A legacy in limbo: Building bridges to family harmony

Navigating a family business transition

It's a tale as old as time—but with a twist: After decades of hard work and dedication to build a successful business from the ground up, a business owner is preparing to take a step back to focus on the next stage of life. To preserve their family's legacy and provide for future generations, the business owner wants to pass the reins to their children. However, the family hits an unexpected roadblock: their children and existing management team are at odds about their roles in the future of the company.

Many Canadian families are confronted with this reality that threatens the future of their family business, dynamics, and the transition of wealth. Over the next two decades, an estimated $84 trillion in assets will be passed down from the silent generation and baby boomers to their loved ones, according to a report by Cerulli.[1]

A family enterprise advisor (FEA) can empower families navigating these types of transitions by facilitating open communication and collaborative decision-making, formalizing governance, and clarifying roles and responsibilities. They can help you achieve stronger, more productive relationships, proactively avoid conflict, and set your business up for long-term success across generations.

We look at some of the challenges that today's retiring business owners and their families are facing as they manage succession and business transitions during "the great wealth transfer," and the important role an FEA can playin this journey.

1 https://www.cerulli.com/press-releases/cerulli-anticipates-84-trillion-in-wealth-transfers-through-2045.

Meet the Johnstones

At 70 years old, John Johnstone, founder and president of JJ Construction, is considering how he can progressively step back from his business to enjoy retirement. He's always imagined that his children would take the reins the business for years to come. Two of his children, Mark and Morgan, both hold management roles and are deeply ingrained in the operations of the business, but both aren't interested in running the business the way that their parents did. They've seen first-hand the hard work, challenges, and personal sacrifices required to make the business successful—and neither are interested in putting in that same level of commitment. His youngest child, Kimberly, chose a career in teaching and isn't actively involved in the business, but still has a vested interest in protecting her family's legacy.

To help this family navigate this complicated and nuanced business transition, John reached out to his FEA, Lou. John came to Lou with two significant challenges his family business is facing:

- Since John found out that Mark and Morgan aren't on the same page about taking over the business, there's been some underlying tension and resentment from John. The lack of communication between John and his children has started to affect the business decision-making process, and management and staff are starting to notice.
- Management is losing trust in ownership and threatening to leave, which would have severe repercussions on revenue and client care.

About the business

JJ Construction is a full-service construction business with more than 200 employees. It has an estimated net worth of $40 million and has earned a reputation for being one of the most experienced and quality-driven construction companies in Canada since 1982. After decades of being an industry leader, sales and revenue have plateaued, as the economy and landscape of the construction industry has changed.

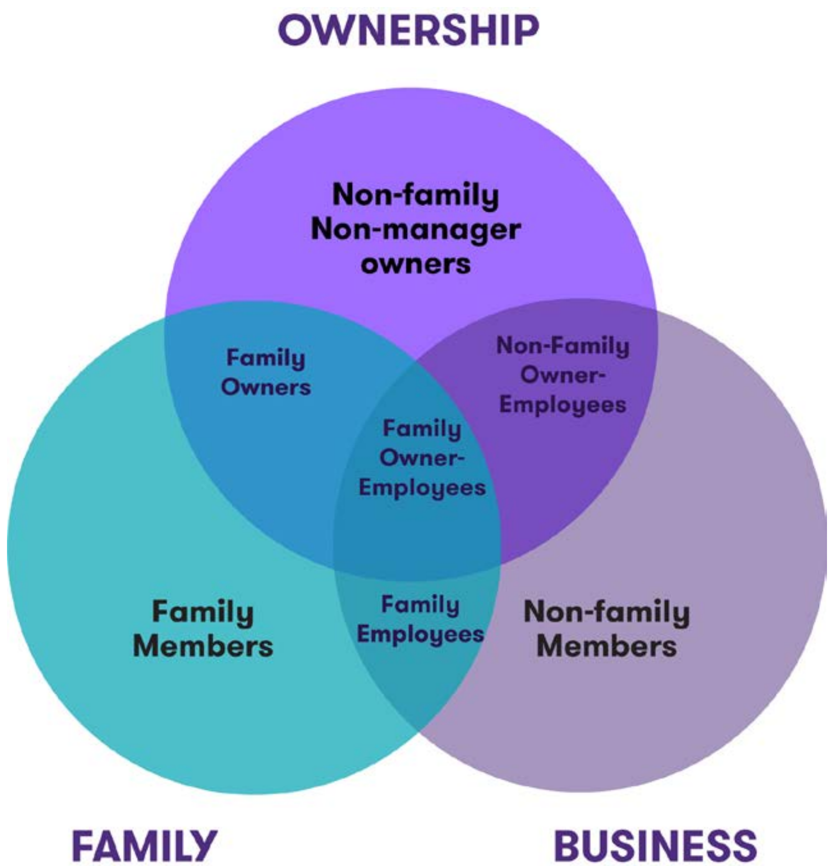
Working with an FEA

With specialized expertise in supporting family-run businesses, and an understanding of the complex dynamics that arise when the personal and professional are closely linked, Lou's goal is to help the Johnstones restore harmony within their family, facilitate a smooth ownership transition to the next generation, and repair the relationship with management.

Get to know the family

Generally, the first step for an FEA is to do an initial analysis of the family, the business, and learn about some of the history that has led to present day. To build a relationship with the family and understand their dynamics, an FEA conducts a series of interviews with family members, key advisors, and management to understand each person's unique perspective about business, ownership, and family. To understand the business, an advisor will analyze the current business model, financial data, existing strategies and policies, and any succession plans, including estate plans and legal structures. The goal at this stage is to gain a full and in-depth sense of "current state".

When Lou meets the Johnstones and management at JJ Construction, he uses the three-circle model to identify stakeholders and gain a better understanding of each person's needs, wants, and the reasons behind their choices.



FAMILY OWNER-MANAGER

John

"I'm ready to take a step back, but they're not ready to step up."

John has been at the helm of the business for so long, he finds it difficult to take other perspectives seriously. John is proud of their achievements under his direction and he's often unopen to departing from established practices. Even though John says he's ready to step away from the business, he doesn't allow others to make final decisions without his approval. He tends to override decisions made by Mark, Morgan, and management, which makes it difficult for his potential successors to lead with confidence.

FAMILY OWNER

Anna

"I hate seeing my family in turmoil. Our relationships with each other are worth far more than the business ever could."

Anna, John's wife, prioritizes family harmony. In the early stages of the business, she helped with bookkeeping and finances, and still acts as a sounding board for John on all major business decisions.

Above all, Anna wants her children to be happy and understands their emotional needs. All family members go to Anna to vent or share their concerns, and she tends to mediate conflict between all members of the family. When someone finds themselves at a stalemate with John, they usually got to Anna who may be able to sway him. However, Anna is also disappointed that her children don't want to take over the business in the same way and hasn't been successful in restoring peace between John and their kids.

FAMILY MEMBERS WORKING IN THE BUSINESS (next generation owners)

Mark

"I've spent a long time learning the business from my dad, but management still second guesses my decisions. I deserve to be treated more like an owner, not an employee."

Mark, the eldest Johnstone sibling, started working in the family business right after graduating from university. Since starting in the business from a young age, Mark has gained hands-on experience from John and other longstanding leaders in the business. He tends to do as his father says when it comes to business decisions and doesn't regularly express a different point of view or challenge his father (because "it wouldn't make a difference anyway" given John's tendency to overrule his decisions).

Mark has always imagined that he would eventually replace his father at the helm of the company. However, he feels like the company is established and successful enough that it doesn't require the same level of involvement from ownership that his father has provided. While Mark would like to have an ownership role, he imagines it to be more flexible and less "hands-on" than it currently is.

In addition, Mark's relationship with his sister Morgan is starting to feel strained. Mark isn't opposed to his sister taking on a leadership role but still feels like she should respect his decisions, given his tenure at the business. He finds that she's trying to change too much too quickly. With Morgan coming in, it feels like yet another person coming in to challenge his decisions.

Morgan

"The way things are done around here is archaic. I have the experience and ideas to innovate but no one seems receptive. If this is how it's going to be, I'd rather sell the business."

Morgan didn't have much interest in working at JJ Construction at first. She chose to pursue an MBA degree, and after graduation, spent time working in finance in downtown Toronto. Morgan recently decided to move out of the downtown core to prioritize space for her growing family. With this move, she also felt it was a good time to pivot her career and integrate into the family business.

She feels entitled to the same respect as her brother because even though she hasn't been actively involved in the business, she believes her formal management education and corporate experience is critical to JJ Construction's future success. She believes that for the business to grow, they will need to innovate their business model. She feels prepared to make necessary transformational and tech-driven changes but doesn't feel like her ideas are welcome. Morgan is willing to lead but would rather sell JJ Construction than to continue running the business in the same way.

FAMILY MEMBER NOT IN THE BUSINESS (next generation owner)

Kimberly

"They always exclude me. I shouldn't be punished for choosing a different career path when my parents have always been clear that they started this business for all of us. I just want to be treated fairly."

Although Kimberly isn't involved in the daily operations of JJ Construction, she would like to be a part of family business conversations. Kimberly feels like an afterthought and, even though it's not on purpose, other members of the family often forget to keep her in the loop or ask her input on business matters.

If Kimberly had to vote on the future of the business today, she would vote in favour of selling. JJ Construction isn't part of her daily life, and it may help her feel less excluded if they sold now. Kimberly is concerned about what her stake of the business could look like if her siblings continue to grow into leadership roles at JJ Construction. She wonders if she will "lose out" on her share of family wealth since she hasn't been actively involved.

NON-FAMILY MEMBER IN THE BUSINESS

Lindsay

"JJ Construction wouldn't be what it is today without my efforts. I've been working alongside John for decades and it doesn't feel right to report to his children when I have more experience than them combined, and they don't seem to want to make the effort."

Lindsay has been crucial to the growth of JJ Construction and she's fully aware of how valuable she is to the continued success of the business. She's very loyal to John but is skeptical of the next generation coming into leadership roles. She finds that Mark isn't confident in his decision making without John there to guide and she's wary that Morgan is coming in with new ideas but doesn't have enough experience in the market to back these changes up. She believes she's the best person to lead the business, but not without compensation and a role that reflects her value.

Lindsay has expressed this interest in taking an ownership role in the business, but with John insisting that his children step up to lead the company, Lindsay is feeling resentfulthat she's being dismissed. This has led her to expressing interest in leaving the business.

Build trust and identify the challenges

After meeting all stakeholders, Lou continues to build on those relationships by giving each person a safe space to share their honest thoughts and perspectives. Over time, he observes and listens from an unbiased point of view to build trust (which doesn't happen overnight). It sounds simple, but in many family businesses, some key players choose to stay silent to avoid conflict or simply aren't given the opportunity to share their points of view.

At this stage, Lou begins to uncover the root cause of the challenges that John identified, which will help him propose solutions and next steps.

Misalignment in perspectives and goals has led to resentment which has caused a communication breakdown.

Given the closeness of the family and how intertwined each person is in the business, there are layers of confusion and emotion that make it difficult for them to understand each other's points of view. John and Anna have always assumed that Mark, Morgan, and/or Kimberly would be grateful to carry on the business and their family legacy. This misalignment has caused strife between the two generations. While all three siblings are grateful, Mark, Morgan, and Kimberly find it difficult to communicate to their parents that they have their own families to consider—as well as new opportunities to build wealth in different ways.

Management, that is critical to the success of the company, isn't receptive to the new generation of owners.

While Lindsay is loyal to John and has a strong relationship with Anna, she doesn't feel the same level of loyalty to Mark or Morgan. She was one of the first employees at JJ Construction, and believes she's better equipped to take over the business once John decides to formally retire. Although Mark has been in a leadership role, management isn't confident in his decision-making ability. While Morgan does bring leadership and management skills that Mark lacks, she doesn't have specific company and industry experience. As a result, management doesn't always include Morgan in decision-making, which leaves Morgan feeling undermined by the management team and brews further resentment towards her brother, who is often included in these decisions (albeit as a representation of John).

Find the common ground

At this stage, Lou has established personal and trusting relationships with the family and management and understands the challenges that need to be addressed.

To help address the roadblocks that the Johnstones are facing, Lou helps each stakeholder understand each other's perspectives and finds the common ground within their visions for their personal future and the future of the business. As with any family, sometimes the message just needs to be delivered by someone outside of the family for a better reception. Lou synergizes the information he's received from conversations, pulls in the common viewpoints, and presents it in a palatable way that encourages acceptance and a willingness to act, and prevents conflict. In terms of management, Lou reminds the Johnstones how valuable Lindsay is to their business and discusses how they can make Lindsay feels valued, and how they can work together to build respect and collaboration with Mark and Morgan.

Delivering a united message helps the Johnstones rebuild communication with each other and allows Lou to help the family build a strategy or series of steps to get to a point where each person feels like they matter, and their future is cared for.

Develop a plan together

While this looks different for every family, an FEA can help you develop an action plan that can help foster family harmony and mitigate conflict, open channels of communication, and pave the way for a smooth business transition. Lou collaborates with the Johnstones to develop a plan that aims to protect their legacy, prepare the next generation of owners, build mutual trust with management, and allow the founding owners to comfortably and confidently step down. Here are some of the items on Lou's action plan with the Johnstones.

Implement a communication system

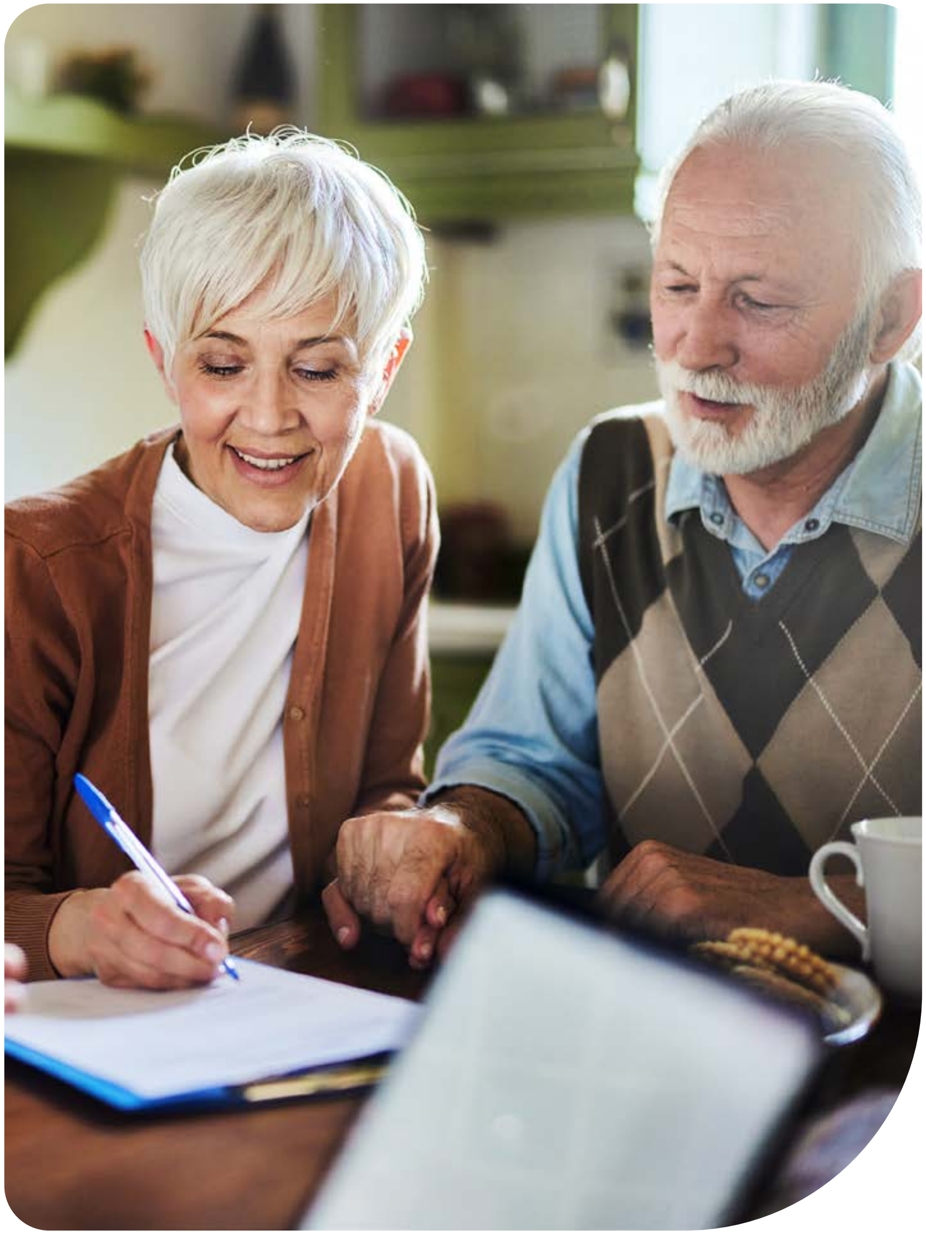
Schedule regular meetings with owners, family, and management with structured agendas to ensure alignment on the future of the business. These meetings will be a formal forum for how, when, and with whom business matters are communicated—which is both good for business and maintaining family relationships. Regular meetings can also help create family cohesion as a formal knowledge-sharing opportunity between the existing ownership and the incoming ownership.

With the Johnstones, Lou helps mediate the meetings and encourage open and honest discussion about agenda items. These meetings also give Mark and Morgan an opportunity to share and discuss ideas, find compromise, and align objectives, while having John and Anna there to observe and weigh in where needed. In addition, with a formal communication system in place, Kimberly always knows when important business discussions are happening, which eliminates her concern of being left out.

Strengthen governance and reporting

Introduce formal governance policies and robust reporting to increase transparency and facilitate effective planning. While robust governance is important for tracking success, it can also be used as a communication tool to keep retiring owners informed. John can feel more comfortable with distancing himself from the business, knowing that guidelines and policies that reflect family values are in place.

For example, Lou recommends that the Johnstone's develop family employment policies that outline criteria and guidelines that would apply to all family members, as well as shareholder agreements and dividend allocation policies. Lou also recommends introducing an independent board of directors, which can provide arm's-length oversight. The board will be tasked with providing detailed reporting that can be presented in regular family meetings, which will ultimately foster autonomy for Mark and Morgan.



Clearly define roles, responsibilities, and expectations

Define key areas of responsibility to reduce the feeling of competition within the family and reinforce the idea that using individual strengths to collaborate within leadership will improve success. Lou works with the Johnstones to create an organizational chart so each person's roles and responsibilities are clear to family, management, and employees.

With a board of directors, Lou can also work with each family member to build and structure roles that work best for their personal needs and the business. For example, if Mark is looking for more flexibility, Lou might suggest bringing in professional management to allow him to take on less day-to-day responsibilities, but instead of a salary plus dividend, he may only receive a monthly dividends as an owner, rather than an owner-employee.

Promote a culture of transparency and mutual respect

Define core values, outline clear accountability measures, and encourage open and honest communication to strengthen the relationship next generation owners and management. Lou encourages Mark and Morgan to demonstrate and promote a culture of transparency, mutual respect, and collaboration with their team. He coaches them to show up as a united front with management and employees, and work together to build on their past success.

Prioritizing workplace culture and fair compensation will also help keep management and employees engaged and motivated. Lou works with the Johnstones to introduce a profit-sharing plan for Lindsay to ensure that she continues to feel valued during this transition. Her experience and loyalty are vital to the business and the family, and compensation based on annual earnings will help reward Lindsay for her efforts.

Foster an ongoing relationship

This story is just the tip of the iceberg of what so many families experience. With the Johnstones, Lou took the time to understand their family dynamic, build trust and identify their challenges, and work with them to develop a plan forward. As a result, he helped to restore their family harmony, kept the business in the family, strengthened the leadership skills of the next generation, and allowed the founding owners to step back gracefully.

When a business transitions from founder to a more distributed form of ownership, the division of decision-making and ownership becomes a lot more complicated. If your family is going through this transition, an FEA can bring an invaluable perspective. And while an intergenerational business transfer may trigger you to bring in an FEA, their role usually doesn't end here. Often, it's an ongoing relationship to help you make the most of your family wealth.

In a family business, there's always a new challenge to tackle—whether it's altering strategy, staying on course, or responding to a curveball (like a sudden personal change within the family). Having an FEA by your side means that you have a long-term advisor to turn to for advice that understands on a deep level how each decision will affect everyone in your family and your business.

At Doane Grant Thornton, we celebrate our legacy through our positive impact and contributions to our clients, colleagues, and communities. Our FEAs understand the changing priorities of the next generation of business owners and that business doesn't have to be done the same way it has always been. We're not only committed to your success—we're also dedicated to helping you create your legacy. We can help today's owners transition their business to tomorrow's leaders, as they strive honour their past while embracing a future shaped by their values and dreams.

Lou Celli
Partner
T +1 905 577 4940
E Lou.Celli@ca.gt.com

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