mainland outlets. Activities will include a warehouse tour and visits to customers, so that council members can interact with the people who are important to the business.

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With outside input, family businesses work better

For self-determined business families, the notion of bringing outsiders into the firm's decision-making circle seems counter intuitive. Yet, experts say it's one of the best ways for family enterprises to ensure better decision-making and outcomes for the family and its business.

Josephine Nadel, a partner in the Vancouver office of law firm Borden Ladner Gervais, says a board can help harmonize the needs of the business and its owners, and communicate the guiding principles to management.

"The board is critical in assisting in the implementation of the company's strategic plan and ensuring that it is complementary to the family's strategic plan," says Ms. Nadel, who specializes in family firm governance, strategy and succession.

For family firms, she believes a board of directors is essential.

"When dealing with a family enterprise, one is dealing with three distinct and independent organizations – family, business and owners. A good board can go a long way in helping the family enterprise deal with its complex governance issues," says Ms. Nadel.

Jon Hountalas, executive vice-president, Business Banking,

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CIBC, says, "To be effective as an independent advisor to any business, it is important to bring knowledge of the business to the table along with specific expertise in an area that is relevant to the success of the company."

He says in his dealings with clients who have successfully grown their business over time, "One of the common drivers of their success is their willingness to look outside of their firms for ideas and advice. Invariably, these enterprises have a broader view of the issues that could have an impact on their industry going forward, and have access to specific expertise to help them capitalize on those opportunities," says Mr. Hountalas.

"There is a tremendous body of knowledge and best practices in the field of governing family enterprises. Selecting the appropriate advisor with the required skill set is critical," agrees Ms. Nadel.

While enlisting an expert as a board member may not always be possible, family enterprises could consider establishing a board of advisors, providing many of the benefits of having the same advisors on the board of directors.

"This might be a more flexible arrangement for the advisors. They would be able to



For family enterprises, selecting appropriate advisors with the required skill sets is essential, say experts. PHOTO: ISTOCKPHOTO.COM

more freely address the issues faced by all three systems – family, business and owners – and not be bound by the singular

duty of the board to the corporation, and also the confidentiality that binds board members," says Ms. Nadel.

"When I talk to clients who have successfully grown their business over the years, one of the common drivers of their success is their willingness to look outside of their firms for ideas and advice. Invariably, these enterprises have a broader view of the issues that could have an impact on their industry going forward, and have access to specific expertise to help them capitalize on those opportunities."

Jon Hountalas
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EXPERT OPINION

Governance in family firms key to success, harmony

Sauder CIBC Visiting Scholars 2011

By Dr. Raffi Amit

Robert B. Goergen Professor of Entrepreneurial Management at The Wharton School, University of Pennsylvania; and

Dr. Belén Villalonga

Associate Professor of Business Administration, Harvard Business School

When it comes to governance, all family firms – whether emerging or large and established – need a board of directors, especially when non-family shareholders are involved. By having directors who are not family members, the board plays a very important role in looking after the interests of non-family shareholders.

But what exactly do we mean by "family business?"

We define a family firm as one in which one or more members of the founding family exercise significant influence through share ownership, voting control, board control or control of man-



agement. Family firms can be first-generation businesses and either public or private.

According to our research, by this definition as many as 37 per cent of Fortune 500 companies qualify as family firms.

In all firms, a board's role is to monitor, guide and supervise the professional management of the business. In a family firm, it is also there to help family members navigate issues within the family that might be highly emotional. In this case, an independent director with no axe to grind could play a calming role.

On all boards – family and non-family firms – directors have a fiduciary duty to all shareholders. But in a family firm, what's good for the family may not always be good for outside shareholders. An independent director who has a fiduciary duty to all shareholders helps ensure that

the company is managed for the benefit of all shareholders.

Advisors can help professionalize the firm, particularly when it is growing quickly and needs to establish management systems that allow it to operate profitably and grow. Advisors can also help develop reporting systems and processes to allow the board and management to work together.

But advisors are typically hired by management and report to management, not to shareholders as would be the case with an independent director.

Even in cases where all the shares are held by members of the family, having an independent director helps protect the firm's professional management from undue interference from shareholders.

In many non-family firms, the CEO is a member of the board. In family firms, where the CEO may not be a member of the family, it's a good idea to have the CEO on the board as well because he or she has a better understanding of the day-to-day management of the firm than family members who may be more removed.

CASE STUDY: KAL TIRE

Kal Tire's board helps them stay on a roll

With more than 220 outlets throughout western and central Canada, Kal Tire is the country's largest independent tire dealer. It's also a family-owned business that has flourished by focusing on customer service and teamwork since it was founded by Tom Foord in Vernon, B.C., in 1953.

Chairman and past president Ken Finch credits Kal Tire's governance model for fostering the company's successful culture.

Initially, says Mr. Finch, Kal Tire had no formal governance structure. But as the company evolved, it became clear that one was required to address the needs of a growing management team and the owners.

An advisory board was established that included family members, senior management and independent members. That board functioned for seven years

until a formal board of directors was established.

"Establishing an actual board added an additional layer of rigour and discipline to our governance structure and decision-making," says Mr. Finch.

While the outcome was positive, the transition came with challenges.

"Perhaps the hardest step for any family-owned firm is to invite outsiders onto the board. The tendency is for families to invite people they know and are comfortable with. But the point of having a non-family member on the board is to get a different perspective and perhaps add an element of discomfort," says Mr. Finch.

The ability of independent directors to adopt a contrary view unfettered by the corporate mindset is often the most valuable contribution they can make to the success of a family firm, he says.

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Family enterprises among best places to build a career

Around the world, 80 per cent of businesses are family owned or controlled. Traditionally, the best and brightest have steered clear, but today, family-owned enterprises are emerging as the best places to build a satisfying career.

Michael Lobraico, past national chair of the Canadian Association of Family Enterprises (CAFE), says, "Family businesses as a whole are quite successful, in part because of their long-range focus. They're able to think about what will happen 10 years from now as well as next year, and that is very engaging for individuals at the senior executive level."

Just as importantly, says Mr. Lobraico, family enterprises tend to be much more loyal to their employees. "In both large and mid-sized corporations, the values that families bring to the business tend to include respect and open communication. That is a very refreshing change for many executives."

Canadian family-owned companies such as Canadian Tire and McCain Foods Limited have successfully incorporated non-family expertise into their organizations in a way that creates a sense of ownership, he says. In some cases, share purchase plans may provide even greater motiva-



Corporate controller Joy Coyle and general manager Mike Barclay are among Halifax Seed's dedicated employees who company owner Tim Tregunno says "are truly committed to our values and the industry that we work in here in Atlantic Canada." PHOTO: SUPPLIED

tion to contribute to the growth and success of a company.

Another unique characteristic of family enterprise that appeals to the most talented executives is the opportunity to make a difference as well as a profit, notes Mr. Lobraico. "For families, the operations of their business reflect on them as individuals; the business and their personal identities are very much intertwined. As a result, you can see the difference that

business families are making in hospitals, art galleries and schools – but there is also a very different perspective on operations."

Halifax Seed, an organization that has been in operation since 1866, provides an illustration of the satisfying careers that can be built within a family-owned business.

Tim Tregunno, general manager, is the third generation of his family to operate the busi-

ness after his grandfather bought it at the end of the First World War. "My children, generation number four, are now both working in the business," he says.

Halifax Seed has about 50 full-time staff, with about 60 employees during spring and summer. A number of key managers have been with the company for more than 20 years, often starting in entry-level positions and growing with the company.

"Throughout my career, I've tried to hire staff and managers that have skills I don't, and to allow them to run their facet of the business with little interference," says Mr. Tregunno. "We've been successful in giving managers autonomy and author-

ity as well as responsibility for their success."

A committed non-family executive team creates a depth and breadth of leadership that strengthens the business. Due to an illness, Mr. Tregunno is currently on leave, and the company is being stewarded by a team of four long-term managers who are integral to the organization's operation. "I can't explain how reassuring it is for me and my wife to know that our business is in such good hands," he says.

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"We're proud to be advisors and partners to family-run businesses that succeed through the talent, commitment and shared values of their people."

Jon Hountalas
Executive Vice-President
Business Banking, CIBC

CASE STUDY: PURDY'S CHOCOLATES

Vancouver's Purdy's Chocolates proves itself a sweet place to work

Purdy's Chocolates, a Vancouver-based company with more than 700 employees, has been voted one of Canada's 50 Best Employers four times, most recently in 2009. Karen Flavelle, president, says, "We really value that honour, because it is based on how engaged employees feel rather than on someone else's assessment."

That focus on employee engagement goes back a long way. "One of the reasons I didn't think to join Purdy's right after university was that, when I was growing up, my father always said he didn't want offspring parachuting in over long-term employees. He really wanted to honour their contributions."

The Flavelle family has run Purdy's since 1963, when Charles Flavelle and a partner first bought the iconic chocolate maker that began in a Robson Street shop in 1907. Eventually, he realized that the alternative to passing on leadership to a family member was selling to a much larger company. "To ensure that

the company would remain a family business, with Purdy's values and traditions protected," she joined the company in 1994, after first achieving success in roles at Cara and General Mills.

Her first four months with the company were spent listening to long-time employees, she says. "I drove deliveries from the warehouse, spent time in all the stores and learned from the people who had been here many years. Listening is a very big deal here, along with getting back to people about what happens with their ideas. We have an acronym, LIFER: listen, involve, feedback, encourage and recognize."

Ms. Flavelle and her father, now the company's honorary chairman, are proud of the fact that non-family executives successfully steward every aspect of the business under her leadership. "All of our executives are integral, important creators of Purdy's success. I think they enjoy the work they do and the freedom they have to make a difference."

EXPERT OPINION

Psychological ownership inspires innovation and healthy culture

By Dr. Karl Aquino,

Richard Poon Chair of Organizations and Society at the Sauder School of Business



psychological ownership can care about the business as much as, and sometimes even more than, the actual owners themselves. For example, researchers have found that psychological ownership is associated with more job satisfaction, higher levels of commitment to the organization, and a willingness to go beyond the minimal expectations of the job.

My colleagues Philipp Sieger and Thomas Zellweger from the University of St. Gallen and I have been studying how psychological ownership can influence employee behaviour in family businesses. In data collected from over 700 employees in Germany and Switzerland, we found that psychological ownership is associated with behaviours like putting innovative ideas into practice, supporting others in idea generation and creating an entrepreneurial atmosphere. In short, psychological ownership may motivate employees to think and

act more like entrepreneurs, which other studies have shown to have a positive influence on company financial performance.

So how can family businesses nurture a sense of psychological ownership? One way is to allow employees to have more control over their work processes or perhaps even have a greater say in how important decisions are made. When employees feel like they have control, they are more likely to experience the business as an extension of themselves. Another route to psychological ownership is increasing employees' familiarity with the organization by providing them with more information about the organization and more chances to interact with its founding members. Finally, psychological ownership can be strengthened when employees have a chance to fully invest themselves in their jobs.

When employees' jobs are designed so that they can invest more of their own ideas, unique skills and even personal style into them, they can start to feel as though the job is a reflection of who they are and, by extension, that the business is "ours" rather than only "theirs."

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Research reveals why family enterprises typically outperform

It isn't unusual for the owners of family enterprises to say something like, "We're just a family business." But in their book *Managing for the Long Run – Lessons in Competitive Advantage from Great Family Businesses*, Danny Miller and Isabelle Le Breton-Miller prove that it is the characteristics unique to family businesses that have made companies such as Wal-Mart, Fidelity and Michelin unbeatable in their respective fields.

That also holds true among Canadian organizations, says Dr. Miller, professor of Strategy at HEC Montreal and chair in Family Enterprise and Strategy at the University of Alberta. "In

our most recent research, we looked at more than 400 Canadian private companies – lone proprietors with no family members involved versus businesses that have several family members owning and running the company. The family businesses consistently outperformed: they lasted longer, grew more quickly, were better to their employees and had better and closer relationships with their customers."

Over the course of their research, Dr. Miller and Dr. Le Breton-Miller concluded that decisive command, strategic continuity, organizational community, and generous inter-organizational connections were the four

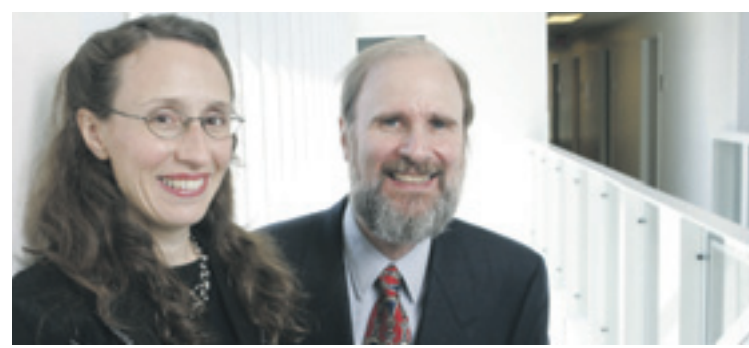
qualities that characterize successful enterprises – all of which tend to be more prevalent in family enterprise.

Perhaps because of their multigenerational focus, outperforming family businesses invest more in their infrastructure, and pay their employees better, says Dr. Le Breton-Miller, a guest professor at HEC Montreal and Senior Research Associate at the University of Alberta. "They also have more women in management, and allow flex time."

With their customers, she says, they were more likely to make a personal phone call than send out a bunch of flyers. "They are present at trade fairs, and their marketing is more relationship-based than transactional."

Successful organizations hire selectively and then invest in their people and training, says Dr. Miller. "In our book, we wrote about a company that moved employees into R&D rather than fire them during the Depression. As a result, the innovations they came up with six decades ago are still being used today – many family enterprise success stories include this kind of extraordinary investment in the long-term."

Long-term focus does not preclude present-day efficiency, he advises. "In order to invest in



Researcher and co-authors Isabelle Le Breton-Miller and Danny Miller work proves that characteristics unique to family enterprises have been key to the success of companies such as Wal-Mart and Michelin. PHOTO: SUPPLIED

the long-run, you can't pay huge dividends or otherwise extract a lot of money from the company. And you have to pay attention to the efficiency of current operations so that you're generating enough cash to invest."

Family businesses that succeed over the long term share some distinguishing features, says Ruth Steverlynck, a principal in RES Consulting Group. "There exists a sense of community among the family members – a willingness to give up some individual independence and freedom to serve the greater whole. Shared family ownership is viewed through a stewardship lens: the business does not belong to the current generation, but is being preserved and grown for future generations.

This belief anchors the family ownership group in a shared vision of their role and responsibility.

Successful long-term family businesses also share a conviction that what the family business is doing has a broader social impact, such as the creation of jobs for the community, or charitable work funded by the business. This broader social purpose is a unique attribute of family businesses that is often overlooked."

The Business Families Centre at the Sauder School of Business is a one-of-a-kind resource for business families, their advisors and other professionals. For more information, call 1-877-764-1232 or visit www.sauder.ubc.ca/bfc.

"Hard work, creativity, and long-term thinking are all important elements in the success of any family business, and so is getting the right advice about your finances. Talking to an advisor today about your financial goals and what matters to your business can help you build a strong foundation for the long term."

Jon Hountalas
Executive Vice-President
Business Banking, CIBC

EXPERT OPINION

Staying competitive while seizing new opportunities a tall order

By Dr. Michael Hitt,

Distinguished Professor of Management at Texas A&M University, Joe B. Foster Chair in Business Leadership



trying to stay ahead of them. But, they take fewer risks – instead, they strategically protect their current market position.

If young firms have a great idea for the market but are not strategic, they may enjoy early success only to lose it to major competitors who enter and take market share away from them.

If established firms are not entrepreneurial, eventually a new competitor will enter the market with a better idea and steal the market from them.

The dominant type of business in almost every major country in the world is the family business. However, although they have positive attributes often not shared by non-family firms, such as patient capital, they can develop some less positive operating approaches if they do not carefully monitor and regularly evaluate their practices. For example, recent research indicates that family firms man-

aged by successive generations had a tendency to become risk averse: instead of focusing on creating wealth, they try to protect the existing wealth. Our own research has also shown that family influence in firms is a very positive trait, and firms with family influence coupled with voices from other stakeholders tend to outperform family-controlled firms. The family-influenced firms more effectively responded to rivals actions, took measured risks and employed more effective strategies.

Family firms – like other businesses – must operate in a dynamic and uncertain environment, full of challenges and high technological change. They must ensure that they focus on the long term but are also flexible and agile to adapt quickly to changes. This requires exceptionally strong human capital, effective social capital and acting strategic while simultaneously being entrepreneurial.

Dr. Michael Hitt is a Sauder School of Business CIBC Visiting Scholar, and will be speaking at the Business Families Centre on October 29. For more information, call 1-877-764-1232 or visit www.sauder.ubc.ca/bfc.

CASE STUDY: BUSINESS FAMILIES FOUNDATION

Telemedia founders stalwart in support of business families

In 1968, Philippe and Nan-b de Gaspé Beaubien created Montreal-based Telemedia Inc., a privately held enterprise that they built into a media and communications empire and eventually passed on to their three children.

Today, the senior de Gaspé Beaubiens devote their considerable energy and resources to their Business Families Foundation, one of the primary forces behind the creation of family enterprise centres at the University of British Columbia, the University of Alberta, the University of Western Ontario, École des Hautes Études Commerciales and McGill University in Montreal, Dalhousie University, Memorial University of Newfoundland and Monterrey Tech in Mexico.

The inspiration for their work is the immense impact that well-run family organizations have on economies and communities. "Family enterprises are not measured by quarterly results, and research has shown they are more profitable than other businesses," says Ms. de Gaspé Beaubien. "More than larger companies, they are the job

providers – even in a downturn, there is great loyalty to employees. And when a family business is sold and the head office moves away from the communities, the community suffers."

Long-term thinking is inherent in families, says Ms. de Gaspé Beaubien, because of their multiple generations. When families bring that perspective into their business, the business benefits. "We were always buying start-ups and businesses that needed to be turned around, so a long-term perspective was essential. We invested in our people, and in developing a culture of long-term thinking."

Through their foundation, the de Gaspé Beaubiens are now aiming their efforts at supporting family enterprises on a global scale. "Business families are the backbone of economies throughout the world. We began by developing centres across Canada that help families in business and the professionals that work with them; now we are funding a centre in Mexico. We're also putting all of our material online – we know from our grandchildren that this is the new way of teaching."

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Eying the future, business owners advised to prepare next-generation leaders

For Arran and Ratana Stephens, founders of Nature's Path Organic, the vision was always clear: create delicious, wholesome organic food, and leave a strong, enlightened company as their legacy for the next generation.

As a result, preparing the next generation of leadership has been a primary focus at Nature's Path for many years. "We made sure our kids had good educations (both hold MBAs), and we've tried to provide them with the best tools available to be successful entrepreneurs," says Mr. Stephens. "Simultaneously, we're also developing the next generation of managers, so there's a lot of room for growth and opportunity here. We don't believe in nepotism. If our children are to move up the ladder, we expect them to work harder and smarter."

But the development of the next generation of leadership is something that not all businesses are addressing as successfully as



For Arran and Ratana Stephens, investing in the second generation of leadership at Nature's Path Organic is an essential element of the family's legacy. (Left to right, Arran, Ratana, Arjan and Jyoti Stephens) PHOTO: SUPPLIED

Nature's Path. "From our research over the years, we know that many business owners are not confronting their exit strategy as they age, which can create challenges in transitioning the business to the next generation of leadership," says Sean Foran, CIBC's managing director of

Business Transition Planning.

Noting that small and medium-sized businesses are "the backbone of Canada's economy," he says, "There is a lot at stake. Business owners looking ahead to a transition should take steps now to 'operationalize' all they bring to the business, which helps to

preserve the value of the business when they decide to move on."

Effective communication is the foundation of all successful transitions, says Mr. Foran. "Time and time again, we see founders who think they've communicated well, but when I speak to the children, they don't always have the same vision or goals. That's why we advise business owners to start the conversation early."

Other essential elements of the leadership development process are commitment to an effective succession and an investment of time, says family business consultant Wendy Sage-Hayward. "Taking the time to plan is a critical part of this process. Planning is leveraged time.

"Once you have clarity around expectations for capabilities and skills required for leadership, it is possible to develop a plan that includes education as well as experience outside of and

within the business."

Family enterprise education programs can help both generations address issues relating to family dynamics that might otherwise undermine succession efforts, she says.

"There may be expectations or issues that aren't traditionally discussed within a family; these programs help create an opportunity to have those conversations. As well, different generations have different expectations about issues such as balance and identity, and it is important that these differences be recognized. A successful transition requires a plan that works for everyone."

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EXPERT OPINION

Development of family enterprise leaders is a value proposition

By Dr. Daniel Skarlicki

Edgar F. Kaiser Chair of Organizational Behaviour, Sauder School of Business, University of British Columbia



The challenges facing today's leaders are legion: the problems leaders face are becoming more complex, markets are changing rapidly, and technology is revolutionizing the way business is done.

Leaders are asked to deliver more with less, and in a shorter period of time. This pressure and turbulence takes its toll on the leader's ability to endure and an organization's ability to deliver results.

Some of the most interesting research on effective leadership in the current environment focuses on the role of values, including the concept of authentic leadership, which refers to the importance of a leader's self-knowledge, self-regulation and self-concept.

Authentic leaders are more effective because they are transparent, trusted and more grounded in their reality than inauthentic leaders. Importantly, authentic leadership can be nurtured and developed over one's lifetime, triggered by major events such as a personal crisis and accelerated through personal leadership development.

Evidence continues to mount of the importance of emotional

intelligence – the ability to recognize and manage one's own emotion, as well as recognize and manage emotion in others – to a leader's success. This feature often distinguishes effective from ineffective leaders, and can also be nurtured and developed.

A third but related theme is the rising importance of humility as a critical value. It is when leaders are humble that they can see greatness in others. Leaders with humility tend to receive greater support by their subordinates relative to "take charge" leaders who see themselves as superior to their workers.

The rising recognition of the role of values has important implications for family businesses. The founder's values will likely have an enduring effect on family businesses. Given the importance of the leader's values to a company's success, the issue of leadership succession becomes particularly acute for family businesses.

The next generation of family businesses must have a solid grounding in current business acumen and continually upgrade their knowledge. Alongside this formal education, however, is

the importance of self-development – understanding who you are, your values, your dreams, your strengths, your loves, your fears. Leaders often also need to learn specific skills that will make them a better leader: for example, the ability to effectively communicate, to build a corporate culture, to coach others and to negotiate effectively with others are all critical to a leader's success.

It is imperative that the next generation leaders understand the complexity of the family enterprise – namely the integration of the family, business and ownership systems at play within this environment.

A key capability for family leaders to develop is the ability to identify and implement governance structures that are relevant and useful for their unique family and business needs. There is no "one size fits all" model that works for every family enterprise due to the distinctive nature of family dynamics.

Next generation leaders must understand and implement governance (e.g., family council, ownership gatherings and board structures) in their family enterprise to provide a forum for important communication, decision-making and planning to occur. These structures clarify roles, boundaries and responsibilities within this complex environment.

"Effective communication is the foundation of all successful transitions... that's why we advise business owners to start the conversation early."

Sean Foran
Managing Director
Business Transition Planning & Trust Services, CIBC

CASE STUDY: NATURE'S PATH ORGANIC

Effective leadership grounded in capability and passion

As with many business families, it took some time for the second generation of leaders at Nature's Path to connect their interests and strengths to a potential role in the organic breakfast food company founded by their parents.

Jyoti Stephens, director of human resources and sustainability, was attracted to sociology and environmental advocacy.

"Then she joined Nature's Path in a minor position in marketing, doing research, and began to see the opportunity to work within the business to improve our environmental performance and further engage our team members," says her father, Arran Stephens. "She has become an extremely strong advocate of our company values."

After working in summer jobs with his siblings at Nature's Path,

Arjan Stephens, vice president of marketing and product innovation, decided at 16 that he wanted to try something else.

"My parents were really supportive: they told us to go out in the world and learn, and that later, if we were capable and wanted to join the business, we were welcome. If we weren't capable or passionate about what they do, they said, there are other paths out there. You have to follow your heart."

He studied history in university and initially wanted to be an artist. Graduating with honours in history, as well as with an MBA, helped him understand the marketplace, says his father. "Running a business is somewhat like planning for a battle – you have to make tough decisions sometimes. He's become a very strong leader."

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Success of family enterprises felt across Canadian economy, communities

To get a glimpse of the contributions business families have made to Canada's economy and communities, you might start with a quick review of Canada's business schools. "Sauder, Richard Ivey, John Molson, Schulich – all were funded in part by generous family business owners," says Allen Taylor, chair of CAFE, the Canadian Association of Family Enterprise. "Most families are very private about their philanthropy, but if a new hospital wing is opened, or a new university chair is funded, you can be fairly sure a business family is involved."

Perhaps because of that desire for privacy, the nature and impact of family business isn't well understood.

Family enterprises, those in which family members effectively control the strategic direction of the business, make up at least 80 per cent of businesses and 50 to 60 per cent of economic activity and employment worldwide, says Joe Astrachan, Wachovia Chair of Family Business and executive director of Cox Family Enterprise Center, Michael J. Coles College of Business, Kennesaw State University.

"In our research, we've also found that family businesses provide a stabilizing influence,"



Family enterprises make up at least 80 per cent of businesses and 50 to 60 per cent of employment worldwide, says Joe Astrachan, editor of The Journal of Family Business Strategy.
PHOTO: SUPPLIED

he says. "Most family businesses perform very well; families have a great sense of loyalty toward their employees and take a long-term perspective, so they typically lay people off at a much lower rate than other organizations."

Unlike public companies, measured by quarterly performance, family enterprises are often accountable to many generations. "They don't sacrifice long-term benefit for short-term gain. And because of the nature of the close ownership group, it is possible to react quickly to changing circumstances," says Dr. Astrachan.

But these enterprises also face unique challenges. "Typically, only about 30 per cent survive generational transition," he says.

Increasing those odds requires education that reaches beyond traditional business management expertise to address family dynamics, a science that has advanced significantly over the past 15 years. The field has now developed to a point where family businesses can take advantage of their unique strengths and minimize the challenges, says Dr. Astrachan.

Not too long ago, the suc-

cesses of family business were all but ignored and very little academic research existed, but as editor of the Journal of Family Business Strategy, Dr. Astrachan is now able to cite more than 120 peer-reviewed publications on the subject. "Likewise," he adds, "there is a proliferation of dedicated family business chairs at universities and a variety of international academic conferences around the topic."

CAFE was one of the first organizations in the world to recognize and respond to the unique challenges of business families. "Some 25 years ago, a group of about 10 or 12 entrepreneurs in Ontario began meeting," says Mr. Taylor. "At that time, this was not a well-documented or researched field, and they were looking for a peer group, a place to share challenges and strategies."

Today, CAFE has 14 chapters across Canada, and its members have been very active in the development of family business education and resources. "One landmark study concluded that only one in nine family enterprises succeeds to a third generation, and we've focused on what we could do to improve those odds. It started with advisors at the accounting and legal firms

building succession tool kits, and then business schools began to see a need and developed curriculum."

These developments benefit the economy at large, as so many Canadians are employed by family-controlled businesses. Mr. Taylor notes that most regulatory and legislative policy is written with the largest, publicly owned multinationals in mind, and says, "In a perfect world, family enterprises would be recognized, appreciated and sup-

ported in recognition of their importance to the country's overall economy."

That support will become particularly important over the next 15 years, he says, as baby boomers exit the labour force. "An immense number of companies will go through ownership and control transitions, and we know the batting average is really poor. If we overcome those pitfalls through education, it will be a significant competitive advantage for our country." ■

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"Customized, objective advice is an integral component in the transition planning process, especially for family businesses. Talking with an expert about your future transition plans is the first step towards maximizing the value of your business for the next generation."

Sean Foran
Managing Director
Business Transition Planning
& Trust Services, CIBC



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CASE STUDY: THE LENNON GROUP OF COMPANIES

Education enables effective, family-led succession

The Lennon Group of Companies is a third-generation family business that began in 1935 as Renfrew Motors Ltd., the flagship Chrysler dealership in Calgary, and has since diversified into land, cattle, construction and investments under the leadership of the Lennon family.

For the past 15 years, current president Chris Lennon has participated in a number of family business education programs, but found it challenging to bring that knowledge back to other members of the family in a way that facilitated future planning. "Due to potential conflicts of interest, that knowledge isn't something that one member of a family can share from inside the company," he says.

The barrier was overcome when the Lennon family participated together in the Roadmap program (originally developed by the Business Families Foundation) offered through the Sauder School of Business, which helped them work together to clarify goals and articulate a vision as a team,

For more information on the Roadmap program offered through the Sauder School of Business please call 1-877-764-1232 or visit www.sauder.ubc.ca/bfc/roadmap.

says Mr. Lennon. "We were able to learn from each other and reach consensus about where we aim to grow, making us more assertive in our roles, effective as a business and understanding as a family."

As the head of the business, says Mr. Lennon, the program also helped him "discover our blind spots, removing an element of risk in the decisions we make and improving our capacity to enjoy ourselves as a family while we continue to focus on profit-taking in the business."

Noting that the family had formerly looked to their accountants and lawyers to help guide them through the succession process, Mr. Lennon says, "They were really missing that family business piece of the picture. The workshops provided tools to accomplish [an effective succession] with expert professional family business consultants, and with ongoing support through a network of families who have managed successful transitions in the past or are addressing transitions now." ■

EXPERT OPINION

Family Enterprise Centres deliver research, innovation

Q&A with Dr. Daniel Muzyka

Dean of the Sauder School of Business at the University of British Columbia

What is the history of the family business field in academia?

The field has grown considerably, especially in the past 30 years. Joe Astrachan, editor of the Journal of Family Business Strategy, has determined that there were a total of 12 books or periodical articles published on this subject in the 1970s, and that by 1985, there were three university chairs, seven academic programs, nine books and articles, and four dissertations. It is just in the last decade that we've seen really exponential growth. That's especially true here in Canada: we currently have five family enterprise centres, at the University of British Columbia, University of Alberta, University of Western Ontario, Dalhousie and McGill/HEC, and some of the leading researchers in the field.

Why is research and education important to the family business community?

We know from the extensive research now available that family businesses have unique characteristics; they benefit



from strategic approaches not typically taught in all business schools. For example, one of the strengths of family businesses is the ability to make decisions quickly and respond to the constantly changing circumstances of today's environment. If a family business has too bureaucratic a structure – structures that can work very well for public companies – this important strength is negated. It is essential that research and education for family enterprise leaders and advisors be targeted to their unique characteristics.

What are some of the key topics that family business academics are exploring in their research?

The field is incredibly diverse and the topics span a range of areas, including how to build cohesive families, how to prepare family members for responsible ownership, how to set goals in family business, how to quantify equity, what

human resources and governance practices are most effective, developing marketing and sales practices that make the best use of family identity, how to have a positive succession and how to leverage family relationships when conducting international business.

Where is research and education heading in the field?

Both are moving toward an integrated view of the family and business, which is in marked difference to the way the field began: "Keep the family and business separate." For example, some research suggests that family businesses do better because they have an enhanced ability to align the interests of owners and managers, and that family members also serve to add accountability to the business. Researchers are also finding that the healthier the family, the healthier the business. That supports earlier research that shows that ownership unity and business performance are linked.

What are Sauder's primary aims in bringing this research to the family business community?

We are very committed to this field. The school has extensive programs for the entire business family community. For

Business Family members, we have programs that provide education to the entire family on key issues such as Managing Family Dynamics, Transition and Succession Planning, and Family Governance. In addition, we have a comprehensive program for Business Family Advisors. This certificate program, offered in Vancouver and Toronto, is the only one of its kind in the world offered by a university – it helps advisors understand the complexities of working with business families when providing accounting, legal, financial or insurance advice.

Through the CIBC Visiting Scholars program, we're bringing a larger academic community to Canada, making international knowledge and research available to a larger network of researchers, to professionals serving family businesses, and to the business families themselves.

All of our programs are aimed at translating the exciting and valuable research that is being done in this field into business innovation and best practices. ■

Dr. Daniel F. Muzyka, the RBC Financial Group Professor of Entrepreneurship, is currently serving his second term as Dean of the UBC Sauder School of Business.

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Business enterprises a force in Canada's economy

Iconic travel guide Lonely Planet calls Rocky Mountaineer "one of the world's ultimate experiences"; BBC Television put it on its list of "50 things to do before you die"; and National Geographic included it among its "World's Greatest Trips." And in 2008, the B.C.-based vacation railway enterprise welcomed its millionth guest.

As impressive as Rocky Mountaineer's success is, it's just one among countless examples that illustrate the role business families play in funding startup companies and acting as engines of entrepreneurialism in sectors ranging from oil and gas extraction

to biotechnology.

Statistics published by the Canadian Federation of Independent Business and Statistics Canada in 2009 revealed that businesses with fewer than 50 employees represent 97.8 per cent of total businesses in Canada, generate 45 per cent of our GDP and employ 55 per cent of workers.

When Peter Armstrong set out to create Rocky Mountaineer in the late 1980s, he says, "No bankers in their right mind should have invested in me at that stage. I was unproven, and the business was unproven."

With the confidence of years of travel and tourism

experience behind him, however, Mr. Armstrong did what most entrepreneurs do: he invested his own money and convinced family and friends that he had dream worth supporting.

"Not every idea is a good idea, and not every execution of an idea is a good execution. When banks say 'no,' there is usually a very good reason. But the people around me had investing experience and understood the risks and the rewards. This one paid off, but not all will," says Mr. Armstrong.

Today, the Armstrong Group owns the Rocky Mountaineer train, the Thompson Hotel in Kamloops, a 20,000-square-foot Rocky Mountaineer Station located on an eight-acre site in Vancouver, and Gray Line West, a sightseeing tour company in Victoria. Over the years, the Armstrong family has gradually bought back shares so that the company is now totally family-owned, something Mr. Armstrong sees as a great advantage.

"Family businesses generally have a longer-term focus – we're not worried about an exit strategy or liquidity, and that creates confidence among our employees. They can make a career here. And we



Rocky Mountaineer founder Peter Armstrong is among the countless business family leaders whose efforts have proven essential to the prosperity of communities across Canada.

PHOTO: SUPPLIED

invest in education for our people, because we want them to grow their skills and be here for a long time."

That cycle of continuous investment – in operating companies, employees and new enterprises – is a hallmark among business families across Canada.

In Ontario, family business owner Bob Crockford has invested in 13 startup businesses over the past 30 years.

Now chairman of Valley City Manufacturing, a custom

furniture business that has been in operation for more than 120 years, Mr. Crockford says, "As the eldest, I had the opportunity to take over and run what was already a well-organized business. It afforded me the opportunity to participate in the creation of other businesses. It has been a lot of fun along the way, building enterprises with some great partners."

The longer-term thinking innate to business families also allows their owners to capitalize on other investment

opportunities, says Mr. Crockford, noting, "It doesn't always work out. Five of the businesses I invested in came to some sort of success, as opposed to the kind that you eventually have to drag out to the pasture and shoot – and there were some of those."

He says several remain in early stages, "so it's too soon to tell."

"That's the nature of venture capital," says Mr. Crockford. "You have to have a long time horizon, be a patient investor and make decisions about staffing, product lines and strategies that are truly long term."

He says the primary lesson he learned along the way is one he first articulated 25 years ago, and that his friends have reminded him of when things went wrong: "Invest in what you know, with who you know." On those occasions when I have violated one of those tenets, I've been less successful; when I have closed my eyes and walked by both, I've been unsuccessful."

The Business Families Centre at the Sauder School of Business is a one-of-a-kind resource for business families, their advisors and other professionals. For more information, visit www.sauder.ubc.ca/bfc.

"Family-run businesses are among the most entrepreneurial and creative companies in Canada, and we're proud to be part of this market by contributing advice to family businesses across the country."

Jon Hountalas
Executive Vice President
Business Banking, CIBC



For what matters.

EXPERT OPINION

Families as engines for entrepreneurship

By Shaker Zhara

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connections with other companies, suppliers, buyers and bankers. They also build connections with civic organizations, universities and trade associations. Family firms develop enduring and trusting relationships with these groups, allowing them to observe what others are doing and learn from it. They also enter into alliances, a process that further improves their learning by exposing them to best practices that they can use in their operations.

Learning requires trust, which increases with frequent communication and interaction. Astute family firm owners value the investments they make in building and nurturing these relationships. Well-connected family firms can tap into others' ideas, thinking, learning, knowledge and discoveries. As a result, they can safeguard against the rigidity that might cripple other companies when their markets or

technologies change.

Besides promoting innovation, family business owners also support entrepreneurial activities, defined as the creation of new businesses or firms. They might do so to help avoid conflicts among siblings by allowing each of their children to pursue their careers independently.

Families and family business owners also provide seed money for the businesses their relatives and friends might create. Indeed, funding by families is one of the most important and common sources of money for budding entrepreneurs. Family firms do this not only because of kinship and social ties, but also because they stand to gain from the successes of these new businesses.

These new businesses are good investment opportunities for family firms. And, if these companies succeed, they could become partners, customers or suppliers of the family firms that funded them.

Newly created firms are good ways to experiment and explore new fields without making exorbitant investments. These explorations can help family firms learn about changes in their markets and technologies, encouraging them to adapt. This learning serves also to counter conser-

vatism that might overtake the family firm when founder owners dominate its operations for years.

Many family firms experience the "Icarus complex": the things that make them great could be the cause of their undoing. With founding owners in control, change could be slow; the desire to preserve the family legacy might translate into low investments in R&D or new equipment. Employees who are not family members might become marginalized and their innovative ideas are overlooked.

Tackling these issues can be difficult, but with the help of advisors and effective boards, the stage could be set to bring up such changes while preserving the character and leadership of the family firm. These changes can usher in an era of innovation and entrepreneurship, which are the foundation of the success and longevity of family firms.

Shaker Zhara is Chair, Robert E. Buuck Chair of Entrepreneurship; Academic Director of the Gary S. Holmes Center for Entrepreneurship at Carlson School of Management; and Chair of the strategic management department at the University of Minnesota. To attend or learn more about the CIBC Visiting Scholar Series, visit sauder.ubc.ca/bfc/scholars.

CASE STUDY: THE BEEDIE GROUP

Real estate developer's success spans generations and industries

The Beedie Group might not be a household name. But in real estate circles, this family-run business is known as B.C.'s largest landlord of industrial space. With over seven million square feet in its portfolio and more than 20 million square feet in past development, the Beedie Group is a remarkable success story spanning two generations.

In 1994, at the tender age of 25, Ryan Beedie took the helm of the group's new development business. Since then, revenues have grown by more than 600 per cent, a performance that helped Mr. Beedie earn the Ernst & Young Pacific Region 2009 Entrepreneur of the Year award.

As a family-run business, the group's ability to negotiate deals outpaces that of other organizations. "They may have to go back to Toronto for board approval, or get their bosses' okay – there are a lot of steps in the process," says Mr. Beedie. "We can make fast decisions, and because of our track record, the client has the assurance we can get the deal done. It's entrepreneurship in its purest form."

In the last decade, he's also leveraged those advantages outside of the Beedie Group as

a venture investor in enterprises ranging from restaurants and yoga studios to dental labs.

"Our company is cash-flow positive, so we have to deploy that capital," he says. "I'm a great believer in staying with what you know, and industrial real estate development will always be our largest and primary focus. But if you want to continue to grow and learn, you have to explore new horizons, and that is what we've done."

Mr. Beedie invests first in individuals. "Through the Young Presidents Organization, I've developed friendships with many entrepreneurial people. Terry McBride (CEO of Network Records), for example, is very passionate about yoga. I believe there is a market for his new business, YYoga."

Ever prudent, however, Mr. Beedie cautions, "When you've got someone who is that capable and that passionate, what's the downside? It's so exciting to be part of these endeavours, to watch them grow."

The Beedie family will share their story at the upcoming Sauder Business School Family Legacy Series Gala Dinner on September 22. To learn more, visit www.sauder.ubc.ca/bfc/fls.

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