

THE QUICK START GUIDE SERIES*

My Kids In My Business?

[Yes/No, When, How, Why?]



By Steve Legler
Family Business Advisor

*A position paper and primer for your important discussions and major decisions.

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It isn't always easy to determine just when a business becomes a "family business", because there are so many different definitions of what makes a company a *Family Business*.

Some people start a business by themselves or with other non-family partners and never even imagine bringing in relatives, and there are also plenty of Mom-and-Pop businesses that manage quite well with just one generation's involvement.


But sooner or later, if you are running your business and you have children, the idea of bringing the kids into your business will almost always come up. If this describes your situation, keep reading, because this Quick-Start-Guide was written for you.

Big Questions Have Long Answers

So is this something you should do, or not?

There is no pat answer to this question of course, it depends on so many different factors, but the time you take to read this will surely help you figure out if it makes sense for you or not, and give you some ideas of what to do and what to avoid.

There are so many family businesses around, so it must be a great idea, right? Well, yes, but we have all heard stories about families that have been torn apart over differences that arose within their businesses, and we don't want to be one of *those* families.



Truth is, it can be very tricky to do this well, and it helps when you begin properly, because if you avoid some missteps it will

help ensure smooth sailing later on. As they say, family is all about love, and business is all about money, and when you mix love and money together, it can lead to some explosive situations.



Now add in the fact that you are looking at things from the viewpoint of at least two generations, and maybe even multiple siblings, and you want to treat everyone fairly, but you can't always treat them all equally, and next thing you know you may wonder if it is worth the headaches.

One thing you can do, however, is learn from those who have already “been there, done that”, and copy the things they did well and avoid the pitfalls that others have gone through.

Start Early Start Slowly

Some basic things to think about include slowly introducing them to the business, by having them take summer jobs, or come in and help out on weekends. You can get a pretty good idea if there is a potential “fit” just by how much they seem to enjoy the experience or not, and how they get along with the other employees.

You should probably do your best to treat them like any other kid you would have hired, paying them the same going rate, not showing them too much favoritism, and hopefully having them report to someone with a different last name.

Having your children work for you can give you the opportunity to spend more quality time together, and that can be a good thing. But hopefully you are not bringing them to work just so you will be able to spend time with them!

That brings up another really big point, and that's the one about the door. Yes, the door. The door for them to leave, IF they don't want to work there. Too many families, (in the past, mostly) have made it mandatory for their children to work in the family business. This is NOT recommended in 2015.

If you meet second-generation (G2) family business members in any company, who worked for the family business because they were compelled to do so, you will hear sad story after sad story. It really does need to make sense for everyone, and making assumptions about our kids and forcing things upon them is not considered a "best practice".



“How do you bring your kids into your business? Easy, through the door. But don't LOCK the door!”

Steve Legler, Family Business Advisor



Keep in mind that teaching your kids “about business” is probably a good thing to do (like teaching them about money in general) but there is a difference between teaching them about “business” and teaching them about “My Business”. Maybe they will want to own a business too, and might be great at it, and there are more chances that they will be good at a different kind of business than the one their parents own!

When thinking about bringing your kids into your business remember that your views will probably change over time, and so will theirs. You probably won’t have to make too many quick decisions about these issues, so take your time and make them with your eyes wide open.

If you take your time, and let all of the stakeholders be part of the discussion and the decisions, you can do it with a clear conscience too.

SO, LET'S ASSUME IT'S A "YES"

Dialogue = Information Sharing



I think the idea of unilateral decision-making has been dealt with sufficiently, and if you are not on board yet, you can safely stop reading here and get back to doing something else, like barking out orders to your servants.

For those who are still reading, let's spend a bit of time talking about "dialogue". Good communication will help avoid lots of problems by eliminating many misunderstandings, and on the subject of bringing your kids into your business, almost all of that communication will consist of conversations, or dialogue.

The first thing to keep in mind is that you want to talk WITH your children, not TO them, and certainly not AT them. A good way to make sure that you are talking WITH them is to make sure that you are asking them lots of questions. Communication begins with listening, and asking questions forces you to listen to the answers. But it isn't always easy to listen well. The best dialogues will happen when everyone feels safe to speak the truth and say what they really think and feel. Nothing kills dialogue like fear.

"Nothing kills the flow of meaning like FEAR."
-Crucial Conversations
(There is no greater threat to dialogue -SL)

Some people may be getting the feeling that we are talking about making decisions together as a family, but let's be clear about this, we are only talking about open dialogue, NOT decision making.

Just because we are inviting everyone to share their opinions, thoughts, and ideas, that doesn't mean we are going to run the family or the business as a democracy, because that would be a surefire road to pure chaos.

The bestselling book *Crucial Conversations* is a fantastic resource on this subject, in which they talk about everyone feeling safe enough to add their thoughts to the shared pool of meaning. A great dialogue is one based on mutual purpose, and it is not a debate where you are trying to score points.

Formality Is Your Friend

So let's say that a number of great conversations bring you to the point where Junior is going to come and work for you, and the day finally arrives. Great. Remember not to lock the door, nothing should be assumed to be forever.

In fact, you may want to think about Junior and how things will look from his perspective if he only ever works for his family, and never has the chance to go out and prove to himself and others that he is actually worthy of being hired into a good job that he got through an "arms-length" arrangement.

Some families have written policies stating that family members will only be hired by the business AFTER they have worked a minimum number of years (usually at least 2 or 3) somewhere else first. This period would normally begin after graduating from college, but it could be done at any time, hopefully before the person reaches their mid-20's.



Alright, after lots of summer jobs, and a stint in a “real job” outside the family, your daughter arrives at work with Mom and/or Dad. Welcome aboard. Now let’s make some rules.

One of the biggest issues family businesses often face is a lack of professionalism in the way they are run. It doesn’t have to be that way, and there are fewer and fewer excuses for this nowadays.

Rules are very important, and so are clearly defined *roles*. Assuming most employees have roles that are established and known, why should your daughter be treated any differently? Define the role, and follow the rules.

You don’t need to have all of this done on the first day, but you need to commit to figuring things out and writing them down. When your next child comes

to work for you in a couple of years, you will be glad you did this. And you will then need to do more of this and continue to document and formalize things.

You might want to call them Family Guiding Principles and have regular (quarterly?) meetings to focus on these things and have them continue to evolve. One way to make sure this happens is to agree that the children are responsible for setting up these meetings, making sure they happen, and executing the work that comes out of them.

The key is to have a regular forum in which the family members who are working in the business get together in a formal way to talk about their roles, who does what, when, and why. The results will eventually be some very important policies that have been co-developed as a family.

Rules

Just running these meetings becomes part of the communications policy, and you will eventually come up with at least the bare bones of an employment policy, and some day maybe even the basis for a shareholders agreement.

Working and Owning Are Two Different Things

Alright, let's slow this down. It might seem like somehow the kids are now co-owners of your business, when did that happen? Well it didn't, yet, but that sure is a question that is going to come up at some time, isn't it?

We are getting a bit ahead of ourselves here, but for now, just remember that working in a business and owning a business are two very different things. These differences become even more important as the business grows, as more family members are employees, and as each generation ages and moves into new roles.


Later on we will get to some of the ways these differences come into play in the realm of succession and how the family will transition both the ownership and the management of the company.

Multi-Generation Viewpoint: Good for the Family, AND Good for the Business

Let's talk about some of the advantages of bringing the next generation into the business. But first let's note that some new lingo has recently been introduced into the family business space, and terms like NextGen and G2 are no longer in vogue. Your kids come into the business as the "rising generation", and you are the founding generation.


Family businesses are known for thinking and acting with the long term in mind, and that long-term view will hopefully translate into long-term success. One of the ways that you can make sure that your business gets the benefits of the long-term view is to actually embrace and leverage the views of people from both generations.

You have access to their perspectives, why not use them as a positive input? We learned earlier to avoid one-way communication, so we can now think about a multi-direction information flow and use many inputs as part of the dialogue that guides our decision-making.



(Yes, we are back to listening to our kids again. I am glad you noticed).

So let's assume it's a "YES"



“Rather than asking for input from people who share my perspective and experience, the question becomes how to embrace and leverage the different vantage points, including those of different generations.”

Halley Bock, Fierce, Inc.

With the rapid advancements in technology that the world has been experiencing these past few decades, organisations of every kind (corporations, family businesses, governments, etc.) are all faced with employees with much different ability levels relating to how they do their jobs.

Some of the more avant-garde of these organisations have adopted policies of reverse mentoring, where the younger employees actually help mentor the older ones on subjects that are tech related. Imagine the win-win effects these relationships could have on a business. And now tell me that a family business isn't the IDEAL place for this type of arrangement.

I Can't Get No, Satisfaction!

There are all sorts of tools available to help you run your business, and even plenty of stuff out there specifically aimed at family businesses. On the next page, you will see a table from an article called *Key Diagnostic Parameters for Family Enterprise Functionality* By Andrew Hier, a senior partner with Cambridge Advisors to Family Enterprise, which recently appeared in The Practitioner, an online publication of The Family Firm Institute.

Key Diagnostic Parameters of Family Enterprise Functionality

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1. Guiding Principles	Which guiding principles are clear and present in the enterprise: Core Values, Mission, Vision, Goals, Policies, Rules, Processes, Plans, Agreements, Strategies, Custom and Practice, Legal Constraints
2. Information/ Communication	Clarity regarding: What, When, How, By Whom, To Whom, in What Form, and in What Manner
3. Forums/Roles	Which forums exist for discussion, debate and decision-making for which issues; Are roles and responsibilities clearly defined.
4. Skills and Knowledge	What level of skills, knowledge and experience is needed for each role; what development plans exist to obtain necessary skills, knowledge and experience
5. Decision-Making	What decisions are made, by whom and by what threshold of approval; decision-making processes
6. Satisfaction Level	High level of satisfaction among family members indicates functionality; otherwise points to missing or weak key parameters, misunderstanding, inappropriate expectations or misalignment

Andrew Hier is senior partner with Cambridge Advisors to Family Enterprise, specializing in family and business governance, shareholder relations, and succession issues. An FFI Fellow, he can be reached at ahier@cambridge-afe.com

I include it here specifically because I love item #6 in his diagnostic, called *Satisfaction Level*. Some Family Business Advisors speak more plainly than others, and Hier uses more formal language than I would.

Here is how he explains it in the paper:

The subjective satisfaction level of family members in a family enterprise is an important diagnostic parameter. If subjective satisfaction levels are high, it tends to indicate that the family enterprise is functioning well. If subjective satisfaction levels are low, it may point to one or more of the other parameters that are weak or missing. It might also indicate that the individual family member has inappropriate expectations, misunderstandings, unaligned values or conflicting goals.

It sounds to me like he is saying that if people are happy, that's good. If they aren't happy, there might be something wrong, or missing, or maybe the person that isn't satisfied isn't on the same page as the rest of the family.

What that tells me is that monitoring satisfaction levels is important, because if things aren't going well in your business, you should probably address the root of the problem. If it is a family member that isn't happy, AND it is affecting the business, you should probably make sure not to ignore that.

Don't Forget: Management Is NOT Equal to Ownership

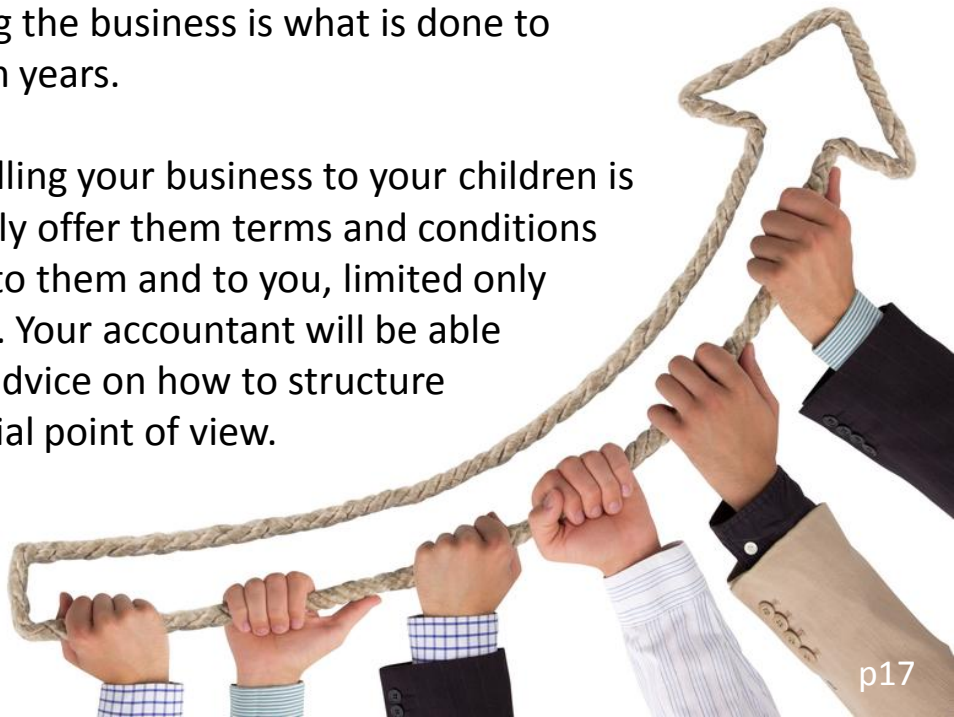
We talked a bit about the difference between managing a business and owning a business, and I said I would get back to it again, so here goes. Not only are management and ownership separate concepts, but there can be several people managing a business and there can be several owners.

Assuming that we will pre-decease our children usually makes sense, so if we own the entire business now, and it is a family business, then if it is to remain in the family for the long term, then at some point, ownership of the business logically needs to be moved from the founding generation to the rising generation.

Gift or Sell

If we add the further assumption that we are not going to die on the job, there should come a day when we plan on retiring or at least seriously cutting back on the time we spend at work. In most cases, selling the business is what is done to finance the platinum years.

The advantage of selling your business to your children is that you can probably offer them terms and conditions that are favourable to them and to you, limited only by your imagination. Your accountant will be able to offer you lots of advice on how to structure things from a financial point of view.



To Sell or Not to Sell?

(You mean I shouldn't
GIFT it to them?)

*Here are some quotes from an expert in the field: **Christophe Bernard**, KPMG*:*

Do you sell the family business, or gift it?

Some family business owners choose to gift the business to a child or children upon retirement, while others opt to sell it to theirs. Is one way better than the other? While there is no hard-and-fast answer to this, there are good reasons to argue for the latter, many believing that a business that is bought will be valued more. It also undercuts the silver spoon mentality as well as the silver spoon impression in the minds of others. You want your successor to have the respect of those within and outside of the business.

Heirs versus successor owners

Advocates of the sale approach often like to refer to their children as successor owners rather than heirs. Semantics are important, and "successor owners" reinforces the idea in the minds of the parents, child and others as to the skill and worthiness of the succeeding owner.

**<http://www.kpmgfamilybusiness.com/time-ripe-family-business-succession/>*

But PLEASE don't just do what the accountant tells you to do without thinking it through and discussing it openly and clearly with the members of your family who are affected by it.

As long as we are talking about accountants and the structures they come up with in order to help us save taxes, let's also recall that succession planning is not a one-shot deal. You may have gone through some accounting manoeuvres and signed a bunch of documents, but that doesn't mean you have taken care of your succession plan.

That is just the beginning, the real work comes afterwards, as you figure out all of the ways that the management of the business will be handled going forward, and this is a process, not an event.

Besides needing the money from the sale of the business for retirement, there are many other reasons to avoid the temptation to "gift" the business to your children. Best-selling author and speaker Tom Deans says it better than I ever could and his book is worth reading for his thoughts on this subject alone.

Deans says that gifting a business destroys both wealth and families. In almost all cases I think he is right. If you are tempted to think that your family is the exception all I can say is please read his book Every Family's Business *before* you make your decision.

Christophe Bernard of KPMG talks about the important distinction between our “successors” in the business versus our “heirs”, and his point is a good one, especially if you think of society’s impressions of those two words.



If you have some children who work in the business and others who don't, there are plenty of ways to help you treat your children fairly (if not equally) when you die, and there are plenty of insurance specialists out there who will gladly help you set that up.

But just like the accountants we talked about before, please don't just do what the insurance people say and think that you have taken care of everything and that things will automatically be perfect. The work has once again just begun, because you need to make sure that your children understand everything, including why you structured everything the way you did.

WHAT IF IT'S A "NO"



The bulk of this Quick-Start Guide has been about bringing our kids into our business, assuming that we want to do this. But there are many reasons why you may not want to go down this road too.

Whose dream is it anyway?

When you founded your business, it was very likely part of some big dream of yours, and it was probably in an area where you had certain skills and a great passion for what you were doing. That is wonderful, but that is also YOUR dream.

There are lots of kids who follow in their parents' footsteps and share their skills and their passion too. But there are probably a lot more children whose skills are different and whose passions are different than those of Mom and Dad.

The sad thing is that many of those kids still end up working in their family business for a variety of reasons, like the feeling of duty, taking the path of least resistance, or lack of ambition.

As a parent, please make sure that you are acting in the best interest of your children when considering this subject. You cannot force your dream into your children.

Wealth and Entitlement

If you are lucky enough to have built a large enough business that you do not have to sell it to fund your post-work lifestyle, you may be in a position to have your family continue to own your business for generations to come, even if they are not involved in its management.

Of course wealthy families also have to deal with questions of entitlement, but that is not reason enough to bring the kids into work for you. There are better ways to instill a good work ethic into your kids than by forcing them to work for you.

If they have a passion for something, and you are in a position to do so, you may want to consider making an investment in your children, and help them start THEIR dream business. Don't forget that it is OK for them to struggle a bit too, and resist the temptation to bail them out too quickly.

Stewardship and Legacy

Business families who have successfully transitioned their business to future generations often like to talk in terms of *stewardship* and *legacy*.

These are big words, at least in concept, but we can probably learn something from these families who have been successful. The worlds of business and wealth are very intertwined, as a large proportion of wealthy families were based on a successful business somewhere in the family's history.

Even if you are not in the same league as the Forbes 400, you still want to teach your kids about money, and the value of work, and just plain good values.

Too many families of wealth avoid talking about money with their children, but the longer they wait to do so, the harder it gets to start.





“Just as with young kids and sex, when it comes to money, kids (of whatever age) know more than we think they know. But they’re confused about what they think they know.”

Glenn Kurlander,
Morgan Stanley:
Opening Pandora’s
Box: 10 rules for
talking to kids
about money

They probably already know a lot more than you think they do, and getting it out in the open, and using as many teaching moments as we can while they

are young is a good thing. If you never talk about wealth, and they know that your family is relatively wealthy, they might start to get the feeling that wealth is somehow evil.

You want to avoid opening a Pandora’s Box, but it is better to open it slowly but surely when they are young than to wait too long. The ideas we talked about before hold true here as well, talk WITH your kids, not TO them, and not AT them. Ask them questions to be sure you know what their thoughts are, and then you can help them develop a healthy understanding.

It could also be a good idea to let you kids know about the struggles you faced, and how hard you needed to work to become successful. And remember, nobody ever got pregnant by talking about sex, so talking about money is going to make you poor, or rich, for that matter.

We have covered plenty of ground here, and we need to wrap things up. There are plenty of good references here if I have managed to whet your appetite.

The whole idea of the Quick-Start Guide is to open your mind to some basic thoughts on this subject. You don't have to agree with everything I have written, but I know that if you take most of these ideas to heart, they will serve you well as you deal with these questions.

Attitude, Relationships, Communication

I have not mentioned it specifically, but a great deal of this comes down to your attitude. I encourage you to consider that as a parent, your number one pre-occupation should be to ensure that your children lead a positive, productive, happy life.

The odds that their best life is working in your dream business are not great, but it is possible. It is important to think long and hard about this, and to speak openly to your children about these questions, and not only that, but speak (and listen!) often too.

Your relationships with your children are precious, and the way you communicate with them is the key to the quality of those relationships.

Life is a journey, and continuously helping our children become their best selves should be a big part of our journey, but we shouldn't forget that *they* should be the instigators of *their* journey.

Keep an open mind, and an open heart, and help your children flourish *wherever* it makes the most sense for *them*.





About Steve

I was born into a family business, and as the only son of an immigrant entrepreneur, it became clear very early on, that I was expected to follow in Dad's footsteps. So every summer of my teens and the first three years of my work life after university were spent learning everything I could about the business.

I returned again after getting my MBA, more ready than ever for the challenges that awaited me. But then, unexpectedly, within six months, we sold the business to a competitor, and went from 250 people to only four. And two of us went by the name Steve Legler.

Since I was Junior, Dad called the shots and started spending most of his time on his new venture, a small farm, leaving me to manage the remaining family assets in our holding companies: real estate, investments, and intellectual property.

It was not a bad job to have, as I learned a lot about business from my Dad, furthered my formal education along the way, and had what my sisters surely considered one of the cushiest jobs on the planet.

My Dad understood a little about the importance of keeping the entire family abreast of the business, and for that reason he once called a family meeting. Unfortunately, he never called another one over the subsequent 20 years, and then only did so after his cancer diagnosis.

Along the way, I also married into a business family, and I have seen some of the communications challenges that they have faced over the years.

I now realize more than ever how important good communication is for families who want their legacy to continue, as it is transferred to future generations.

My father was responsible for building the family wealth, so nobody ever felt right asking him about anything, but my sisters would never cut me the same slack, which is why we have regular family meetings, along with my mother, and an independent outside trusted advisor, who we all know and respect.

In 2013 I enrolled in the Family Enterprise Advisor program, which is geared mostly to wealth managers, accountants, and insurance folks who deal with business families on a regular basis. But I immediately felt more of an affinity with those at the front of the room, who were teaching the classes; people who work as family business facilitators, trusted advisors, coaches, and mediators.

As the father of a couple of teenagers, I also appreciate the different roles we play along the way in life, and I feel as though I have found my calling, as a family business specialist.

There are plenty of people advising family businesses about their business issues, but the area that causes so much concern, in so many family businesses is not the business, but the family. I know that I have some very unique qualifications to help them take control of those important issues.

FOR MORE INFORMATION

VISIT www.stevelegler.com

CALL 450.923.9393

EMAIL sl@stevelegler.com

Reference Links:

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