

# Family Matters

*Family businesses create some challenging dynamics, but there are solutions*

David Shlagbaum uses a joke to illustrate the challenging dynamics of a family business. A father calls his son into an office where there are two hats on the table. One hat says “boss” and the other says “dad”. The father puts on the “boss” hat and says, “Billy, I’m sorry to say this, but you’re not working out. You’re not right for this role. You’re fired.”

Then he immediately puts on the “dad” hat: “Billy, I’m so sorry. I just heard you got fired! Are you OK?”

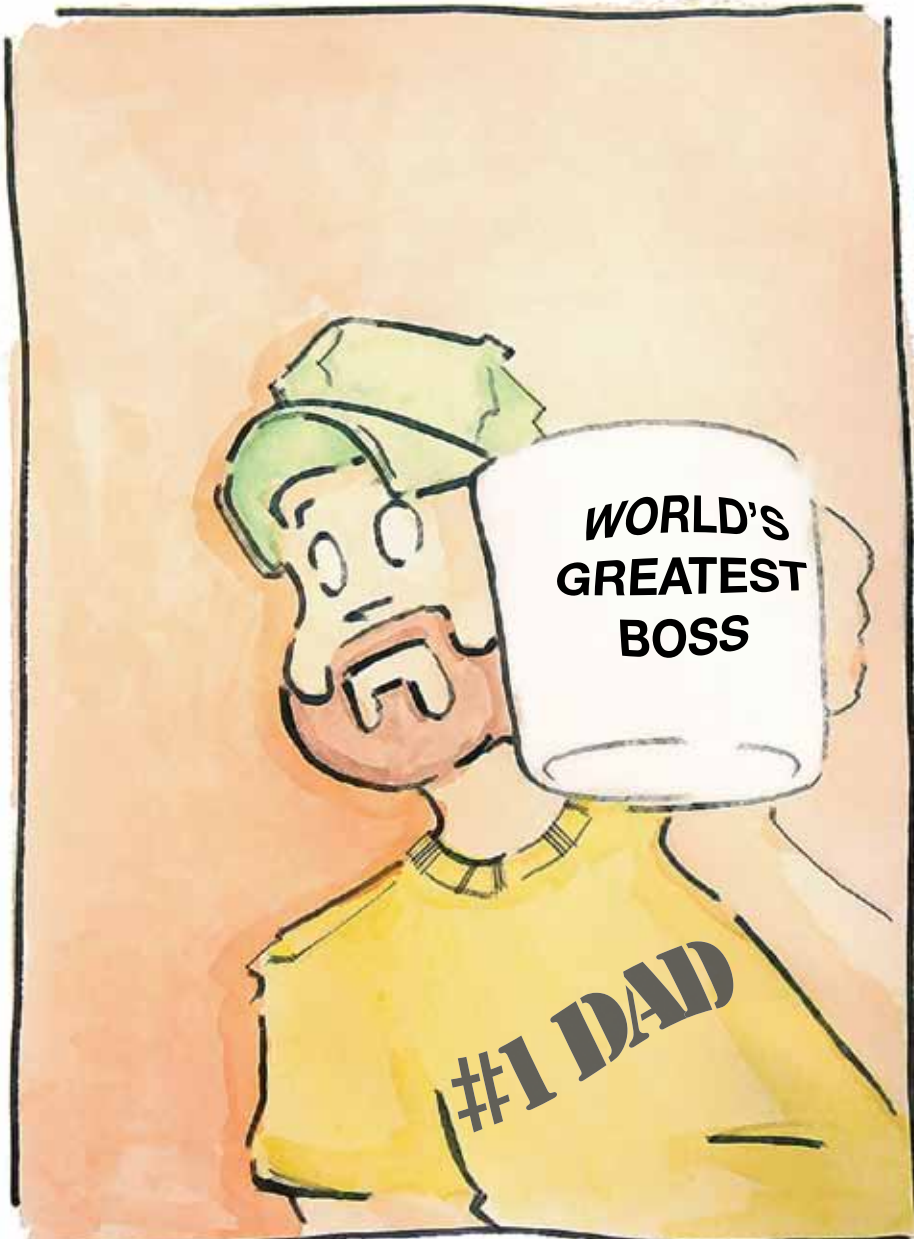
There is certainly a long tradition of fleets that carry family names on truck doors, complete with the footnote of “and sons” to indicate the expectations of a legacy, but his joke shows the nature of some of the business model’s unique issues.

In many cases the challenges are not overcome. About 70 per cent of family firms will not survive the transition to a second generation, notes Shlagbaum, president of the

Ontario chapter of the Family Firm Institute, which specializes in advice and research for family businesses.

The failures themselves can often be linked to a lack of clearly defined roles and responsibilities.

Fundamentally, any business will need to make decisions that are not influenced by family relationships, he says. It can be easier said than done, but there will be a price to pay if the line between family matters and business issues is allowed to blur. A parent who pays two siblings the same salary in the name of “family unity” may be



overlooking the fact that one of the roles could be covered at one quarter of the cost. The business is robbed of the chance of finding the best candidate for the job, unrelated members of the management team see that paycheques are not linked to performance, and overall operating costs are inflated.

"You can wind up distorting the value of the company," Shlagbaum adds.

"One of the decisions that people involved in a business have to make at an early point is, are you building a legacy or are you creating wealth?" he adds. Business decisions that are entirely limited to preserving a legacy can hurt everyone involved. The next generation of a family may actually want to forge an entirely different career path, and a child might lead a venture to failure if given the business outright.

"Without skin in the game, very often there's no commitment," he explains. Even if they buy the business, a child may be taking on debt for something they don't really want.

It illustrates the importance of a clear line of communication.

Regular meetings of a formal "family council", complete with the services of a professional facilitator, can be important to resolve issues that are unique to a family business. "The role is basically to enfranchise all of the various stakeholders, give them an opportunity to express their needs, their goals, their concerns," Shlagbaum explains. It can help to identify issues such as a jealousy between siblings, which unchecked can affect decisions in the workplace. "You're setting up a vehicle for communication that is designed to bring up those issues; to put on the table the issues that ... could wind up impeding success."

The discussions may have an impact on something as fundamental as the way assets are divided. Someone who is not interested in the daily activities of a business, for example, could own the land that is leased back to the fleet. And a formal shareholders agreement can clearly define roles and responsibilities of everyone involved, complete with the governance model that explains how decisions will be made.

Other formalized documents should include a

clearly defined business plan and a succession plan that considers the goals and needs of everyone involved.

Granted, the formalized processes can be a challenging step for many entrepreneurs. "Some people who have been running their business for 40 years just can't deal with the intrusion of a third party," he admits.

But it is the type of support and planning that can be good for business and family unity alike.

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