Strategic Planning & Family Business:

PART 1: The Power of Alignment

PREAMBLE

In this three part series* we explore the important linkage between the business family at large, and its role in helping to establish, monitor and maintain winning business strategies in the family business.

It is our view that when the values of the family are well defined and understood, they can play a vital role in strategy development, leading to enhanced shareholder returns, and greater long term wealth creation.

In the first installment we will consider what it means to be a family business, and the advantages relating thereto. We will make the case that when the dimensions of family and business are managed together the result will be a more unified and powerful value proposition.

In the second installment we will consider the risks of family and business misalignment, and discuss simple, yet essential strategic planning practices that can be used to create a sustainable competitive advantage in the family firm.

Finally in the third installment we will consider how business families can manage their legacy in complex, changing business environments, and explore what the true definition of success is for the family.

THE SECRET WEAPON?

Owning a family business confers certain advantages, like wealth generation and employment for family members.

Think of Longo's Grocery Stores. From a single fruit and vegetable store in the late 1950's, staffed entirely by family, they now own and operate 26 stores in the Toronto area, and remain family owned and operated. Their mantra is "Longo's, A Fresh Tradition" and they seem to have a legion of raving fans.

Do their customer's really care that the business is family owned? Well, maybe. But if Longo's offered mediocre service, dubious quality products and uncompetitive prices, being family owned would quickly become moot. So simply being 'family owned' confers no real advantage. But where the values of the family and its founders are embedded into the DNA of the business, it can serve up a definitive point of differentiation.

But can it be said that the 'family' dimension imparts a competitive advantage over other ownership structures? And if it does, are there associated economic benefits?

In a November 2012 Harvard Business Review article titled "What You Can Learn from Family Business" the authors compared 149 publicly traded, family controlled companies from Canada, the U.S., Mexico and Europe against a comparison group of companies from the same sectors and countries. Among their findings was that average long-term financial performance across business cycles from 1997 to 2009 was higher for family businesses than for nonfamily businesses in every country. Tellingly they observed that:

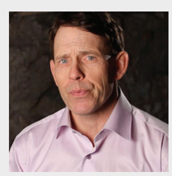
> **A CEO of a family-controlled firm may have financial incentives similar to those of chief executives of nonfamily firms, but the familial obligation he or she feels will lead to very different strategic choices...concentrating on what they can do now to benefit the next generation.**

Laura McNally
M.ENG., P.ENG., MBA
Managing Director,
McNally Brown Group

Laura is a strategic thinker who has hands on experience leading change in growing businesses. She brings a unique understanding of family business, which developed through involvement in her family's third generation heavy civil construction company, where she led a number of strategic initiatives to transition and integrate the business before the successful company sale. Laura has worked with clients to help them successfully develop and implement strategic plans, assess new market opportunities, implement reorganizations and improve their business processes.

Colin Brown
C.E.T., MBA
Managing Director,
McNally Brown Group

Colin brings a global perspective and a depth of knowledge gained through over 20 years in senior management and consulting roles in leading construction materials companies, family businesses and small and mid-sized privately held companies. He has hands on experience in a wide range of business areas including strategic planning, engineering & construction, manufacturing, mergers & acquisitions, new technology and asset management. His foundation for success is based on a sound project and change management approach, with clear objectives and measurable results.



Andrew Pigott
MBA
Principal,
The Succession Bridge

Andrew is an ownership succession strategist and concierge. His work helps business owners develop options, understand tradeoffs and navigate the business succession process.

Andrew holds an MBA from Dalhousie, has completed the Rotman Management Board Effectiveness Program, the Canadian Institute of Chartered Business Valuators program, and holds a Certificate of Achievement in Alternative Dispute Resolution from the University of Windsor. He is a director and Past President of the Canadian Association of Family Enterprise, and is a CAFE Trained Family Council Facilitator.

* Visit our websites for the complete series: McNallyBrown.com/Strategic-Planning-And-Family-Business

Clearly, the family ownership dimension served to influence behavior in a way that encouraged a long term perspective.

WHAT IS THE PROBLEM HERE?

Still, many family firms struggle when asked to define their business strategy. In our experience this is often a function of the mindset of the founder who - through clarity of vision and force of will - achieves tremendous success often without any formal plan or process. As such Generation 1 founders often view strategic planning as a time waster. Unconsciously, they internalize their knowledge, rather than share it in a systematic manner. This concentration of knowledge makes it difficult for the succeeding generation to step up and build on key success factors and places the firm at greater risk due to key person reliance.

SO, WHAT IS THE FIX?

We feel it is safe to say that somewhere, hidden behind the curtain of most successful multi-generation family businesses is a business family that is possessed of a very strong identity, and whose influence on strategy and direction is clear but not overly meddlesome. Canadian family dynasties like the Richardson's and Irving's exist not because the family cloned successors in the likeness of the founder, but rather because the family offered a steadying hand to the corporate wheelhouse.

Successful multi-generation family businesses are those that manage to enshrine the founder's values into the business culture and legend, while at the same time adopting a more collaborative style of management and corporate governance as future generations step up.

The transition from one generation to the next is one of the most challenging times in the life cycle of family businesses. It also calls for an entirely different approach to strategy formation, one where the family's input should be invited on questions of high level strategic direction, for both the family and the business.

Developing a culture of openness between management and the business family will go a long way toward ensuring that the vision, values and objectives of the family are aligned with and support the corporate strategy. Key ideas to developing an integrated family and business strategy are discussed in part two of this series.

REFERENCES

Kachaner, N., Stalk, G., and Bloch, A., "What You Can Learn from Family Business", Harvard Business Review, November 2012

mcnally brown

McNally Brown Group is a boutique management consulting and business advisory firm that works with family businesses, private and public companies to improve business performance. We work collaboratively with clients to conduct assessments, develop tools, and implement strategic initiatives in a broad range of areas including strategic planning, growth initiatives, exit planning, and preparing businesses for sale.

TEL: 905-278-8776
EMAIL: hello@mcnallybrown.com
WEB: www.mcnallybrown.com

THE SUCCESSION BRIDGE

The Succession Bridge provides independent advice to business owners and business families on all facets of the ownership succession process. Stakeholders in a business call on The Succession Bridge to gain clarity on their succession options, on the value of their business, on setting priorities for succession and when help is needed in facilitating agreement among parties with an interest in the succession process.

TEL: 905-582-8270
EMAIL: apigott@thesuccessionbridge.com
WEB: www.thesuccessionbridge.com