

Trends in the Family Business Environment

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For over twenty years, **Aron Pervin** has been recognized as a leader in the field of family-owned business management. He is an organizational change specialist, a business family counsellor, family business continuity advisor, a certified management consultant and owner of Pervin Family Business Advisors Inc. (formerly Pervin & Company). As a consultant, his collaborative interventions have focused on improving the overall continuity planning process while managing relationships, organization, co-existence, communication and governance in the business family, family business and accidental partnership – simply, he helps preserve and improve business family life. He is also an educator and supervisor for a number of associations, individual consultants and professional firms.

Aron works internationally with a diverse business family client base in all industries. By example, the number of family participants has ranged from two to thirty-eight people who own and/or work in businesses generating revenues from \$1 million to over \$1 billion. His current counselling/work activities concentrate on inter-generational, sibling and cousin partnerships in multi-family enterprises, next generation career development, dealing with, and valuing, the differences that partners contribute to the enterprise, family philanthropy and overall family, shareholder and corporate governance systems and structures.

A science graduate of McGill University, Aron has taken additional training over the years in business, engineering, management, finance, organizational design and behaviour, leadership, psychology, group dynamics, sociology, cultural anthropology, mediation and family therapy. He makes numerous radio and television appearances, is often invited to be a key note speaker and frequently writes for, and is quoted in, magazines, journals and newspapers throughout North America.

Aron is a member of The Estate Planning Council, The Family Firm Institute (FFI) and The Canadian Association of Family Enterprise (CAFE) and serves on a number of their committees. He is married to Elizabeth Qualben and they have two children, Kristofer and Erik. They all reside in Toronto, Canada.

Acknowledgement:

Behind every good report, there are a lot of helpful and caring people. Many thanks to Karen Rae Short of KRS Marketing Inc. who refined the questionnaire, talked with everyone in the survey, listened to my hypotheses, structured everything and encouraged me to complete and share the information as quickly as possible, to Penelope Hansen who tabulated the data in the survey analysis section, to Elizabeth Qualben who listened to me rant and rave about the material and the future of family business and helped me make sense of all the overwhelming information, and to John Southerst who edited this document and has a way of transforming my long winded notes into writing that works.

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Executive Summary

The past fifteen years has witnessed a substantial growth in interest in the family business – among family business members and the rest of the world. No longer are family businesses the butt of jokes or the career of last resort. Indeed, these survey results confirm that both the business family member and the professional who interacts with the family business is becoming more sophisticated in their dealings with each other, the partnership, the family and the business, especially in preventive measures in both the technical and behavioral arenas.

Business families now report:

Change Observed	Impact on Future
1. Accidental partnerships are becoming more complex.	Family participation in the firm and number of inactive shareholders will continue to grow and create more partners who have not chosen to be together. This will require different styles of cooperation, communication, organization and governance to ensure a peer relationship and an appropriate level of participation in key decisions.
2. Shared leadership is becoming a reality.	Business families will continue to have an interest in unique and innovative leadership structures. Shared family leadership and teams will become a clear choice – not only for executive leadership but also for family and shareholder leadership.
3. Managing family relationships is becoming critical to business success.	Business families will continue to value and express a strong appreciation for dignified family interaction, listening and communication. The family meeting process and family councils will become critically important to ongoing success. This is due to an expanding need for collaboration and managing positive relationships in the accidental partnership, family and business.
4. Planning for continuity is replacing succession planning.	Business families will take a multi-disciplinary approach to continuity planning because succession planning seems to hinge on a single event and is not the whole transition story. Family members have begun to clearly recognize that continuity is about changing relationships, roles, culture, direction, information sharing and entire governance systems and structures. To be effective, continuity planning must address and balance personal, family, business and ownership needs simultaneously within the human and corporate arenas.

<p>5. More professional business practices are becoming the standard.</p>	<p>There seems to a strong preference to balance family and ownership needs within a more professional business environment. More family owners and managers are opting for a different style of organization that incorporates business and strategic plans, governance systems and strategic management methods. They are setting up multiple structures to separate family, estate, business and shareholder decisions, allowing both active and inactive shareholders to take more responsibility for the present and future performance of the business and the family's wealth.</p>
<p>6. Women are increasingly taking consequential leadership roles.</p>	<p>More women are being offered and are pursuing the opportunity to lead or play a consequential role in the business and/or in other areas of the family's wealth. Although gender differences still exist, women armed with education and corporate experience are challenging the historical traditions and are successfully taking on leadership roles in the firm as owners, on the foundation, on the board and/or in the family.</p>
<p>7. Distinct decision-making and accountability are gaining in popularity.</p>	<p>As the number of shareholders increases and more business families choose to embrace a participative leadership style, we will see improved accountability, role clarity, sharing of information and more sophisticated governance methods and structures. This will result in more advisory boards, owners forums and family councils as well as the systems and policies to support them.</p>
<p>8. The business family is becoming more focused on preventing rather than avoiding problems.</p>	<p>Families are fighting the instinct to sweep sensitive issues aside. They are becoming more open, focused and interested in corrective action as they deal with issues in a fair, caring, aware and dignified manner. As the next generation takes over, families will begin to manage their relationships and attempt to improve their current family, business and partnership interaction with skilled professional help, rather than leaving it to chance. It seems that they are not interested in a long process, but in a solutions-based therapeutic business process.</p>

<p>9. Family business information is becoming comprehensive and more readily available.</p>	<p>The business family population will continue to seek comprehensive information on family firms that validate and help find solutions to their unique situations. Business families will begin to strongly influence the universities, associations, other learning centers and publishers to produce well developed books, courses and tools to support their ongoing evolution from founder to 10th generation and beyond.</p>
<p>10. Services to the family business client will continue to celebrate their existence.</p>	<p>Professional service delivery to the family firm will continue to be more defined and sophisticated as respect for the family enterprise and its ownership relationship increases. As families get clearer when asking for assistance, professional advisors who only purport to be family business consultants will be ill equipped to provide service. The business family will therefore seek those with a documented history of success thereby improving the service and its execution.</p>

Based on the trends identified from this and prior surveys, it seems clear that the business family and the professional community will only get better at what they have already started to do well. But they must find a way to integrate all the relevant information in a fashion that is simple and effective while balancing the needs and priorities of the personal, business, ownership and family arenas. In the end, professionals must reduce the tension experienced by the accidental partners and the rest of the family so that they can logically and comfortably rise above personal concerns and devote their full attention to the business, family and personal growth.

Why Was This Survey Done?

In working closely with family businesses in various capacities, we had developed numerous impressions of how business families might learn to deal with changing social and marketplace conditions. At first, this survey was meant to be a private study that would allow us to better understand and support my observations and opinions. But, over the summer and fall of 1998, as KRS Marketing conducted the survey across Canada on behalf of Pervin & Company, it became clear that we were collecting powerful information describing dramatically different needs of the business family over the next five years. At that point, the purpose of the research changed as we set out to document the overarching trends in the marketplace, using a qualitative context rather than the quantitative approach that is often the norm.

But allow me to return and elaborate briefly on some of the specific observations that originally motivated the study. The most important was our observation that the family business was becoming more complex, more sophisticated and somewhat more professional, but still unable to deal with balancing many overlapping concerns that typically created ongoing tension. To us, the business family seemed to be more frustrated, more knowledgeable and larger in membership, but we were hearing that individuals were still unable to claim that they truly had a voice. Interestingly, many people were commenting that the poor interaction between the generations seemed to be replaced by the awkwardness of sibling and cousin relationships.

In addition, the nature of management was changing from one of individual control to a more participative model. And there seemed to be a stronger interest in more rather than less structure in the family business itself. We also observed more interest in managing the business finances as well as the family wealth, often brought on by a need for capital and family reporting. Both these areas were historically kept private (and secret). Finally, we sensed a change to more openness in the family business environment as both the advisors and the business families became more aware of how to work together. We were interested whether this was due to different values and/or changing participants, and if there was a match to many of the changes in the global economy.

At the same time as ownership structures were becoming more complex, of course, we felt that they were also becoming more confusing. More family members were entering into ownership roles whether they wanted them or not. In some situations, we observed siblings, cousins and parents forging innovative ways to make decisions at board, family, shareholder and foundation meetings. This sparked an interest in how these accidental partnerships would learn to co-exist and how they might choose to balance both shared management and ownership situations at the same time as the numbers of active and passive shareholders were increasing.

Another observation, however, was presented to us by family members themselves. Many business families told us they were experiencing difficulties when attempting to choose helpful advisors because many of these professionals were actually ill-prepared to deal with family businesses in spite of claims to the contrary. They professed to be one-stop shops capable of providing everything from estate planning to family meetings and family therapy. But in reality, they were offering a new spin on an old service, with little substance. We therefore wanted to

find out whether advisors were truly using a multi-disciplinary approach and, if so, whether family members placed any value on the benefits.

Throughout our research, our focus was to assist and celebrate the continuity of the family firm. Our approach was to find those trends that could be useful to those family firms who wish to create a lasting legacy and make family business a part of their life. It was felt that a rigid question-and-answer survey would not elicit the messages we were looking for. As a result, we intentionally performed the survey as a dialogue to try and ascertain where business families might initiate change – real and everlasting change. This meant less actual hard data from the survey, but more clear and realistic ideas on the future of the family business. Each telephone interview lasted **more than 30 minutes** and all the **open-ended discussions** surrounding the few standard questions were captured and documented.

With that in mind, the first part of this document identifies our view on the emerging future trends in the family business environment. The second part shows the surveys used to assist in this exercise and describes some of the quantitative data and comparisons from our (and others') past surveys from 1986 to 1998.

Using the data gathered, and blending it with information from my readings, experiences, reflections, intuition, conversations, prior surveys, other people's data and intuition, we are pleased to share our ideas on the future trends of the family business sector in Canada (and much of the data seems to fit North America in general).