

KPMG Enterprise™

CANADIAN ASSOCIATION OF FAMILY ENTERPRISE

Family Ties

Canadian Business in the Family Way

2012

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cutting through complexity

IN COOPERATION WITH





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Introduction

For centuries, family businesses have been the most enduring, prevalent and successful form of enterprise. Today, family businesses operate in almost every corner of the Canadian economy. They drive innovation and employment. Their resilience and adaptability make them a buffer against economic shocks and dislocations. They are vital to the development of both the prosperity and character of their communities.

For all their importance, knowledge and understanding of family businesses in Canada is sparse. This report—based on a joint survey effort of KPMG Enterprise™ and the Canadian Association of Family Enterprise (CAFE)—demonstrates a commitment to fill this void. This study aims to advance the understanding of family businesses, their current and future owners and the attributes that equate to their success.

The survey, conducted in two phases, solicited the views and experiences of 517 members of business families across Canada. The first phase of the survey sought the general views of family members who work in the family business. The second phase

focused on the views of future generations, whether they work in the family business or not, to explore their unique challenges and needs in greater depth.

Rather than collecting and disseminating masses of dry statistics, this study explores the internal dynamics of a representative cross section of Canadian family businesses. Our report offers valuable insights into some of the main issues facing family businesses today. We have supplemented our analysis with quotes from the respondents themselves and case studies that shed more light on family business challenges and solutions for response.

KPMG Enterprise and CAFE wish to thank all of the individuals who participated in our survey effort and for helping to advance our joint mission of assisting families in business and promoting their value to the economy of Canada.

We trust our report will be of value and interest not only to those directly engaged in family businesses but also to the business and financial advisers that support them.



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Executive Summary

The Canadian Association of Family Enterprise (CAFE) and KPMG Enterprise™ conducted a two-phased survey to explore and understand the current opportunities and challenges facing family businesses in Canada. The first phase, completed in June 2011, asked questions of family business members, while the second phase of the survey, completed in January 2012, was aimed specifically to gather the views of future generations of family businesses.



Respondent profile – At a glance

Of the 322 people who took part in the first phase of our Family Business Survey:

- 95 percent are involved with privately held family businesses
- 43 percent are located in Ontario
- One-quarter are involved with family businesses in either industrial markets or real estate
- 43 percent of their companies have revenues greater than \$10 million
- One-quarter of the respondents have worked for ten to fifteen years as full-time employees in their family business
- 38 percent of respondents' businesses have operated for more than 40 years

Of the 195 future generation business family members who took part in the second phase of the survey:

- Two-thirds of the respondents are the second generation of the family business
- 42 percent of the senior management positions are held by first generation members
- One-quarter of the respondents have worked for 10 to 15 years as full time employees in their family business
- Almost all respondents are likely to continue working in their family business

About the family

- Like any other business, family businesses are concerned with profitability, business growth, planning, and strategic issues. Family considerations overlay these concerns, as owners struggle to balance short- and long-term business concerns while maintaining the loyalty of family members and grooming future successors.
- What is the number one characteristic of a family business? Respondents said that having sense of ownership and identity ranked well ahead of other characteristics (33 percent), followed by passion (10 percent), team orientation (13 percent), and loyalty (9 percent).
- Half of the respondents said that one or two family members work full-time in the business, with another 40 percent having three or four full-time employees who are family members. When asked why they work in the family business, respondents most commonly named the sense of history, pride and tradition that working in the business brings.
- Almost all respondents are likely to continue working in their family business: because they enjoy and love the work, because of their family commitment, and because of the career opportunities and chance of eventually owning part or all of the business.



About the business

- Family businesses are doing well in professionalizing their businesses while maintaining their entrepreneurial spirit, customer focus, and pride in family. But they could benefit by taking more advantage of the talents and experience of younger family members, employees and external advisers. Family businesses could also benefit from use of proven family business management structures, such as formal governance structures and family councils.
- For most family businesses, the current CEO is a family member (93 percent). The CEO is usually a shareholder in the business (92 percent), and often the majority shareholder (69 percent). Thirty-eight percent of respondents expect their current CEO to step down within five to 10 years, and one-quarter of them expect this to occur within five years. However, only 11 percent of respondents have a formal plan in place for their CEO's succession.
- When asked to describe the key strengths of the business, respondents cited good customer service, a strong team led by experienced management, and reputation in

the market. Other strengths cited included strong relationships, passion and family values, specialized knowledge, flexibility to take risks, and commitment to hard work. Most of these strengths were also named as sources of competitive advantage.

- Like other businesses, top concerns of family businesses are obtaining new customers (59 percent), increasing revenues (51 percent) and cost controls/constraints (50 percent). Of special importance to family businesses are issues related to succession of ownership (40 percent) and succession of senior management (35 percent).
- When asked what they need to do to stay competitive, respondents identified keeping up-to-date about customers' needs and delivering the best services, upgrading their technology, keeping costs low and innovating to adapt and grow.

About ownership and governance

- Most respondents' family businesses (95 percent) are closely held. In most cases, family members hold 75 percent or more of the shares, and the family holds all of the shares in almost three-

quarters of these businesses. Three-quarters of respondents said that all shareholding family members over age 18 plan to work in the business in the future. Half of respondents expect to see an inter-generational transfer of management or ownership within five years.

- In terms of governance, only 28 percent of respondents reported having a formal board of directors that convenes for reasons beyond merely meeting corporate legal requirements. Improving governance was the number one reason for establishing the board (42 percent). However, more than half of respondents said their boards have had no formal training to perform their roles, and three-quarters said that their board is not subject to any formal assessment.
- The majority of family businesses undertake formal business planning. However, for one-third of respondents, no business plans are in place to cover management or ownership succession, business risks and contingencies, or technology/asset maintenance. A majority of respondents also said their family business has no formal policies to cover matters such as employment, remuneration, evaluation of family



members, conflict resolution, or mentoring, training and development of family members. Future generation respondents identified these last three areas as ones that would improve their satisfaction and success in working in the business.

About future generations

- Many future generation family members are struggling to understand where they fit in the business and how the succession will unfold. While they wish for more intergenerational communication and mentoring, they display the same pride and loyalty to the family business as senior family members. More than half of the respondents would encourage future generations to join the business.
- The biggest obstacles that future generations need to overcome are:
 - gaining the right experience
 - acquiring the right skills
 - gaining business knowledge
 - developing new ideas to help the company compete and grow
 - overcoming entitlement issues
- Future generations clearly want more mentoring from senior family members. There is a sense that senior family members possess essential knowledge that they need to pass down if the future generation is to succeed. Respondents believe that good business habits should not only be taught; future generations should be given opportunities to develop them in practice.
- Family members who have chosen not to work in the family business raised slightly different challenges for future generations. These include senior generations' unwillingness to let go, issues over finding a suitable role in the business, and the greater performance demands placed on family members. These respondents were unified in their belief that honest conversations about opportunities within and outside the business would ease difficulties for future generations.

About the family business community

- Nearly half of the respondents say that their family business is a member of CAFE. Most respondents (90 percent) attended at least one business networking function in the past year. Beyond networking, respondents believe that family business and industry associations can play an important role in supporting family businesses, especially future generations.
- Respondents said that associations could help by lobbying government for positive change on behalf of family businesses. Associations could give family businesses a united voice, for example, to call on government to cut red tape, reduce and simplify taxes, and offer more incentives and support.

About the Family

Running a family business is a juggling act. The needs of the business to grow and prosper have to be balanced against the needs and expectations of family members.

While primary concerns of any family business can include profitability, business growth, planning, and strategic issues, such business concerns are overlaid with specific family considerations, the most important of which are balancing short- and long-term business decisions, maintaining the loyalty of family members, and the grooming of willing and able successors.

Our survey results bear out the common belief that business families are a special breed. Their mix of pride, loyalty and entrepreneurial spirit is at the heart of their business success. When we asked survey respondents to describe the number one characteristic of a family business, having sense of ownership and identity ranked well ahead of other characteristics (33 percent and 27 percent respectively).



The next top characteristics identified were passion (10 percent and 11 percent respectively), team orientation (13 percent and 11 percent respectively), and loyalty (9 percent and 6 percent respectively) (see figure 1). Respondents to the first survey rated 'speed of taking advantage of opportunities' as the second most important characteristic as opposed to the next generation of respondents.

Figure 1 – Which of the following do you believe are the top five characteristics of family businesses (ranked in importance, with 1 being most important)?

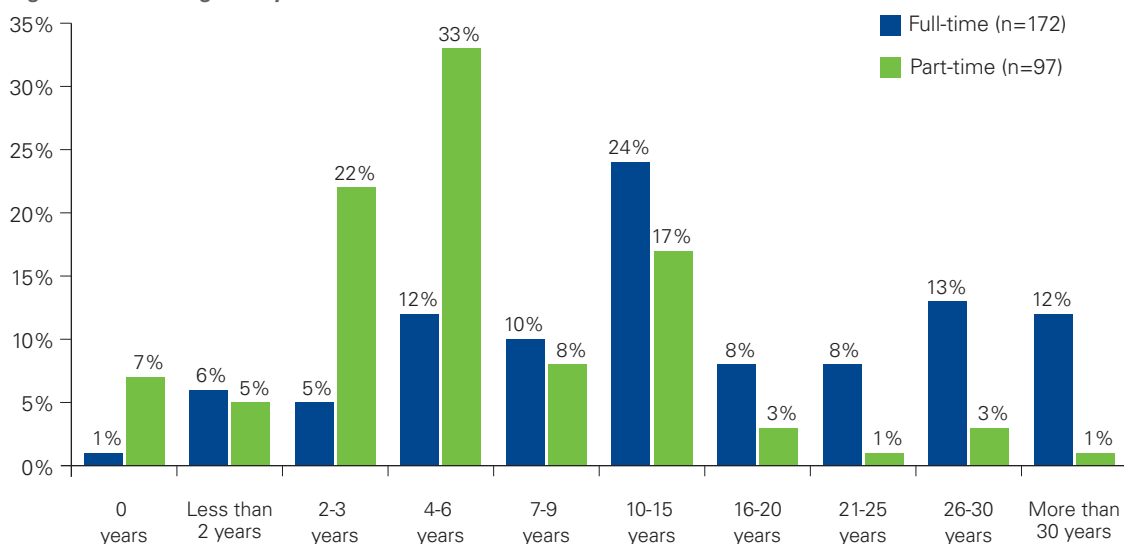
Most important characteristic	% Ranked as #1 (Jan 2012 survey)	% Ranked as #1 (Jul 2011 survey)
Having a sense of ownership and identity	33	27
Being team oriented	13	11
Passion	10	11
Loyalty	9	6
Protecting the heritage of the business	8	4
Speed in taking advantage of opportunities	5	13
High pay for good performance	3	1
Family ownership opportunities	3	2
Being innovative	2	5
Collaboration	2	3
Security of employment	2	-
Opportunities for professional growth	2	2
Being results-oriented	1	5
Sharing information freely	1	2
Being highly organized	1	1
Risk taking	1	1
Promote and encourage family participation	1	1
Family employment opportunities	1	1
Having fun	-	-
Family community involvement	-	1
Praise for good performance	-	-
Other	2	2

Source: Combined results of July 2011 and January 2012 surveys.

Who works in the business?

We began our survey with questions to find out more about those family members who work in the business. Over half of the respondents have worked as part-time employees in the family business for two to six years (see figure 2). One-third of the respondents have worked in the business as full-time employees for up to 10 years, with another quarter indicating they have been full-time employees for 10 to 15 years.

Figure 2 – How long have you worked in the business?



Source: January 2012 survey.

Half of the respondents said that one or two family members work full-time in the business, while another 40 percent have three or four full-time employees who are family members. Only a handful of respondents said that more than five family members worked full-time in the business.

Some respondents have always known or known from a young age that they wanted to join the family business. Others decided to join the business after graduating from university or after working elsewhere.

When asked why they work in the family business now, respondents volunteered many reasons. Among the most common was the sense of history, pride and tradition that working in the business brings. Other reasons include passion for the work itself, pride of

ownership, the opportunity for a good livelihood, and commitment to being part of the business succession plan.

Almost all respondents say they are likely to continue working in their family business. What keeps them there? Some respondents say they enjoy and love the work. Some remain as part of their family commitment. And some respondents are looking forward to future opportunities and/or eventually owning part or all of the business.

The few respondents that are more likely to move on to other pursuits gave reasons such as a need for new challenges, difficult family dynamics, or lack of a successor to the current owner/managers.

“Ever since I was a very young child, I always said that one day I want to run my dad’s business.”

“I had tried working and living in other jobs and countries. In comparison to our business the other places were not as much fun or as challenging to me.”

Who holds the most senior business roles?

On average, senior management teams were comprised of eight individuals, and nearly one-quarter of respondents have six to ten senior management roles. Of these, two-thirds of respondents say that family members hold two of these positions.

Over half of respondents told us that a first generation family member holds the most senior management roles. The most senior family member holds the role of president in nearly half of respondents' family businesses.

As discussed in more detail in the next section, for most family businesses, the current CEO is a family member (93 percent). CEOs are from the first or second generation of the family for 82 percent of respondents, and almost half of the respondents said that the CEO is the business' founder.

As also discussed in the next section, for family businesses with boards of directors, the chair of the board is most often a person who is a shareholder (80 percent) and a family member (80 percent). For 59 percent of respondents, the chair is also the CEO.

KPMG Enterprise Insight

Future generation family business members often ask us, "How do I get my parents to retire?" At the same time, their parents ask, "How do I get my kids to step up and take more of a vested interest in the business?"

Transition of the business from one generation to the next generation is an area where future business needs and family dynamics frequently conflict. Some family members may assume the succession will unfold in due course; others may be afraid hurt feelings will result if they speak up. In addition to talking to their advisers, these family members need to talk to each other—about the future of the business, future successors, or future roles in the business. A good adviser is one that can effectively facilitate open communication between family members of all generations whether they work in the business or not.

The future generation will ultimately decide whether the family business legacy continues. They need to clearly understand what the family business can do for them and what the business expects from them. Managing the expectations of potential successors should be on everyone's agenda.

To address these issues, many family businesses have developed family business rules, family constitutions and family councils to address these issues. Since some family conflicts cannot be resolved, it's also important to have legal documents in place—shareholders agreements, wills, powers of attorney—to guide the resolution of disputes if things break down.

There are formal facilitation courses available that focus on the softer issues faced by business families. For example, CAFE's 'Family Facilitation Course' is designed to enhance facilitation skills for those family business members and advisers who are interested in establishing and or facilitating family business meetings and councils.



CASE STUDY – THE CHEUNG FAMILY'S LOST LEGACY*

Brothers Jerome and David Cheung built a highly successful business from the ground up over the years, working well together as chief executive officer (CEO) and chief operating officer (COO) respectively. Each brother has one son, and the cousins, Zach and Martin, started working in the business full-time in their early twenties.

Jerome and David thought the boys would step into their fathers' shoes at the appropriate time. Unfortunately, they did not communicate this unspoken dream to Zach or Martin until

Jerome became ill and David decided to step back from his role due to his own advancing age and failing health.

As it turned out, Zach and Martin could not work together and each of them saw himself as the future CEO. In the end, the business split up with a significant amount of complexity, cost, family heartache, and lost opportunity. Had the family communicated and shared their expectations of potential successors well in advance of unforeseen illness, the business could still be thriving today.

*Actual family business members' names have been changed to protect confidentiality.

About the Business

Family businesses have come a long way in the past decade in professionalizing their businesses while maintaining their entrepreneurial spirit, customer focus, and pride in family.

Even still, our results suggest that power tends to remain concentrated in the hands of senior family members. In many cases, it appears that family businesses could benefit by taking more advantage of the talents and experience of younger family members, employees and external advisers. And while there has been some uptake in the use of proven family business management structures, such as formal governance structures and family councils, many family businesses have yet to realize the benefits of implementing these practices.



Chief executive officer

For most family businesses, the current CEO is a family member (93 percent). The CEO is usually a shareholder in the business (92 percent), and often the majority shareholder (69 percent). CEOs are from the first or second generation of the family for 82 percent of respondents, and almost half of the respondents said that the CEO is the business' founder. In other cases, the CEO was recruited from within the business (39 percent) or, more rarely, from outside the business (16 percent).

In the majority of cases, the current CEO has been in place for over 10 years (56 percent). Only one-third of these CEOs have a formal job description, and just under half work toward explicit, formal goals. One-quarter of respondents said their CEOs assess their own performance, and another one-quarter said CEO performance is assessed by the family.

Thirty-eight percent of respondents expect their current CEO to step down within five to 10 years, and one-quarter of them expect this to occur within five years. Only 11 percent of respondents have a formal plan in place for succession of the CEO. One-third of respondents said they are currently developing one, while one-quarter do not intend to do so.

Who do respondents expect to take the reins? Half of respondents believe that the next CEO will be recruited from the business, and 42 percent say the next CEO will be a member of the owner or major shareholder's family.

Finance function

Since fiscal responsibility is a cornerstone of success to any business, we wanted to explore in greater detail the finance function of the family business. Most respondents (86 percent) said the business has an individual responsible for the finance function, and the role is usually a full-time job (67 percent). Sixty-three percent of respondents said that the person has held the role for more than five years. Half of these finance function leadership roles are led by an outside recruit, while the other half are led by a person who is a family member who is a stakeholder (45 percent) and/or shareholder (44 percent).

In 31 percent of cases, the finance function leader holds the title of Chief Finance Officer, followed by Controller (26 percent) and Vice President (23 percent). Compared to CEOs, a higher percentage of finance function leaders have formal job descriptions (52 percent) and more of them (62 percent) work toward explicit, formal goals. The finance function leader's performance is usually assessed by the CEO (53 percent), and less often by family members (15 percent), senior management (12 percent) or shareholders (9 percent).

Only a small minority of respondents (7 percent) said there is a formal succession plan in place for the their finance function leader. Forty-one percent do not intend to create one. One-quarter of respondents believe that the next leader of the finance function is likely to be recruited from within the business, and 12 percent believe that the next leader will be a member of the owner's or major shareholder's family.

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Family business owners tend to remain as leaders for longer terms than leaders of other businesses. Long-term leadership can help keep a family business stable, but it can also impose constraints unless they embrace change and new ideas, especially from potential successors.

Competent successors need to become part of the leadership team as soon as they have proven their abilities. Making them wait until the current leader decides to step down may result in lost opportunities for both the current leader and the successors.

“Family businesses have long-term goals and are not driven by short-term financials. Customers and suppliers value the stability of a family-owned firm.”

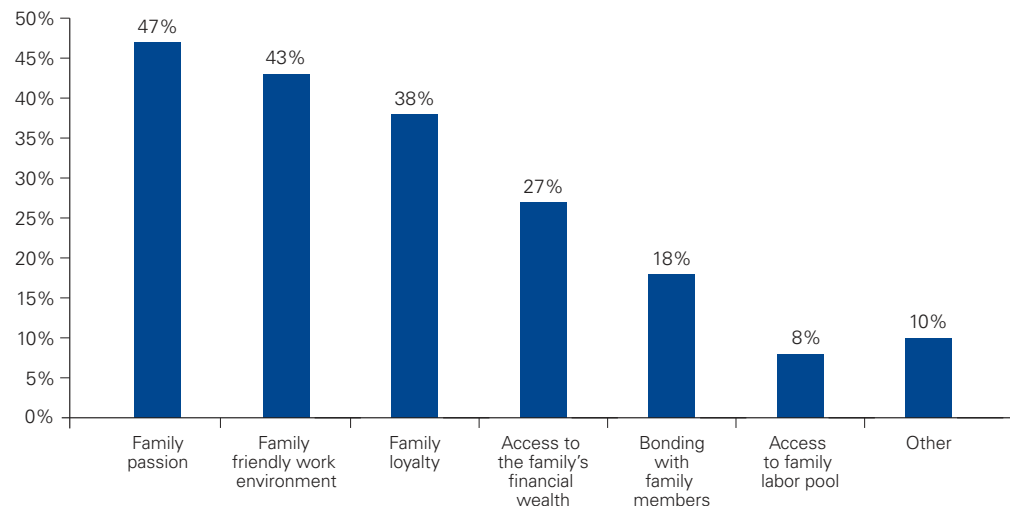
Key strengths and competitive advantage

When asked to describe the key strengths of the business, respondents cited good customer service, a strong team led by experienced management, and reputation in the market. In both surveys, respondents identified strong relationships, passion and family values as key strengths; interestingly, respondents of the future generation survey were more likely to cite these strengths. Additional strengths identified include

specialized knowledge, the flexibility to take risks to seize opportunities, and the commitment to hard work.

Most of these strengths were also named as sources of advantage. When asked what gives their business a competitive edge, respondents in both phases of the study chose family passion, family-friendly work and family loyalty as the top three attributes (see figure 3; January 2012 results shown).

Figure 3 – Which of the following family business attributes would you consider to be your competitive advantage?



Source: January 2012 survey.

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As business leaders, family business members carry a certain mystique. Consumers perceive them as friendlier, more caring employers, and these perceptions attach to the business's products and services. Recognizing this market advantage, many family businesses actively promote this aspect of their businesses—and so they should. Their pride and passion for their companies, their customers and the products and services are unique strengths that can provide a lasting competitive advantage.

Family businesses also enjoy two additional competitive advantages over other types of businesses:

- *Family businesses form strong bonds with their key employees, often treating them like extended family members. The fierce loyalty they inspire among their employees is rarely seen in most other businesses.*
- *Family businesses can also draw upon a unique set of hidden or latent assets called "latent capital." This term refers to the labour pool of direct and indirect family members and the capital pool (cash/financing) from the broader family, both of which can be accessed as needed.*

The vast majority of respondents (95 percent) believe their competitive advantage stems from attributes that family members themselves bring to the table. Family members are perceived as willing to make sacrifices for the business' success (90 percent). They have learned about the business from a young age (82 percent), they understand the priorities of the business (78 percent), and they share a common vision for the business' future (64 percent) (see figure 4).

Figure 4 – To what extent do you agree with the following statements about your business?

	Agree (%)	Neither agree nor disagree (%)	Disagree (%)
Family members make personal sacrifices to make this business a success	90	5	5
Our Family members have learned about the business from a young age	82	9	9
Most members of the family have an understanding of the priorities of the business	78	15	7
Family members share a common vision for the future of the business	64	23	13
This business could not succeed without the special knowledge that family members bring	44	24	32
We expect this business to remain a family business for several generations into the future	33	46	21
What's good for the family is good for the business	24	33	43
The management team and family members often differ in their priorities for the business	24	29	47
Older generations of the family are not really in touch with the needs of a modern business	21	20	59
We spend too much time dealing with conflict between family members	18	19	63
The family name is sometimes a hindrance in our business dealings	10	19	71

Source: January 2012 survey.

Unlike popular stereotypes, only a minority of respondents felt that their family businesses were held back by things such as older family members who are out of touch with modern business needs (21 percent), conflict among family members (18 percent), or the family name itself (10 percent).

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Interestingly, nearly half of respondents (46 percent) neither agreed nor disagreed with the comment, "We expect this business to remain a family business for several generations into the future." This result suggests a lack of clarity among many families over how ownership and management succession will unfold. More communication among family members can help ensure everyone involved understands future plans for the family and the business.

Business concerns

What keeps business families up at night? When it comes to business concerns, they seem to share many of the same worries as other private companies. Respondents' top three concerns were obtaining new customers (59 percent), increasing revenues (51 percent) and cost controls/constraints (50 percent).

Top business concerns also include concerns of special importance to family businesses, such as issues related to succession of ownership (40 percent) and succession of senior management (35 percent).

Competitive comparisons

When asked how their business performance stacks up against their biggest competitors, most respondents felt that their information technology (46 percent) was at par and just over half felt that their marketing capabilities are better (51 percent). But in keeping with the family pride and customer focus that

shines through many survey findings, 80 percent of respondents agreed that their customer service was better than the competition.

When asked what their business needs to do to compete, respondents identified:

- keeping up-to-date about customers' needs and delivering the best services
- using the latest methods and upgrading technology
- keeping costs low
- staying innovative, adapting and continuing to grow
- investing in staff training, machinery and equipment
- working harder

Overall, respondents do not think that competitive concerns drive their business' decisions. Only 42 percent of respondents agreed that price competition is a hallmark of their industry, and they were almost evenly split on whether their business responds to actions that competitors initiate (35 percent agreed; 36 percent did not).



"110% Customer Service will ensure that we get above average feedback from customers and allow us to react to changes in the market before the competition."



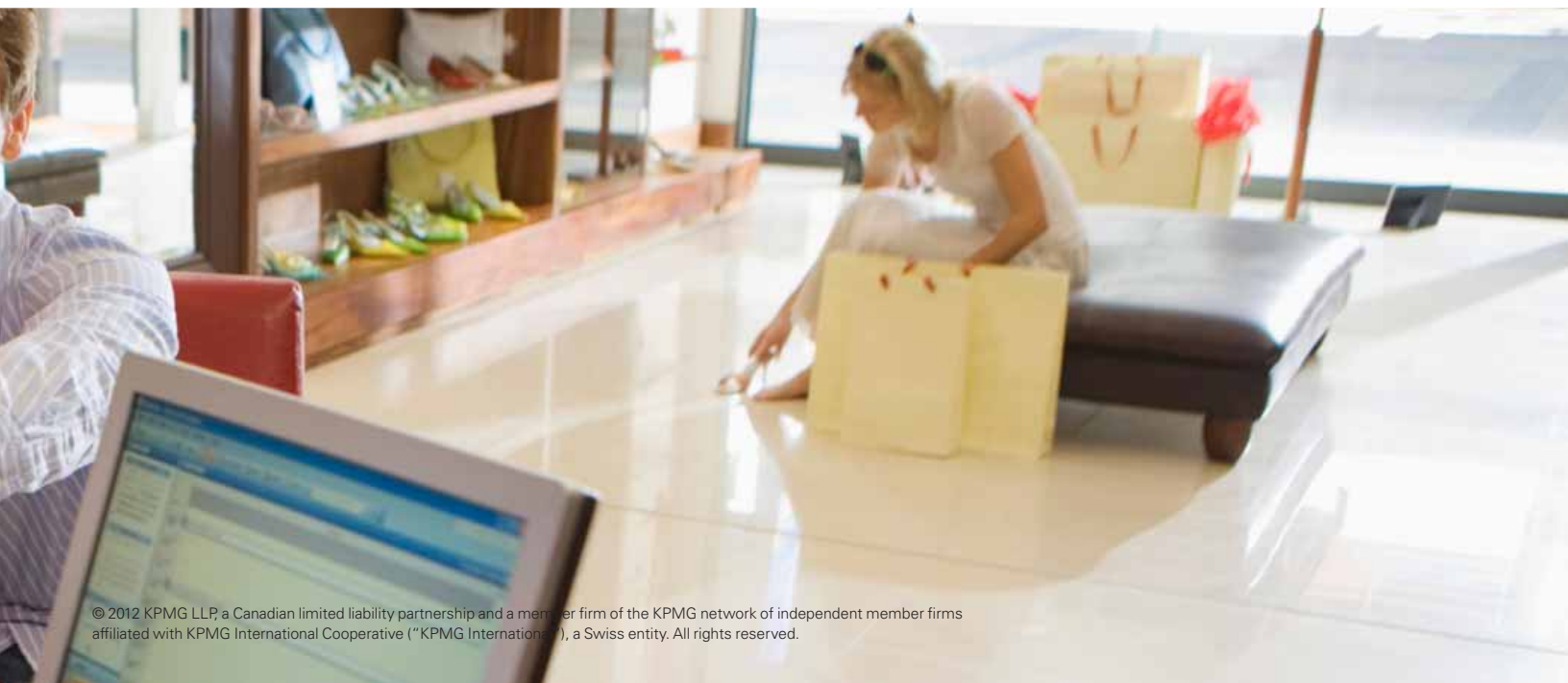
A majority (59 percent) rejected the notion that their business typically adopts a “beat-at-all-costs” approach to competitors.

More respondents put stock in ensuring employees approach their jobs consistently (86 percent) and in setting general directions for the business and adapting they go (81 percent).

Figure 5 – To what extent are each of the following business issues currently of concern to your business?

	Major concern (%)	Minor concern (%)	No concern (%)
Obtaining new customers	67	29	5
Increasing revenues	63	32	4
Cost controls/constraints	50	45	4
Senior Management succession issues	40	41	19
Ownership succession issues	39	39	21
Creating new products/services for existing markets	35	38	27
Entering new markets for existing products/services within Canada	33	42	25
Economic stability	35	54	12
Grooming the next generation	32	42	26
Retirement planning issues	32	45	23
Entering new markets for new products/services	31	39	30
Operational issues	30	56	14
Tax issues	28	52	20
Government regulation issues	27	49	24

Source: July 2011 Survey.



About Ownership and Governance

Who owns the business?

The vast majority of the respondents' family businesses (95 percent) are closely held. In most cases, family members hold 75 percent or more of the shares, and the family holds all of the shares in almost three-quarters of these businesses.

Two-thirds of respondents reported that one or two shareholders are active in the business, and just over half reported having one to five shareholders who are not active. On average, family businesses had four shareholding family members who took an active role in the business.





CASE STUDY – THE FORSYTHE FAMILY RULES*

Tom and Linda Forsythe are cousins who own a third-generation family business, and their parents had the foresight to develop a set of family business rules some ten years ago when the business was still in their hands. The second-generation Forsythes recognized that someday the owners would face a situation where next generation family members would ask to join the business.

The rules they developed set the criteria for employment for becoming an owner, along with the rationale for the rules' creation, and the rules were reviewed by the broader family at the Forsythe family council meeting each year.

The second-generation Forsythes could not have predicted that, within one week, two fourth-generation family members would put the rules to test. Linda's son John, who had struggled in school and could not find a job, asked to be employed in the family business in a newly open supervisory position. Within days, Tom's son Paul, who had worked

in a senior management role in the business for about 10 years, announced that he wanted to be accepted into the ownership ranks of the family business.

Tom and Linda agreed to meet to discuss these somewhat delicate requests. Recognizing the impact their decisions would have on the individual family members, the broader family, and the business, Tom and Linda knew they were setting the tone for years to come. So they went back to their family business rules and agreed to abide by their spirit and the criteria outlined.

In the end, neither John nor Paul was granted their request as neither of them met the criteria laid down in the family rules. Though disappointed, they accepted the decision with grace. Tom and Linda were grateful that the family business rules allowed them to do what they considered best for the business while preserving family harmony as best they could. As Tom said, "These rules allow us to make good decisions quickly and get on with running the business."

**Actual family business members' names have been changed to protect confidentiality.*

Results show that these family businesses will remain closely held. Three-quarters of respondents said that all shareholding family members over age 18 plan to work in the business in the future. Half of respondents expect to see an inter-generational transfer of management or ownership within five years. And more than half do not foresee any major ownership change in the next five years as a result of new financings, sale, merger or closure, or going public.

KPMG Enterprise Insight

When it comes to business plans and tactics to increase revenue, business owners—particularly founders—tend to take immediate, decisive action. However, they can be less proactive in tackling ownership, governance and succession concerns. Why?

In our experience, founders tend not to address ownership-related concerns because they might not know where to start and many fear creating family conflict. Emotionally difficult questions are involved over how to deal with spouses and in-laws, how to shift into retirement, how to address the competencies (or gaps) of potential successors, and how to choose one leader from among all of the future generation family members.

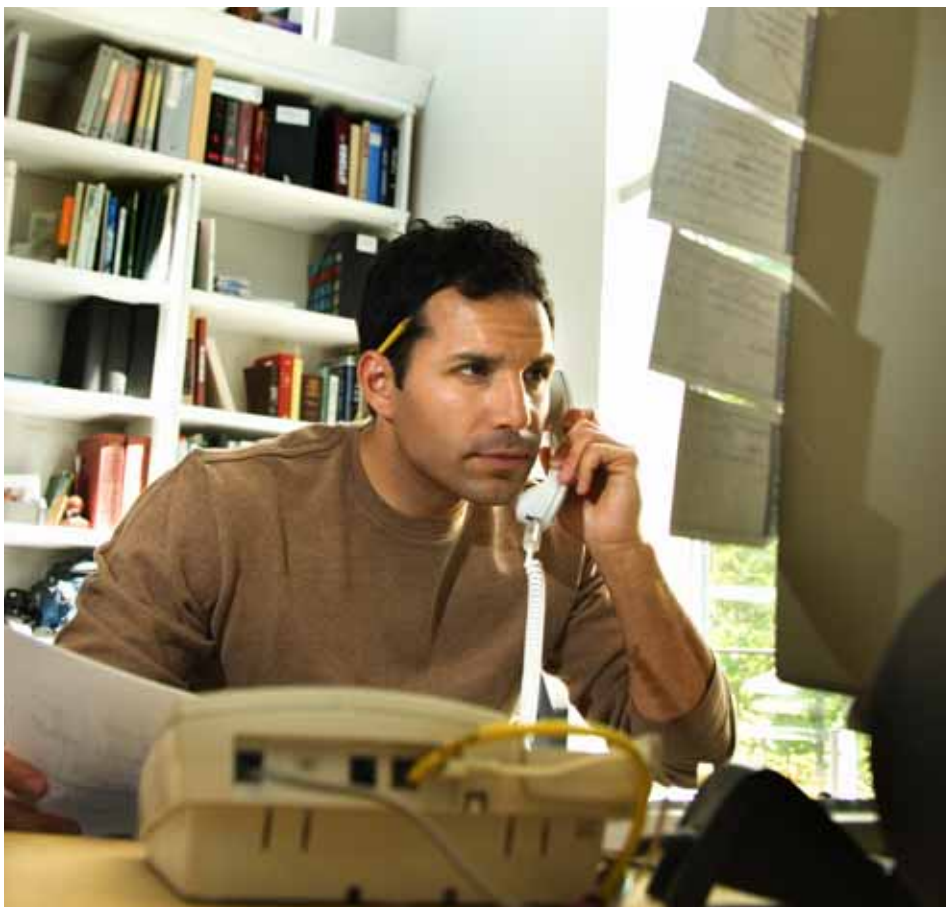
Many family business owners choose to delay formalizing their management and ownership succession plans, hoping that uncertainties and discomforts will resolve themselves over time. But the uncertainties and discomforts will not only remain but often become exacerbated by the delays in addressing them. Regardless of the issues, family business owners are well advised to start their succession process early—and immediately if the future generation members are in supervisory or management positions.

Business expansion appears to be on the horizon for the one-third of respondents that reported plans to seek additional financing or capital investment within five years.

Figure 6 – How likely are each of the following to occur within the next five years?

	Likely (%)	Neither likely nor unlikely (%)	Unlikely (%)
Transition the management to the next generation	54	13	33
Transition the ownership to the next generation	45	17	38
Seek financial/capital investment	32	27	41
Sell the business on the open market	14	32	54
Bring in major new shareholders	13	21	66
Merge the business with another business	10	25	65
Sell the business to management and/or employees	8	19	73
Close the business	1	9	90
Publicly list the business	1	10	89

Source: January 2012 results.



Governance

In terms of governance, only 28 percent of respondents reported having a formal board of directors that convenes for reasons beyond merely meeting corporate legal requirements. Of these boards, almost half of respondents have from three to five board members, and almost half say three to five family members sit on the board. And about half of respondents said that one or two people who sit on the board also work in the business.

The board is most often chaired by a male (85 percent) who is a shareholder (80 percent) and a family member (80 percent). For 59 percent of respondents, the chair is also the CEO.

Improving governance was the number one reason for establishing the board (42 percent). Fewer respondents said their boards were set up to improve performance (21 percent), help plan and manage succession (18 percent) or improve communications (15 percent).

Despite the focus on governance, however, fewer than 75 percent of respondents indicated that their boards operate without any external counsel or facilitation assistance. More than half of respondents said their boards have had no formal training to perform their roles, and three-quarters said that their board is not subject to any formal assessment.

KPMG Enterprise Insight

Continuation of family ownership and control can be fraught with difficulty. Family members can have different expectations and ambitions for the business. Family disputes can paralyze management of the enterprise, endangering ongoing family control and, sometimes, the business's survival.

Like any other enterprise, family businesses need to establish effective governance structures for the business. Unlike other enterprises, they also need to establish effective governance structures for the family (as in the Labelle family case study).

Many business families are reluctant to cede authority to formal boards of directors, but they may be more willing to embrace a board of advisers. Individuals on the board can include a mix of family members and independent non-family members with skills and experience that are relevant to the business. A board of advisers can play a key role in developing business strategy and also in developing the overall business and ownership succession plan.



CASE STUDY – THE LABELLE FAMILY GETS GOVERNANCE RIGHT*

All three generations of the Labelle family had high expectations of keeping their business in the family—but none of them knew quite how the succession process would work. The Labelles believed their business offered unique career opportunities for the family, and they wanted to make sure that family dynamics and family members' expectations did not jeopardize the business.

To find a solution, the Labelle's engaged a family business adviser, who recommended they establish two governance structures: one for the business and one for the family itself.

- For the business, the Labelles established a "competency-based" governance structure, comprised

of family business executives and outside advisers with the skills to help steer the family business strategically and operationally.

- For the family, the Labelles established a governance structure based on family representation. All of the broader family members had a voice, and they were made aware of how the family business operates today and what opportunities are available to family members for the future.

The two governance structures have been in place for several years now and the owners gained comfort regarding their continued business success and family harmony over the long term.

**Actual family business members' names have been changed to protect confidentiality.*

Business practices

The majority of family businesses have formal operating procedures to guide their various business practices, and, more often than not, those businesses with formal policies have set them out in writing (see figure 7). The majority of respondents say their business has vision or mission statement, quality processes or policy, values statement, and ethics policy. Just under half have corporate social responsibility policies.

Figure 7 – Does your business have...?

	Yes, written (%)	Yes, but not written (%)	No (%)	Not applicable to this business (%)
Job descriptions	64	18	17	1
Vision/mission statement	56	16	28	-
Quality processes and/or policy	48	20	23	10
Values statement	47	20	32	1
Ethics policy	41	30	29	-
Flow charts for manufacturing/distribution/operation process	39	12	30	19
Corporate social responsibility policy and/or statement	25	27	46	2
Processes for encouraging multi-skilling	19	34	42	4

Source: July 2011 results.

The majority of family businesses undertake formal business planning: 80 percent of respondents have business plans that cover accounting and finance and 77 percent have plans covering sales and marketing. However, for one-third of respondents, no business plans are in place to cover management or ownership succession, business risks and contingencies, or technology/asset maintenance.

Business plans are reviewed annually by 37 percent of respondents and as needed by 30 percent. However, over one in ten respondents with plans in place (12 percent) said their company has never reviewed or updated its business plans.

KPMG Enterprise Insight

As noted, family business owners need to set the tone at the top and establish clear communication channels that work to establish family goals and ownership goals, for example, by creating family rules or a separate family office dedicated to family-related business activities only. It's also important to create open forums for future generations to discuss the avenues available to them to join the family business as well as their needs and desires regarding their potential role.

KPMG Enterprise Insight

Family business owners tend to roll up their sleeves and get closely involved in day-to-day operations. In doing so, they may neglect the bigger picture and miss opportunities for mid-course corrections or new strategic initiatives. Undertaking a formal business planning process can help family businesses refine their strategic priorities and keep them in view.

A majority of respondents said their family business has no formal policies to cover business matters such as employment, remuneration or evaluation of family members. Less than half of respondents have policies to cover conflict resolution, mentoring or training and development of family members. As we will see later, future generation respondents identified these last three areas as ones that would improve their satisfaction and success in working in the business.

Similarly, the majority of respondents have not put in place proven family business management practices and structures such as shareholder assemblies, family councils or family offices (see figure 8).

Figure 8 – Does your business utilize the following practices?

	Yes, with a formal status (%)	Yes, informally (%)	No (%)
A shareholder assembly/meeting (Periodic meetings of the shareholders)	25	25	50
A Family Assembly/Meeting (Periodic or regularly meetings with family members who are active in the business)	15	33	52
A Family council (Periodic meetings with most or all of the family (active and non-active members))	12	29	59
A Family Office (Managing the family's wealth)	9	13	78
A Family Constitution (Set of family business written rules that helps govern the family's employment, ownership and wealth distribution)	7	9	84

Source: July 2011 results.

In terms of third-party advisers, in the past year, 96 percent of respondents have sought assistance from auditors/accountants, 93 percent from lawyers, and 84 percent from bankers. Respondents turned for advice most often to lawyers (>10 times by 13 percent) and auditors/accountants. Over half of respondents said they had not sought any advice from family business advisers or management consultants.



KPMG Enterprise Insight

The number of family businesses that are turning to specialized family business advisers appears to be rising, and we expect this trend to continue. The “business of family business” is a relatively new field of study, and business families are rapidly embracing its benefits. Accounting, legal and financial professionals are also coming to appreciate the complex interactions between the family and the business and the need for professionally trained professionals to help manage both.

About Future Generations

The second phase of the survey, completed in January 2012, canvassed second and subsequent generation family members to explore their unique challenges and needs in greater depth. This phase also captured the insights of family members who have decided not to work in the business.

With over half of respondents' businesses expected to be transitioned within the next five years, we found that many future generation family members are struggling to understand where they fit in the business and how the succession will unfold. While they wish for more intergenerational communication and mentoring, they display the same pride and loyalty to the family business as senior family members.

Bringing future generations on board

More than half respondents would encourage future generations to join the business. Pride in and loyalty to the family legacy is one reason. Others include the opportunities for future generations to develop their abilities and contribute to the growth of the family business.

Other respondents were more selective about which future generation members should join. Some said that future generations should only join the family business if they share the passion for the business and its customers' success. Some said that future generations should join if they deserve to—if they can prove themselves worthy and add value.



A minority of respondents (13 percent) would avoid such encouragement. Some believe business and family should be kept separate to avoid conflict that could harm relationships. Others believe future generations should be free to make their own choices and follow their own interests. Still others would protect future generations from the difficulties and stresses of family.

Challenges for future generations

What are the biggest obstacles that future generations need to overcome to succeed in the family business? Respondents identified the following key challenges.

- *Gaining the right experience.* Future generations need to develop broad business experience and expertise, and many respondents felt that education and experience working in other businesses is crucial.
- *Acquiring the right skills.* Respondents said that future generations need to develop skill sets that are currently needed for the specific business or that would complement the skills of existing family members and employees.
- *Gaining business knowledge.* Future generations face tremendous hurdles in gaining the same level of business knowledge as the first generation, but this is essential if the business is to thrive in the hands of the second generation and beyond.
- *Developing new ideas.* Future generations need to have the vision and leadership capabilities to innovate new ideas to help the company stay competitive and continue to grow.
- *Overcoming entitlement issues.* Some respondents said that members of future generations need to develop a strong work ethic and understand that their success in the business must be earned.

Some respondents felt that the cards were stacked against future generations. These respondents said that it is harder for future generations to make an impact in the business, that the preceding generations do not accept the ideas of future generations and that preceding generations are unable or unwilling to let go.

Overcoming the challenges

Respondents identified many steps that business families can take to help future generations respond to the challenges of working in the family business. These include:

- better communication
- hard work
- formal education and training
- work experience outside the family business
- openness to new ideas
- clarity of vision and future plans
- mentoring

Some respondents felt that future generations should not expect to work in the family business until they have gained the necessary skills and experience independently and proven that they are the right person for the intended role.

Survey responses show that future generations clearly want more mentoring from senior family members. Running the particular family business “cannot be learned in school.” There is a sense that senior family members possess essential knowledge that they need to pass down if the next generation is to succeed. Many respondents believe that family members should start working at lower levels in the business and learn the ropes as they climb to higher roles.



“I believe there is a strong sense of identity within the framework of a family business. It is the pride and joy of being part of it as you see generations of family members continue to work in the business.”

KPMG Enterprise Insight

While it's important for future generations to learn the business from the ground up, it's equally important to give them space to develop their leadership style and contribute their own ideas and innovations. As one respondent to a similar survey of family business members by KPMG in Australia said, “I spent a lot of time wondering how I was going to fill his shoes. It took a long time to figure that I didn't need to, that I've got my own shoes and I'll do the best I can. I needed to form my own identity for myself, not for anyone else.”



“I would want them to pursue their own direction wherever that may take them.”

How current generations can help

Providing mentoring and training topped the list of ways that respondents felt current generations can help future generations, as would more open communication between generations. Many respondents emphasized the importance of teaching business values and ethics. They believe future generation members can be well served by putting them in challenging roles and then holding them accountable for results. These respondents believe that good business habits should not only be taught; future generations should be given opportunities to develop them in practice.

Some respondents felt that current generations can help the future generation by focusing on attracting good managers to work in the business: passionate workers with industry knowledge who can help the business adapt and stay competitive.

Others believe in the importance of developing a solid, long-term business plan to put the business on solid footing

during the transition and define how the business should be carried on for many years afterward.

Lessons from non-business family members

The views of family members who have chosen not to work in the family business shed light on some of the issues faced by future generations. A portion of respondents to our survey are not currently part of the family business, although three-quarters of them had previously worked there. Of these, half of them had worked in the business as full- or part-time employees for more than five years.

Over half of the non-business family members surveyed think it is unlikely that they will ever work in the business, while 42 percent are likely to join the business in the future.

When asked why future generations might consider working in a family business, these respondents pointed to the value of family heritage. Some said

“The senior generation is not able to let go of the business so the future generation is able to succeed.”

“Teach them from a young age what is required and let them explore other avenues before leading company to the future.”

“If you have a passion for it, and you truly believe you are suited for it. Otherwise, you have no place working in the family business.”

“Family members are held to a higher standard by other family members, employees and external observers. They must be capable of satisfying all of the demands placed on them by all of these groups should they wish to pursue a successful career in the business.”

KPMG Enterprise Insight

Family businesses need to find ways to balance the needs of the business to grow and prosper against the needs and expectations of family members. Business owners who plan to hand the business over to future generation family members may benefit from the following tactics:

- *Having the future generation develop family business rules or policies allows them to learn how to communicate with each other without their parents or elders in the room and teaches them how to listen and how to make decisions.*
- *Family business rules and policies must include a formal dispute resolution process that is supported by the family.*
- *As soon as potential successors are identified, they should be assigned a mentor, not only to help groom the potential successors but also to give the mentors direct insight into the feelings and challenges of the future generation.*

that future generations should join if they share a passion for the business. Others point to the benefits and opportunities of working for one's own business.

This set of respondents raised slightly different challenges for future generations on joining the family business. Some highlighted difficulties over the willingness of senior generations to let go. Others cited issues over finding a role within the business that suited their skills and interests. One respondent emphasized the additional performance demands placed on family members by others in the family and by employees.

Unlike the varied responses from other respondents working in the business, respondents outside the business were more unified in identifying how the challenges of working in the business can be overcome. Open communication was the most common answer. These respondents say that "honest conversations" about opportunities within and outside the business, individual aspirations and future

plans for the business would ease difficulties for future generations. The uniformity of responses suggests that, for this portion of respondents, open communication with their business families had been lacking.

Another common suggestion involved exposing future generations to the business at an early age to instill passion for the business and empower them to be leaders. Many of these respondents mentioned that a clearly understood succession plan is needed to allow the next generation to learn the business, take control and move the company forward.

On a bright note, even though this group of respondents currently does not work in the business, two-thirds of them would encourage future generations to do so. Again, when asked how future generations should be encouraged, these respondents stressed that current generations need to communicate with future generations and let them make their own choices.

"Keep communication open at all times – tell future generations all information and listening for their potential interest in working with the company."

"Talk to them, ask them who they are, what they want, and coach the potential out instead of guiding or telling."



CASE STUDY – THE COHEN FAMILY'S SUCCESSION SUCCESS*

Addressing the audience at the Cohen annual family business conference, Lois, a future family business owner said, "I told our family business adviser that if my parents don't give me and my siblings a clear picture of my future in the family business soon and whether I'll ever be an owner, then I am out of here!"

She continued, "No one was talking about grooming the future generation and planning on how to bring them into senior management and ownership of the family business. It was plaguing our family and business relationships. Something had to be done."

In the audience, her father, Simon, knew Lois was about to give him credit

for allowing the future generation to engage a family business adviser. But to be honest, he had resisted the idea for years—as founder of the business, he simply was not ready to let go and put himself out to pasture. The very idea of succession had made him uncomfortable.

As Lois continued to outline the process and the plans that their family business adviser had helped them develop, Simon thanked the stars his children had kept pressing for professional advice. Without the adviser's assistance, Simon believed his family business could have lost one or more of its highly competent successors.

**Actual family business members' names have been changed to protect confidentiality.*

About the Family Business Community

Nearly half of the respondents say that their family business is a member CAFE. Forty percent belong to their local Chamber of Commerce or Board of Trade, while 29 percent belong to the Canadian Federation of Independent Businesses. Family business members are also involved in various charities and industry associations.



Support from family business associations

Most respondents (90 percent) attended at least one business networking function in the past year, with 30 percent attending more than 10 of these functions.

Beyond networking, respondents believe that family business and industry associations can play an important role in supporting family businesses, especially future generations. Many respondents complimented the survey's co-sponsor CAFE in particular for the important benefits that it currently offers to family business members.

Respondents also had some suggestions for these organizations about how they could provide even more value to their members. Given other survey results, it's no surprise that respondents want associations to provide more mentoring support and educational programs. One respondent suggested that these activities could be offered to younger family members in their early teens, to provide them with a safe learning environment to share ideas and experiences.

In particular, respondents felt that associations could offer more support and practical knowledge on how to develop and implement a business succession plan, including steps to take to resolve common roadblocks. Others suggested associations could share more information on "how to" topics such as establishing family councils and creating advisory roles.

Some respondents suggested changes to approaches to networking events to help future generations. One respondent felt that more should be done to encourage mingling among generations at these events, so younger generations can get the benefit of advice from current generation members of other families. Other respondents felt that future generations could benefit from more peer-to-peer networking. Personal advisory groups, which provide a forum family members share their individual stresses and concerns with their peers, were also perceived as valuable.

Finally, respondents said that associations could help by lobbying government for positive change on behalf of family businesses. Smaller businesses are especially burdened by health, safety and other regulations and by the complexities of income, sales, property and other taxes. Associations could give family businesses a united voice, for example, to call on government to cut red tape, reduce and simplify taxes, and offer more incentives and support.



"Networking is something that is essential within these institutions in order to help future generations."



"Family business associations help the previous generation prepare adequately for the next. And they help the current generation fully realize their potential, leaving a more successful business for the next generation."

Conclusion

Given their longstanding contribution to the Canadian economy and our communities, the future success of family businesses is critical. Our report's findings suggest Canadian business families are in good shape and optimistic about the future. Many of them are working to overcome their unique challenges by adopting strategies that improve their business practices and strengthen inter-family communication including the rising use of family business advisers, family councils, and formal mentoring programs to name a few.

Our survey of future generations shows that while these family members hunger for clarity about their future roles, they are eager to carry the business forward with their own innovations, ensuring their businesses continue to flourish for generations to come.

But these families and family business associations cannot ensure success on their own. Family members told us that their businesses are overburdened by regulation, taxation and red tape, and that government should do more to support this vital sector. In particular, government support for the coming wave of ownership transitions can help ensure that family businesses remain strong.

Given the scarcity of statistical data on this vital and important sector of the economy, we suggest that a first step would be for the federal government to conduct a comprehensive study on the impact of family businesses on the Canadian economy.



About the survey

The Canadian Association of Family Enterprise (CAFE) and KPMG Enterprise™ conducted surveys to explore and understand the current challenges and opportunities facing family businesses in Canada.

The survey was conducted online in English and French in two phases:

- The first phase, completed in June 2011, asked questions of 322 family business members.
- The second phase of the survey, completed in January 2012, was aimed specifically at future generations of family businesses to explore their perspective, with a total of 195 next generation participants.

About KPMG Enterprise

KPMG Enterprise professionals are devoted to helping owners and entrepreneurs of privately held companies to build value in their businesses and grow thriving enterprises. **Period.** It's all we do.

With decades of experience working with family businesses across the country and with many KPMG Enterprise advisers coming from family businesses themselves, we understand that the nature of a family business is inherently different from a non-family business. That's why we pulled together a unique team of professionals within our firm and developed an equally unique portfolio of services that address the specific needs of Canadian family businesses, their owners, and the family.

About the Canadian Association of Family Enterprise (CAFE)

For almost 30 years, the Canadian Association of Family Enterprise (CAFE) has been helping families succeed. We are a national not-for-profit organization established in 1983 with the mandate to promote the well-being, understanding and success of families in business. Through chapters across Canada, CAFE provides services, resources and support to those involved in family enterprise including both extended business families and the advisers that counsel them. Through participation in peer groups, seminars and conferences, CAFE has provided a forum for families and their advisers to share ideas, learn best practices and build their collective skills. Visit www.cafecanada.ca.

Further Reading

KPMG Enterprise has an extensive library addressing topics related to family business. Visit kpmg.ca/centre-for-family-business to access the following family business publications.

Family Business Matters

Family business owners and their successive generations are proud, thriving and resilient. Critical to sustaining a vibrant economic environment that supports business growth and longevity is to foster learning through the sharing of perspectives, business experiences. It is with this in mind that we published the compilation of articles in *Family Business Matters* magazine.

Stewards: Moving forward, moving onward

Family Business Survey 2011 (Australia). This survey conducted in the Spring of 2011 follows the experience of 658 family enterprises from across Australia. Participants were the incumbent generation of the family businesses.

Succeeding in a changing world

Business Leaders Agenda Family Business (France). KPMG EU recently surveyed more than 700 companies in 31 countries that listed themselves as “family businesses,” to find out the key issues they are currently facing.

The Canadian Family Business Guide

The Canadian Family Business Guide is designed to provide helpful assistance and advice to business families and their advisers. Based on KPMG Enterprise’s philosophy that the family and the business are inextricably linked and should support each other, the guide highlights the unique management challenges and opportunities, the potential impact of these challenges and issues on the business’s operation and ownership, and the best management strategies to achieve both short and long-term success. This guide imparts proven approaches and strategies to help family-owned businesses manage their family issues with success.



About The Centre for Family Business brought to you by KPMG Enterprise



KPMG Enterprise's Centre for Family Business is dedicated to assisting family owned and operated businesses to effectively deal with their unique management opportunities. Our goal is to help guide family businesses in their day-to-day operations with a focus on the continuity of the family business. It includes an open virtual forum where members of any family business can share experiences, gain insight into leading practices and obtain the essential support to grow and thrive in today's competitive economy. Visit kpmg.ca/centre-for-family-business.

Contact us

For more information about this survey or to find out how KPMG Enterprise can help both the family and the business, please contact:

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