FAMILY TIES

Families in Business Together:

How to keep the peace at the cottage

by Aron Pervin, CMC

As the season draws to a close, the trials of sharing a cottage property can trigger conflict even in business families that look to their summer place as a retreat from working tensions. For a family in business, the summer cottage can be a safe haven. Even after a bad week or a sharp exchange of words, family members often can relax and reconnect in a familiar place that evokes simpler times. To preserve that atmosphere, many business families try not to talk shop at the cottage. Winter chalets don't get the same treatment — they're considered places to take important associates to play and discuss business. As a retreat, the summer cottage often stands alone.

Yet, not in all cases. As the cottage season draws to a close, family business consultants are beginning to hear those annual laments from brothers, sisters, parents and cousins about the trials of sharing a property.

Some examples drawn from experience:

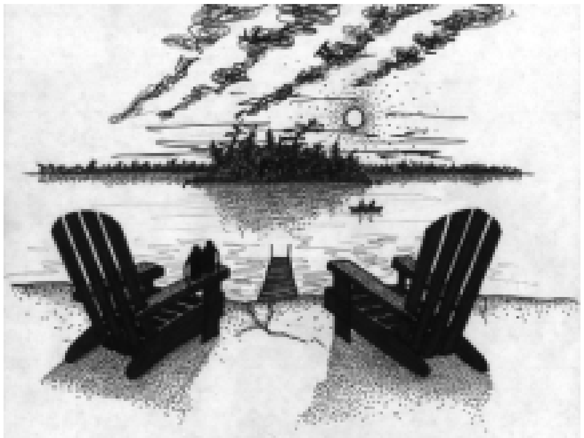
• Four families, all related, share one large property. When one family head unveiled plans to build a fifth cottage for his three adult children, the others turned him down, saying no more trees should be cut. Instead, he built a two-bedroom addition to his own place. He is now struggling with the problems of sharing one cottage among four families.

• When the guesthouse on one property fell into disrepair, the older generation didn't want it rebuilt. They feared the taxes would rise.

• A grandmother owns the family cottage property. Her children's families occupy individual cottages, but the matriarch exerts iron-fisted control. When she interfered in one daughter-in-law's plans for a kitchen renovation, the family bought its own property nearby.

In many cases, families place a value on the cottage that, to an outsider, seems extreme. In one example, thirty-two family members who share ownership of a compound recently set a "love it or lose it" policy whereby no one can sell their share to outsiders. Each year, they divide all taxes and costs of upkeep equally. Forfeiting one's share of maintenance results in losing ownership. "This property is our heritage," one family member says. "It's not up for grabs by anyone else."

Sentimental attachments to a cottage often create contrasting responses in business families. A family at loggerheads on company matters may find a way to share the summer cottage, simply because it's held above the fray. On the other hand, sentiment can trigger hard feelings between those who want to preserve the old place exactly as it was and those for whom additional comfort and modern esthetics are leading priorities.



If renovations can strain a marriage, imagine the dynamics when siblings in a power struggle at work must decide whether to expand the deck over the old horseshoe pit. And there are other common points of conflict. For instance, some families find it difficult to divide the limited number of weekends fairly or get everyone to share the tasks of maintenance and cleaning.

Distance is a problem when families spread out across the country and cannot use the cottage regularly, but are still expected to ante up their share of expenses. Ownership can become too complex by the time the third generation inherits the cottage, leaving numerous cousins to sort out ways to share time and expenses — and make decisions that keep everyone happy. Common sense dictates some solutions. Families that get along best know the costs involved in maintaining their property and figure out how to share them fairly.

One approach is a timeshare arrangement. Each year, tally up the taxes and maintenance costs and fix a rate for each week in the summer. Families "book" their time and then pay on the basis of the weekly rate. This method is often used in situations where there are distant family members who cannot go to the cottage as frequently as others do. Families also use it where some or all members are concerned about the cost of upkeep.

Another way to share costs is to divide them equally. Each family submits its

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"The certainty of misery is better than the misery of uncertainty."

\- Pogo comic strip, Walt Kelly

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How to keep the peace at the cottage

continued from page 1

cheque faithfully, even if it's spending the summer in the south of France and won't use the cottage at all one year. This is clearly a solution for wealthier families — or those who normally spend every summer weekend together. Large families can encounter difficulties inviting guests if there's no system for booking exclusive use. They also have to address who gets those choice weeks in July. If one family branch had them this year, another should get them next year.

There can be a way out of the common problem of differing interpretations of the phrase "leave the place clean for the next family:" Pay someone to come in and clean up. Maintenance can be contracted out almost entirely, so that family members landing after a hard business week have time to enjoy the property, not just work on it.

Finally, take the time to call a cottage owners' meeting to decide what your group's attitude is toward change. Do you want the place to stay the same, or would you like to put forward a plan of gradual or wholesale renovation? If you can agree on an overall philosophy, you should be able to come to terms on specific questions down the road.

The family cottage is where everyone remembers being young — learning to swim, watching the stars, catching turtles and passing uninterrupted time with parents and siblings. Keep those memories in mind and don't get too worked up about anything.

SURVIVAL TIPS

If you and other heirs control a property, get organized now so that future generations can enjoy the legacy. Here are some tips:

- Learn how to run the operation before the elders die. They'll keep their areas of control, but the children shouldn't wait until they're gone before assuming responsibilities. Transitions should be seamless, not watersheds.
- Decide who can be a property owner. Some families keep it to blood relatives only. Some limit each generation within a family to one share, so that an only child has the same stake as cousins in a family of eight.
- Institute a decision-making process for improvements, additions and buyouts. Set a philosophy on sentimentality: How much do you want the property to change? Determine how you will resolve differences.
- Agree on how to allocate and rotate responsibilities. If chores are repeatedly left undone, hire someone to do the job.
- Establish rules for booking visits, maintaining the house and property and paying overhead and replacement costs. Decide whether you will share costs equally or on the basis of time booked.
- Keep operating records and share the information.
- Separate the cottage from business as a focus of your family heritage. Involve children in documenting stories, writing a history of the property or region, mapping trees and organizing photo albums. Make it a celebration of your family.

"Great-looking tie!"

Family firms need policy for conflicts of interest

by Aron Pervin, CMC

There are few business confrontations that can generate the emotional heat of a conflict-of-interest dispute in a family enterprise. Just listen to the rhetoric. When family members describe a relative usurping a company car for personal use, or scoring a job for a shiftless spouse or friend, they talk in terms of a personal violation, like a domestic break-in. It's taken as a blow against the family itself. A conflict of interest happens when there is a discrepancy between an individual's personal interests and the official responsibilities of that person in a position of trust.

It's not surprising that a conflict of interest is practically endemic to the family firm. It's a fight between what's best for the business and what some family members believe they are entitled to as business owners. It therefore brings out all the stifled emotions of the family and the buried history of its business: accusations of incompetence, unfair practices and preferential treatment compete with anger, resentment and pride. But a forthright discussion about what's right and what it means to undermine the freedom and profitability of the company cannot be swept aside. The reality is that run-of-the-mill events in another company can strain partnerships in a family firm and perhaps place it in jeopardy.

Here are some common examples:

- A cousin reveals he owns a piece of a supplier.
- A brother-in-law starts a new business and asks the family firm to invest.
- The spouse of an owner wants to take on a project for the company under contract.
- Friends of an owner want to bid on company business.
- And, an owner suggests the company buy cars and computers for sons and daughters.

What are the benefits of saying no? You can save yourself a lot of trouble by setting a policy that all family members will deal with the company at arm's length. The policy states an important message about the family's attitude to fairness and builds instant credibility for its leaders' decisions. Moreover, you never have an excuse to endure poor performance and there's no family fallout if a supplier gets cut. Finally, it punctuates that this is a business, not a family-owned social agency.

In the end, owners and other members of the family business should be motivated to do things on their own and not milk the family firm for inappropriate favours. It saves everyone from tangled emotional dialogues about what's allowed, what's taboo, who gets more and who gets less. It also minimizes the opportunity for miscommunication, selective understanding, manipulation and jealousy.

But what does it mean to deal at arm's length? At a minimum, the family should discuss a policy that prevents relatives from undertaking transactions with the family firm. However, more detailed rules, which follow, will help prevent most conflict:

No secrets.
One client put it very succinctly: "It's better to ask permission than to always seek forgiveness."

Universality.
Any special deals are available to all staff, offering the same opportunities of membership in the family firm to everyone — family and non-family.

Fee for service.
Anyone using company resources pays for them according to an arranged schedule.

Preparation.
Develop criteria and a selection process for controversial projects ahead of time and seek competitive bids.

Supplier review.
A committee evaluates and chooses suppliers, reviewing performance annually. This committee is stacked with non-family members.

No promises.
When friends or spouses make requests, family members may assist in setting appointments, but clearly state they have no influence in the decision.

Everyone should see the benefit of the company operating objectively. This will allow leaders to concentrate on profits rather than personal issues. However, many business families have also found that starting from this basic no-conflict position makes it easier to deal with the exception, when everyone agrees that the rules need to be bent, if not broken. It's interesting that conflict-of-interest disputes seldom arise at the founder stage. As partnerships become more complex — once sons, daughters, nieces and nephews inherit power — the line between rightful benefits and wrongful entitlement becomes hazy.

Meeting to discuss a conflict policy and documenting the agreements in a manual can sidetrack a fight. When differences occur — and they will — a business family that has already discussed these situations will, in theory, at least have some background with which to begin a discussion with minimal discomfort and distraction.

Owners and other members of the family business should be motivated to do things on their own and not milk the family firm for inappropriate favours.

How to run a family meeting
without a feud breaking out

By Aron Pervin, CMC

The great taboo in family businesses is the dreaded discussion of how the leader should pass the business on to the next generation. Who can blame them? It's not pleasant to consider the possibility of a premature death — or declining importance and authority. Or watching a mere youngster make decisions you would never consider. Besides, in many business families, the identity of the next anointed leader is a matter of considerable conflict. The whole matter of non-business communication makes a lot of business families uncomfortable. Yet failure to plan the right way of letting go can cause major headaches later — for everyone except the lawyers and judges who will settle the family dispute later.

A Canadian survey by Pervin & Co. in 1998 and a U.S. poll by Mass-Mutual in 1997 indicate that more than 80 per cent of family-run concerns wish to keep the business in the family. But both surveys say about 60 per cent of these respondents have done little or nothing formally about it, and 20 per cent of the leaders state they are not confident as to the commitment and competence of the next generation.

Many families are not even well informed about their own businesses. A third of the 1998 survey respondents report they hold business meetings for the family, but most are ad hoc, reactive and infrequent. Attendance isn't good, probably because the meeting's business focus is not as satisfying as the discussion of how family relationships and cooperation could help matters. It is therefore not surprising that participants are usually those working in the firm.

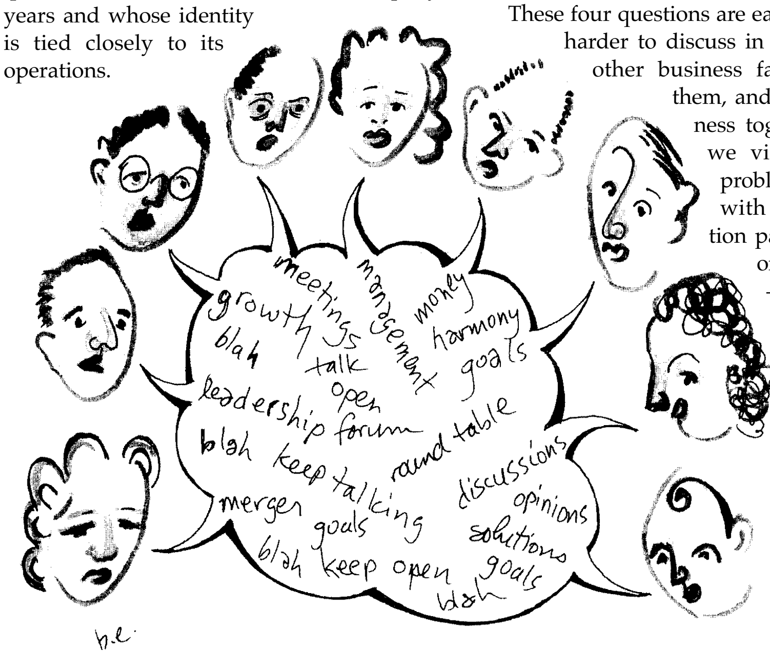
What this means is that membership in the business family is getting more complex as post-war families and businesses arrive at the time of transfer to the next generation and beyond. The real work in the family business is managing relationships and, for the business to survive over the long haul, family members must learn new ways to listen. Successful business families realize this and establish a family meeting process that allows everyone to have a voice. They believe that the family business is not just a financial entity — all members of the family have some relationship to each other and to the business.

Talking it out can only clarify murky, unspoken issues. In one case, three second-generation owners of a children's camp called a meeting when it became clear that the core business could only adequately feed one family. Two siblings had to make other choices. After careful consideration, one sibling chose the camp, one sibling established a city camp for musically inclined children and one sibling was bought out and became an actor.

Many business families use their internal strengths and resources to work through emotionally laden, but critical, business decisions. As a starting point to this thoughtful exploration and journey, here are some general relationship questions that most people involved in a family enterprise should, at a minimum, consider. Use them at a family meeting to get the discussion flowing:

Who is committed to running the business, and why? As each generation of owners and managers reach their mid-50s to early 60s, both generations of the family must decide whether to continue the accidental partnership that is the family business or make other choices. Who has a need to participate in or even lead the firm? What skills do these individuals bring that match their ambitions? Remember that leaders must head up both the business and the family, as decisions in one will strongly affect the other.

What is the leader's vision of self and the family company in the future? This is a difficult question for those who have led the company for years and whose identity is tied closely to its operations.



Is the leader interested in one last major move before handing over the reins? Or is the idea to hold power until death or disability? In light of the leader's intention, heirs should consider how they see their careers unfolding. Which roles would be satisfying? Which decisions would each like to make? Who would they like to work with?

If the business remains in the family, how will everyone build or maintain strong relationships? Family stakeholders need to manage their relationships. That's because each person's relationship to others and the business has the power to undermine the joy of working together — or create a powerful bond that becomes the glue for a long-term business.

What steps are required to accomplish each family member's personal and professional goals? Accept that the past is the past — look to the future for solutions. Here's one way to envisage it. Imagine that a miracle occurs while you are sleeping and all the family's personal and professional goals are met. How would you know that this miracle occurred? What would happen?

These four questions are easy to think about but harder to discuss in an open forum with other business family members. Try them, and enjoy the awkwardness together as a family. If we view business family problems as relationships with faulty communication patterns, we can focus on the here and now — not the past — and build relationships that work for the future.

***For more information on Family Meetings and the June 2001 survey data, please visit the "What's New" area of our website:* www.pervinfamilybusiness.com**