5 Common Challenges
for a Family Enterprise

Statistics show that family enterprise is the most common form of business ownership in the world. In Europe and Asia, some businesses have been family owned for 10+ generations, or several hundred years. In Canada, it is estimated that some 60% of the GDP is driven by family enterprises that employ more than 6 million people. Ironically research on family business has only gained significant traction over the past 50 years.

Many families that are in business together feel isolated by the challenges of working in such a unique and personal environment. In reality, many families face the same complexities regardless of the industry they operate in or the size of their business.

Here are five common family enterprise challenges that with consistent effort and dedication can be overcome:

1. **Limited Capital.** Just like non-family companies, family businesses must satisfy shareholders' expectations. Occasionally, a family member may want to leave the business and be bought out of their ownership position. Family members are often motivated to avoid conflict and may be more willing to pay out capital that would otherwise be used for company growth.

   Additionally, as the family business grows across generations, successors sometimes become accustomed to a very comfortable standard of living. The business that previously supported just the founder's family must now support multiple families for the siblings or even cousin owners.

2. **Lack of Preparation for the Next-Generation Leadership.** In many cases, no heir or successor is interested or qualified to lead the family business, and sometimes that is simply because the founder has not effectively prepared them for the challenge. Following in the footsteps of a very successful parent can be an intimidating prospect.

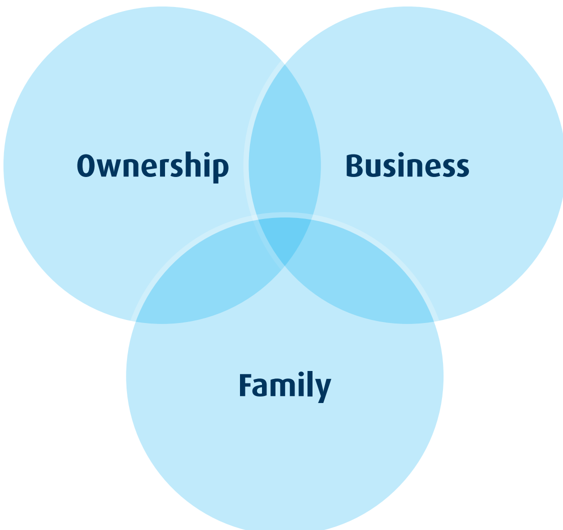
3. **Inflexibility and Resistance to Change.** What made the business successful in the past can sometimes get in the way of the company's future. By nature, successful business leaders tend to be remarkably driven and committed to their ideas, which may make them inflexible and stifle growth. The leader needs to be open to new ideas from the next generation as the requirements for success can change over time, and the newcomers will typically have very different working styles from their predecessors.

4. **Sibling Successor Conflict.** Children of family business founders usually grow up observing their business leader parent's leadership style as a benevolent omnipresent personality that knew every aspect of the business, and as a result they will try to emulate that leadership style. When sibling behavior patterns that began in childhood are brought into the boardroom, things can get even more complicated. However, moving to a sibling leadership model requires a different leadership style that is more inclusive and consensus building.

5. **Disparate Family Goals.** As families grow and become older, their goals and values often evolve and become far more diverse. One family member may want to build the business for future generations while others may want to harvest the existing equity. Cousins who grew up in different households will usually share some values while being very different in many other respects (race, religion, political views, etc). Managing these different goals and values can be a significant challenge.

While there is no one secret formula to successively navigate a family enterprise through the numerous family and business issues that will arise, there are best practices that help families deal with issues relating to the family business as they arise.

The three circle model[1] pictured below is one way to understand the interrelationships present in a family enterprise. Each circle is a separate system, but overlap in a family enterprise. Each circle must have its own governance, goals and objectives and each circle must be aware of the adjacent circle in order for success to be achieved.



[1]Source: Tagiuri and Davis, 1982

Ownership Circle

Board of Directors/Advisors. The CEO of the business reports to the board and the board reports to the shareholders. By having a diverse and complimentary board the business benefits by having a clear and well thought out strategy, depth of experience for guidance and a reporting methodology. The board would hold the CEO responsible for implementation of strategy and management of the business.

Business Circle – Strategic Plan

The process of creating the strategic plan best prepares management to see issues as they arise and respond in the best fashion. The process of planning is invaluable because it allows the management team to focus on the business's strengths, weaknesses, opportunities and threats.

Family Circle – Family Councils

A family council allows the family to meet regularly and deal with their needs. Family unity can be achieved in many fashions, but to ensure full and open communication the family should establish its own constitution, councils and regular meetings.

When these complications and challenges are managed well, family companies can have tremendous advantages over non-family businesses. This article is intended to be very general in nature. It is important to consult with professional advisors who understand the unique complexities of a family enterprise. If you find yourself in this situation, your BMO financial professional can refer you to the appropriate professionals. Advisors will monitor and review the plan regularly to ensure you remain on course to meeting your family's goals and objectives.

For more information, please speak with your BMO financial professional.

BMO Private Wealth

09/22-1012_ACC ID6936