

UNDERSTANDING
GENERATIONAL PERSPECTIVES
TO SUCCESSFULLY NAVIGATE
YOUR TRANSITION

Strategic Continuity
Planning

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Session Overview

- Understanding the Family Enterprise Landscape
- What is Continuity Planning and Why is it so Challenging?
- Best Practices in Continuity Planning
- Discussion and Q/A

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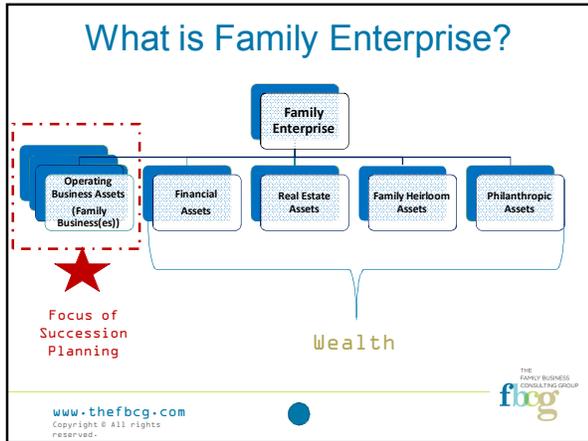
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Understanding the Family Enterprise
Landscape

Advantages, Performance, Complexities

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Fast Facts

- 80** percent of all businesses world wide are owned by families
- 70** percent of new jobs created by family businesses annually in Canada
- 64** percent of family businesses have NOT established a process for selecting a successor
- \$1.3 trillion** annual sales generated by family-owned businesses
- 35** percent of Fortune 500 companies are family controlled
- 1.3 million** part-time workers in Canadian family businesses
- Average No. of employees is **18**
- 60** approximate percent of Canada's GDP generated by family businesses
- 4.7 million** people employed full time by family businesses in Canada
- 70** percent of family businesses have NOT selected a successor
- 43** Percent of entrepreneurs in their 60s or 70s have NO exit strategy

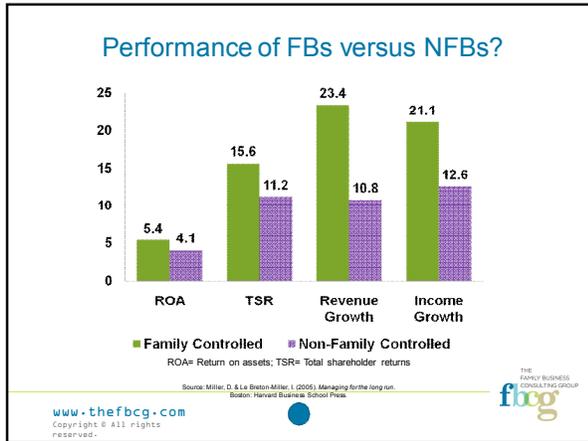
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Canadian Family Businesses

Wealthiest Canadian families in business

Source: Canadian Business 2014

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Family Firms in Canada

Over a 15 year period, 1992 – 2007:

- 23 largest family controlled firms, outperformed TSX by an average of 41%
- ATCO, an Alberta based, family owned company, outperformed TSX by 224%

Source: Clarkson Center, Rotman School of Management, Toronto

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The Dynamic Capabilities of Family Enterprise

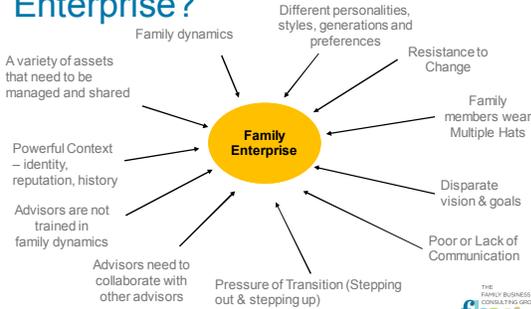
- Quick decision making
- Long term perspective
- Direct communication
- Control
- Commitment
- Strong Culture/Tradition



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What is Unique about Family Enterprise?



Family dynamics

Different personalities, styles, generations and preferences

Resistance to Change

Family members wear Multiple Hats

Disparate vision & goals

Poor or Lack of Communication

Pressure of Transition (Stepping out & stepping up)

Advisors need to collaborate with other advisors

Advisors are not trained in family dynamics

Powerful Context – identity, reputation, history

A variety of assets that need to be managed and shared

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What is Continuity Planning and Why is it so Challenging?

Definition, Three Circle Framework, Challenges

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What is Succession Planning?

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Typical Characteristics of Succession Planning

- A checklist approach
- Business and asset focused
- An event or short term process with concrete outcomes
- Transaction based with a legal/accounting underpinning with product sales
- Defined by advisors
- Typically done with one or two family members



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A New Lens on Succession.... Continuity

1. A Dynamic **PROCESS** that assumes a multi-generational lens
2. Incorporates **ALL** aspects of the Family Enterprise System
3. **LED by a family** for a family
4. Encompasses a **VARIETY of elements** including governance processes, structural solutions, transactional activities, and relational work
5. **MULTI-STAGE** – Reflection, Planning, Execution, Measurement and Adjustment
6. Whose outcome is the **LONGEVITY** of the of the family and the enterprise
7. Requires an **INTERDISCIPLINARY** team approach

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A DYNAMIC Process with a MULTIGENERATIONAL Lens

GROWTH
How do I help the next generation build the skills to be good owners and operators?

LEADERSHIP DEVELOPMENT
Do I give equal shares to each of my children?

WEALTH MANAGEMENT
When and how do we talk to our kids about our wealth? If I tell them how much there is will they get lazy?

HERITAGE PRESERVATION
How do I ensure my children will not see the ranch? I want it to stay in the family forever.

ESTATE PLANNING
I keep getting told I need an estate plan, I don't know what I want to do

OWNERSHIP TRANSITION
My son is getting married should I do a pre-nup? WEALTH TRANSITION

LEADERSHIP TRANSITION
I am thinking about retiring how do I choose the next successor?

LEGACY
Will my great grandchildren understand what I was trying to create?

EXIT STRATEGY
How do I create enough liquidity for us to live on?

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Source: © Cunningham, Sage-Hayward 2015

Continuity Planning Three Circle Model

Family
Private
Supportive
Emotional
Traditional

Business
Public
Competitive
Objective
Changing

Ownership
Management
Marketability
Information
Profit

Source: Taggart, R., & Davis, J.A. (1982). Bivalent attributes of the family firm. Working paper, Harvard Business School, Cambridge, MA.

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Multiple Perspectives to Manage

Family members in different circles often have different perspectives towards the same issue

1 Family
2 Business
3 Ownership
4 Family & Ownership
5 Family & Business
6 Business & Ownership
7 Family, Business & Ownership

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"Shirtsleeves to Shirtsleeves in Three Generations"



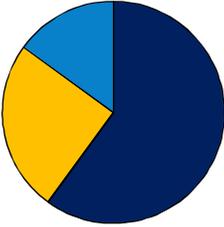
- About **30%** of family-owned businesses make it to the **second** generation
- About **13%** make it to the **third** generation
- About **3%** make it to the **fourth** generation and beyond

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Source: John Ward, 1987

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Transition Failure Causes



- 60% = Breakdown of Communication and Trust Within Family
- 25% = Heirs Unprepared for Required Roles & Accountability
- 15% = All Other Causes

Source: Williams & Preiser (2003). Preparing heirs: five steps to a successful transition of family wealth and values.

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It is HARD WORK!!



Best Practices in Continuity Planning
Stages of Transition, Three Keys To Succession

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Succession Planning Research

•Research Question:
What is the correlation between effective succession planning and successful succession?

- Repeated the study multiple times
- Data from **18,000** companies

RESULT
NO Correlation!!!

Source: Albrecht, Kolomoj, 1998

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The Three Keys to Success
Best Practices of Successful Family Businesses



Good Governance

1. Family Meetings
2. Independent Directors
3. Family Enterprise Strategy

Source: A Neglected Factor Explaining Family Business Success. Astrachan and Kolomoj (1994)

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1. Family Meetings

Top Reasons



1. To preserve and advance family values, traditions and history
2. To resolve conflicts
3. To plan for how the family will participate in the family enterprise
4. To build the potential for a strong next generation leadership and ownership
5. To help next generation learn to manage inherited wealth
6. To keep communication open and flowing

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2. Independent Directors

- Ask challenging questions
- Encourage accountability in management
- Provide a sounding board to aid in evaluating Business Owners' Ideas
- Aid in creative thinking and decision making
- Offer honest, objective strategic advice



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Source: Building a Successful Family Business Board: A Guide for Leaders, Directors, and Families, by Wendy Sage-Hayward © 2011

3. Family Enterprise Strategy



Desired Future State

Road Map

Current Reality

Three Levels of Family Enterprise Strategy:

1. Family Legacy
2. Owners Vision and Goals
3. Business Strategic Plan

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Summary Points

- Includes technical elements but driven by **family needs**
- An **on-going process**: when one generation takes over, planning starts for the next
- **Multi-generational approach** encompassing family dynamics
- Needs to consider all the three circles- **business, family, and ownership**
- Planning process includes the **whole family** not just the active members



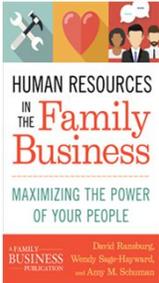
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Thank You

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