

FAMILY BUSINESS

Wednesday, April 8, 2020

PRODUCED BY RANDALL ANTHONY COMMUNICATIONS. THE GLOBE'S EDITORIAL DEPARTMENT WAS NOT INVOLVED IN ITS CREATION.



An enduring commitment to advancing Sustainable Development Goals

Zero hunger, responsible consumption and production, and gender equality are among the goals family businesses are helping to advance. ISTOCK.COM

From mom-and-pop corner stores to household-name brands, Canada's family enterprises operate in every sector and touch every community across the country. In 2017, they generated almost half of Canada's private-sector GDP and almost seven million jobs. This impressive impact – paired with some of the common characteristics of family enterprises – make them ideal allies for tackling the world's most urgent challenges. Despite the pandemic crisis, business families across Canada remain committed to advancing the UN's Sustainable Development Goals (SDGs).

For a number of years, the Family Business Network (FBN) has partnered with the UN through the Polaris initiative to leverage the power of business families to promote sustainability, says Bill Brushett,

“Family businesses are well positioned to take a leadership role on sustainability issues due to their substantial economic impact and because of the way they operate.”

Bill Brushett
president and CEO of the Family Enterprise Xchange

president and CEO of the Family Enterprise Xchange (FEX), which hosts the Canadian chapter of FBN.

“As an international network of over 16,000 members in over 65 countries, FBN is a dynamic community that connects business families globally. The partnership with the UN is about creating a movement within the family business community to step up and combine our efforts,” he says. “Family businesses are well positioned to take a leadership role on sustainability issues due to their substantial economic impact and because of the way they operate.”

Family enterprises are typically rooted and socially engaged in their communities. They also tend to take a longer-term view than their counterparts. “This multigenerational perspective is important,” says Mr.

Brushett. “When we look at sustainability, there are no quick fixes. We have to change approaches and cultural practices for the better, and this takes time.”

Tackling the comprehensive list of the UN's SDGs “has to be a collective effort,” he says. “Family businesses need to identify the areas where they can make a difference.” For example, a business producing packaging would embrace reusing and recycling trends to advance a circular economy model, while a food producer could work to minimize food waste.

Family businesses have already earned a reputation for being proactive “because they care about their communities and the environment,” says Mr. Brushett, adding that promoting sustainability can include

Continued on page FB3

RESILIENCE IN TURBULENT TIMES

Through generations, business families have proven to be resourceful in weathering tough economic times. As the backbone of the Canadian economy, family-owned enterprises today are at the centre of the current COVID-19 crisis, dealing directly with extraordinary operational and financial impacts.

During these turbulent times, it is imperative that Canadian family-owned



businesses receive the support they need today, so they are able to not only survive the crisis but lead us to economic recovery after it abates.

Family Enterprise Xchange encourages governments and all Canadians to support family businesses whenever they can. Canadians can similarly count on family-run enterprises to do their parts – as they always have – to support their employees and communities in the return to prosperity.

SUCCESSION

THE FOUNDATION FOR SUCCESSFUL TRANSITION PLANNING? OPEN AND RESPECTFUL COMMUNICATION

Passing along the family business – and the wealth associated with it – to the next generation is not a one-time event; it is a process that can be aided by open and respectful communication between the different generations of family members.

“Open discussions in the family are equally or even more important than the legal and financial structural framework for transferring the business or the wealth to successors,” says Pamela Cross, chair of STEP Canada and lawyer with Borden Ladner Gervais LLP.

Ms. Cross, who specializes in taxation, estate and trust planning, believes that the outcomes for

transferring family enterprises improve dramatically when the family is dedicated to resolving “communication issues,” she says. “There have to be ground rules on what decisions have to be made and how to make them.”

“People often assume that all they need is a tax plan for transferring ownership, but we find that – to ensure things move forward without substantial conflict – the different generations have to work together and respect each other's perspective.” The tax and legal planning must support and complement – rather than compete with – these objectives.

TRANSFERRING THE BUSINESS

Having built and led the business for many years, “senior generations often have a very clear vision on how the family enterprise should be run,” says Ms. Cross. But it is important that younger family members who are interested in taking a leadership role are encouraged to share their views about the future of the business, even if they are not completely aligned.

For example, the younger generation may assume senior leaders are going to retire, but Ms. Cross says there is evidence that business owners typically work well past the

average retirement age and stay involved even after they no longer oversee day-to-day operations. Their strong emotional attachment to the business plus their knowledge and expertise should inspire respect in their successors, who, in turn, should be valued for contributing fresh perspectives and ideas.

EQUAL VERSUS FAIR

Passing the reins for running the family enterprise brings a set of challenges – with a transfer of wealth adding even more complexity.

Continued on page FB2

INSIDE



How family businesses can turn multigenerational perspectives into a business advantage. **FB2**



Having a financial roadmap can significantly improve outcomes and help to build a legacy. **FB3**

Get the answers and insights you need to move forward through the ongoing COVID-19 crisis.

Navigate Uncertainty
Wherever Business Takes You

[MNP.ca/COVID-19](https://mnp.ca/COVID-19)

ACCOUNTING > CONSULTING > TAX

Generations weathering challenges together



The advantages of multigenerational businesses include the fact that they have shared core values, varied points of view and a next-generation element. ISTOCK.COM

Family-owned businesses that remain operating from generation to generation aren't just beating the odds; their longevity shows the advantages of having different perspectives, greater consistency and long-term stability.

With a common purpose, open communication, the right governance models and advice, entrepreneurial families set themselves up for success through multiple generations, says Krista Han, a designated Family Enterprise Advisor at Grant Thornton LLP, based in Fredericton.

"These are baseline requirements for any successful organization, and

particularly a family business," says Ms. Han, who works with family businesses that span as many as three generations or that have "generational intent."

The advantages of multigenerational businesses include the fact that they have shared core values, varied points of view and a "next-gen" element, Ms. Han says. They are also typically farther along in creating governance structures and promoting communications that are beneficial to the business's functioning. Challenges, meanwhile, can include getting people of different ages and experiences on the same

page, especially as they have different risk appetites, time horizons, approaches and lenses through which they see matters.

"Oftentimes there's an inherent bias toward the skills and capabilities of next-gen leaders," observes Ms. Han, noting that such issues should be identified and cleared up so they do not affect decision-making.

A Conference Board of Canada research paper commissioned by the Family Enterprise Xchange Foundation last autumn found that family enterprises, which it said account for some 50 per cent of private-sector gross domestic product and nearly seven million Canadian jobs, "sustain a multigenerational commitment to job creation and to the social cohesion that builds community and national prosperity."

Ms. Han says entrepreneurial dynasties require a governance model with three circles representing the business, the owners and the family, overlapping in the centre. Each group should have its own support structure, for example a "family forum" brings clarity around the family's clearly defined guiding principles. Professionals designated through the Family Enterprise Advisors program, including accountants, lawyers, bankers, insurance and wealth advisers and coaches, can help set up structures, policies and procedures that serve both the business and family.

She says that multigenerational success especially comes through a culture that embraces continuing education and growth, healthy interactions and strong interpersonal connection.

"Clear communications are especially critical," Ms. Han explains, noting that it's important to consider

the impact of business decisions on family relationships. Rules must "stand the test of time" and especially help the different generations weather inevitable periods of stress and disruption together.

"If we have a way that we know works to make decisions, then we're going to make better decisions in a crisis," she says. "The structure and the process are

already built, so they should bring better thinking when there's pressure in the system."

Grant Thornton is committed to helping businesses navigate the impacts of COVID-19. For more information, visit www.grantthornton.ca.

ADVICE

REBALANCING THE FAMILY SYSTEM

The complexity in family enterprises is often illustrated by three overlapping circles that represent the family, the business and ownership. "Everything is interconnected, and where things overlap, there is potential for a lot of conflict," says Suzanne St. John Smith, a therapist and designated family enterprise adviser. "That's why it's important to look at issues from the perspective of the family systems theory."

Every family system seeks to maintain a balance, which is often supported by long-ingrained behavioural patterns. Yet the balance is not necessarily a healthy one, and when Ms. St. John Smith steps in to help families, they have typically come to a crisis. "That's when families turn to facilitators like me, usually on the recommendation of other advisers or when family members realize they cannot move forward unless they sort out the dysfunction within the family system."

In her work with families, Ms. St. John Smith first determines what the particular system looks like. "Once I gain an understanding of it, I encourage different behaviours, which often upset the previous balance," she says. "But when people work consistently on changing unhealthy patterns, then the family can find a new balance, and one that sits on a much healthier foundation."

In a typical scenario, the founder of the family business is a strong-willed individual, whose drive and ambition have contributed much to

the success of the enterprise. "These founders are not that keen to accept to input from others; and many of their family members are conflict avoiders, because they simply don't want to get into the path of an angry founder," says Ms. St. John Smith. "For achieving long-term goals, the founder has to step back and other family members have become more courageous in sharing their vision for the family business."

Ms. St. John Smith suggests regular meetings, where family members can talk about their goals and explore questions like: How do we handle disagreement? How can we make sure everyone is comfortable speaking up? "When families communicate regularly, respect and understanding can develop over time," she adds.



Regular family council meetings can help to promote healthy family systems. ISTOCK.COM

MNP

Navigate Uncertainty Wherever Business Takes You

Get the answers and insights you need to move forward through the ongoing COVID-19 crisis.

MNP.ca/COVID-19

ACCOUNTING > CONSULTING > TAX

FROM PAGE F1

SUCCESSION: ENCOURAGING MULTIGENERATIONAL ENGAGEMENT

For many business families, the goal is to divide assets fairly, says Ms. Cross. "The senior generation often wants to ensure that everyone can benefit from the family wealth. But in circumstances where only some family members work in the business, treating everyone equally may not be fair."

Ms. Cross suggests that the process of working out equitable solutions has to involve honest and respectful conversations about the views and expectations of all family members. Advisers and mediators can help to facilitate difficult discussions, she adds. "STEP Canada members have the internationally recognized trust and estate practitioner designation. If you need advice, a qualified practitioner is where you should start."

WEALTH AND GIVING

For wealthy families without an active family business, the key issue is often transferring the wealth in a way that will ensure a continuing legacy, says Ms. Cross. "In this scenario, the biggest concern we see is the senior generation questioning whether younger family members are able to manage the wealth appropriately."

Involving the next generation in discussions about the family legacy

and about sharing wealth can inspire and motivate them, says Ms. Cross. "Many business families are leaders in their communities – often with a strong philanthropic tradition – and they want their family legacy to continue. They want the younger generation to understand that while they reap benefits from being part of the family, this comes with a responsibility to uphold the family values."

STARTING THE CONVERSATION

Ms. Cross is a strong advocate for early engagement. "Including family members in discussions about the business and family values at an early age can create a foundation for the next generation to get involved in a meaningful way," she says. "When they are welcome at the table, they develop an appreciation for what the family is all about."

For more information about STEP Canada's resources for family businesses and the professionals advising them, please see advisingfamilies.org/canada.



Audit | Tax | Advisory

**you built your business.
now build your legacy.**

Your window of opportunity is now. Did you know it can take 5 to 10 years to transition a family business?

Our accredited family enterprise advisors will help you build the future you want—for your business and your family. Let's get started.

grantthornton.ca

© 2019 Grant Thornton LLP. A Canadian Member of Grant Thornton International Ltd. All rights reserved.



Financial roadmap to building a legacy

Family enterprises are economic powerhouses that account for nearly half of the country's private-sector GDP. With many family business owners and leaders now either retiring or getting close to retirement, ensuring the strength and continuity of the companies they've worked so hard to build has become a critical imperative, says Tina Di Vito, partner and national leader of family office services at MNP LLP, a Calgary-based national accounting, tax and business consulting firm.

"Family businesses often focus on running their business first and foremost and inadvertently overlook strategic planning for the future of the family enterprise," she says. "In some cases, there's a lot of potential for conflict, and people just don't want to have the difficult conversations around who should lead the company in the future, who's getting more money and how ownership of the business should be structured."

A comprehensive financial roadmap can help family businesses

resolve – or even pre-empt – conflict between family members and stakeholders, manage the transition of leadership to the next generation and build an enduring legacy.

"With a financial roadmap, you have a blueprint to guide you through the various aspects of being part of a family enterprise – from managing the business, succession to the next generation of leaders, protecting the family's assets and promoting the values that are important to your family," says Ms. Di Vito.

What would such a roadmap look like? Ms. Di Vito says this invaluable resource would, ideally, detail assets, ownerships and plans for the business, the family as well as individual family members to provide a clear and comprehensive picture of the entire family business landscape.

Components for the business aspect of the roadmap would include such documents as balance sheets and income statements for the company, business strategy and succession plan. On the family and individual side, the roadmap would



A financial roadmap can help provide guidance on managing the business, succession to the next generation of leaders and protecting the family's assets. SHUTTERSTOCK

It's also important to ensure a family business financial roadmap is built on the same values and vision that drive the enterprise and the people behind it, adds Mr. Hughes.

"Part of the work we do with families is helping them define their mission statement both as a business and as a family, and then ensuring that the goals and actions in the roadmap align with this mission statement," he says. "From talking to our clients, we know that legacy is important to family business owners. They're thinking about how they want to be remembered by future generations."

outline family and individual net worth, cash flow, assets such as real estate, estate plans and personal lifestyle continuity plans.

"The roadmap is intended to guide and protect both the family business and the family," says Ms. Di Vito. "That's why it looks not only at the assets and plans for the business but also at the assets and plans for individual family members."

John Hughes, senior VP of private enterprise at MNP, says effective family business financial roadmaps are those that follow the "three-circle model," which recognizes the overlap of three groups in the family business system: family, business and ownership.

"Where the lines intersect between these three groups, that's where the conflicts lie," says Mr. Hughes. "There will always be transitional issues as generations two and three start to come on. Our view and purpose at MNP is to help families and businesses get through to the next stage through a financial roadmap that considers the three elements of the model."

Creating a family business financial roadmap is a group affair that takes time and co-operation, says Mr. Hughes. "These conversations are best done when everyone is healthy. You also need to be prepared in advance and ready to really think through things."

While COVID-19 is taking an incredible toll on people's well-being, finances and families – and deserves an elevated precedence during this difficult time – MNP remains committed to helping clients, team members and communities adapt to an evolving landscape. To help manoeuvre through COVID-19 and return to optimal operations, MNP has created a COVID-19 Business Advice Centre – continually updated with information, insights and guidance from team members as well as national and international authorities.

FROM PAGE F1

PARTNERSHIP: ADVANCING SUSTAINABILITY

economic, environmental, social and governance components.

"In the economic sphere, family enterprises are promoting business models, practices and investments that ensure economic growth delivers value for future generations," he explains. "And a commitment to environmental stewardship can mean striving to have a positive ecological impact or mitigating climate change."

Advancing social aspects can include promoting diversity and inclusion, paying living wages, or any measures that strengthen the social fabric of communities, states Mr. Brushett. "And good governance is about transparency and accountability to stakeholders and the world."

Family businesses can provide an

antidote to what critics describe as an anonymous economy – so focused on quarterly returns that environmental and social concerns fall by the wayside, he believes.

"Family enterprises typically have a large focus on legacy and reputation. They want to see their values reflected in the way they conduct their business."

FBN Canada is a chapter of Family Business Network International (FBN-I), the world's leading international organization for enterprising families who want to engage with peers from diverse cultures and perspectives. More information at www.fbn-i.org.

ADVICE

THE BENEFITS OF FAMILY TRUSTS

Uncertain times – when we are reminded of our own mortality – can nudge us to think about the future. Senior family business leaders, for example, may turn their attention to transferring ownership of the enterprise and wealth to the next generation. They may consider setting up a trust for passing along assets or property in a manner that is tax efficient and ensures privacy, says Elena Hoffstein, a lawyer with Miller Thomson LLP and expert in estate and succession planning. "A trust is also a good tool for addressing blended family situations and protect-

ing vulnerable family members."

In recent years, some families have turned to "incentive trusts" to address the issue of "trust fund babies" (as beneficiaries lacking purpose or responsibility are commonly described). However, trusts linking inheritances to certain milestones, such as finishing university or getting a job, "may not work and need to be crafted with care to deal with the 'what ifs,'" says Ms. Hoffstein. "As a lawyer, I see lots of challenges with these kinds of trusts. For example, what if the beneficiaries cannot complete their education for health reasons?"

An emerging trend – the purposeful trust – aims to transform bequests into lasting legacies. Families wanting to encourage entrepreneurship, for example, could stipulate that a portion of the funds is allocated to a family bank, where heirs can secure loans supporting business endeavours.

Such tools could further enhance a trust's potential to help "beneficiaries grow into their wealth," says Ms. Hoffstein. "Trusts can also serve as tools to assist the transition process by advancing dialogue and education."

Featuring expert advice from specialists who advise family business owners on planning for succession between generations while preserving family harmony.

- Trust and Estate Lawyer, TEP
- Tax Accountant, TEP
- Certified Financial Planner, TEP
- Insurance Advisor, TEP

Seek advice from designated TEP professionals, Trust and Estate Practitioners

Find a TEP at step.org/step-directory

TEPs are full members of the Society of Trust and Estate Practitioners (STEP). STEP members are highly knowledgeable in offering domestic and international advice on trusts and estates, including planning, administration, and related tax issues. They help families plan for their futures, providing expert level guidance when it comes to making significant life decisions. Clients turn to STEP members for direction following the death of a partner; ensuring elderly and vulnerable relatives are cared for; safely passing a family business from one generation to the next; and helping clients to support charitable causes in an effective way.



You can talk to a TEP.
advisingfamilies.org/Canada/
 Why Use a TEP?
 Find a TEP
 Information Portal

