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RISK MANAGEMENT

# Making Family Communication a Top Risk Management Strategy

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KPMG Enterprise  
Centre for Family Business

The current economic climate is forcing business owners to pay closer attention to major risk factors, such as global recession, currency fluctuations and declining consumer confidence, which can negatively impact the company's performance. While most major risk factors are out of their control, there is one major risk factor that family businesses can control—communications.

We tend not to equate communications directly with risk management, yet it is one of the major impediments enhancing the numerous benefits that the family component can bring to the table.

advantage family businesses have over their non-family business counterparts. However, it can quickly turn into a disadvantage if it is not properly managed with effective communication. This is one of the single biggest challenges in managing the family component, yet it is a risk factor over which the family business owner has total control.

The importance of effective communication among family members can be even more significant when transitioning the business to the next generation is on the horizon. Succession in itself is risky enough without further compounding the risks with ineffective communication. As a result of ongoing research and the experience of family business practitioners, a number of proven communication strategies have emerged to help family businesses effectively manage their family component. Family businesses who have applied these customized communication strategies tend to dominate their markets and continue for many generations.

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**"It seems surprising in the age of Oprah and Springer, where people spill the intimate details of their lives on national television to find that communication is still a major impediment to harmony and balance for many business families ... Whatever the reason, that 1960's cliché, 'a failure to communicate,' is probably the biggest stumbling block family businesses face."**

**Source:** *All in the Family Inc.: Insights from the Corporate Boardrooms and Kitchen Tables of Canadian Family Business.* Allan Lynch

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Over the years, family businesses have done a good job of mitigating market risks. Research reveals that major contributing factors are their willingness to focus on the longer term and their ability to draw upon the family, including the extended family, to help them navigate through tough times. In effect, it is generally agreed that the family component is a major competitive



## Feature Case Study

**The Johnson Family owned and operated a successful manufacturing and distribution company.** Rod was the founder and, together with his wife Judy, built a company that had grown exponentially to now span nine cities in four provinces.

Rod and Judy have two children: Rod Junior aged 36 and Rachel aged 34. Both children grew up in the company, with both spending their summer vacations from high school and university working in various positions at the family's business. Rod Junior dreamed of following in his father's footsteps as the leader and works within the business to make his dream a reality. Rachel liked working in the company but had just given birth to her first child and loved the role of being a full-time mother.

The Johnson family held facilitated family council meetings since completing the Roadmap Program a year earlier. These meetings centered on a number of family issues as well as business and ownership issues that impacted the family. Lately, much of the family council's time has been devoted to Rod and Judy's planned retirement and the transition of both the leadership and ownership to the next generation. Like most parents, they wanted to do what was right for their family and the business while not jeopardizing their lifestyle or wealth.

One family council meeting was devoted almost entirely to this succession issue. Although many scenarios and options were discussed, the family did not seem to be making any progress towards a workable plan. It was almost as if there was an unspoken rule that was limiting discussion.

As the meeting was about to end, the facilitator asked both Rod Junior and Rachel to share their plans as to where they would like to be in both the family and the business in 5 years. Rod Junior promptly answered that he would like to own 100 percent of the shares by that time and be acting as the company's president. Rachel followed by saying that it was very important to her to be a shareholder in the family business. Realizing that these two dreams were mutually exclusive, the facilitator asked both siblings

to consider their responses and be prepared to explain them in more depth at the next meeting.

A month later, the family met again. Rod Junior indicated that he and his wife had discussed the ownership issue at length and had concluded that owning 100 percent of the shares was not necessary. They did not, however, want Rod Junior in a position where he would have to consult his sibling on every decision, nor did they want him to have to explain every decision he made.

When it was Rachel's turn to speak, she started by saying that this issue was very important to her and, for that reason, she would read a letter she had prepared outlining her position. Rachel's letter was powerful and sincere. It basically stated that the business was such an important part of the Johnston family fabric, that if you were not part of the business, you were not part of the family. For that reason, plus the fact that she would like to have shares in case her new born son wanted to enter the business many years down the road, it was important to her to be an owner.

Delighted by the fact that Rod Junior's and Rachel's dreams were no longer mutually exclusive, the family made significant progress in alleviating Rod Junior's concerns. Rod Junior and Rachel started working on what they would want in the shareholder's agreement that would become effective as soon as they acquired shares. Rod and Judy proceeded with both their succession and retirement plans, comfortable in the knowledge that their children would be able to work together as owners even though only one of them would be in management.

While the family still encounters "bumps in the road" in terms of their relationships, the fact that they can address the issues in a safe and open manner has given them a confidence and closeness that was not evident before the family council was initiated. For the Johnson family, open and honest communication in the family council was the foundation for a better future.



## Components of an Effective Family Business Communication Strategy

Experience would indicate that engaging the services of a trusted adviser to assist in establishing and implementing the communications strategy can enhance the attainment of the desired outcomes. Working with your KPMG Enterprise business adviser can allow you to develop the communication strategy that makes the most sense for your family business. Your strategy could contain one or all of the elements below:

### **Family business meetings**

The purpose a Family business meeting is to provide family members who are active in the business with a dedicated communication forum to discuss family issues that can impact the business, and business issues that can impact the family. Family business meetings are not intended to replace regular business/ management meetings or meetings of the board of directors, even if they involve the same players. In many cases, the discussion will revolve around management and ownership issues—the kind of issues that pertain to the management of the all-important “family component.” Engaging the services of a family business practitioner to facilitate the family business meetings is highly recommended. The agenda for any given meeting can be primarily business issues, primarily family issues or both. What’s most important is to have them. Once the family business meetings have proven their effectiveness at addressing the family and business issues, the next logical step would be to hold family council meetings involving the whole family.

### **Family council meetings**

The purpose of a family council is to provide a communication forum for all of the family, immediate and extended—those active in the business and those not—to learn more about the family business and express their views on family issues that impact the business, as well as business issues that impact the family. Family councils can include spouses, in-laws, children, grandparents and grandchildren. Given the potential size and composition of the family council, the timing and frequency of these meetings depends on family circumstances, unless the business is in succession/transfer mode, in which case these meetings may be required more frequently. The meetings are most effective when they focus on keeping family members informed of the “big picture.” They are not intended to be used as a decision-making forum for day-to-day business issues, nor a decision-making forum for management and ownership issues. These meetings are for the purpose of informing, educating and obtaining feedback from the extended family on specific issues of interest to all family members.



### **The outcome: Family business guiding principles**

As a result of the family business meetings, those family members active in the business will have heard each others' views and opinions, especially those of the current owners, with respect to the management and ownership of the business.

One of the key outcomes of these meetings is that the family business will now have developed and endorsed a number of management and ownership guiding principles or rules to help direct and guide the behaviour of family members in their day-to-day business activities. This can give everyone a better understanding of what is expected of them so that they can make informed decisions about their individual and collective roles in the future management and ownership of the family business.

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As one parent put it: “These are the rules of the game—our constitution, so to speak—with background information to help you understand why we came up with the rules we did. It will be up to you to review what we have done, and when the time comes, to revise the rules to fit the needs of the family and the business in your generation.”

**Source:** Developing Family Business Policies – Family Business Leadership Series

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Developing agreed-upon guiding principles, and abiding by them, can help reduce the chance of having to deal with conflict that will no doubt challenge personal relationships, business relationships and therefore the family business. To mitigate or eliminate this risk factor, you should consider family communications as one of your key risk management strategies. In doing so, you can benefit from the advantages that can accrue from managing your family component. Unlike many other risk factors your business is facing, this one is yours to control.



Following are items that are often found in family business rules. These are all considered “family component” type issues within a family business:

### General issues

- Rationale for having a set of “family business guiding principles”
- Family business meetings and family council meetings (terms of reference)
- Conflict resolution process (family disagreements).

### Management issues

- Succession plan
- Timeline for management succession
- Employment of family members (criteria)
- Employment of spouses and in-laws (criteria)
- Compensation philosophy/approach for family members
- Grooming/training management successors
- Performance reviews for family members
- Role of current owners during and after management succession
- Leadership (e.g. co-leadership, management team)
- Role of non-family employees in senior management
- Leave of absence and sabbatical by family members
- Communications to family, managers and employees
- Conflict resolution process (resolving management succession issues among active family members).

### Ownership issues

- Timeline for the ownership succession
- Who can own shares (active, non-active, immediate, extended family members) and why?
- How will the shares be acquired (method and funding)?
- Will the ownership transfer be gradual/partial or all at once?
- Does the ownership succession support the management succession?
- Role of current owners during and after the ownership succession
- Compensation for the owners (salary, bonuses, annual distributions)
- Exit strategy (fair and equitable)
- Minority shareholders (expectations and how to manage them)
- Role of non-family employees in ownership
- Nuptial and pre-nuptial agreements for future owners
- Loans to family members (terms and conditions)
- Public relations (Who speaks for the family business?)
- Philanthropy and community activities (Which ones? How much?)
- Conflict of interest for family members (guidelines)
- Shareholders agreement that reflects/supports the succession objectives
- Communications to family, managers and employees
- Conflict resolution process (resolving ownership succession issues among family members).



### How we can help

In addition to providing Accounting, Audit, Tax and Advisory services, we offer a range of services geared to the needs and dynamics of the family business:

- Transition planning, equity transfers and generational change
- Family business governance, including family councils, family constitutions, board structures, business decision making and assurance frameworks
- Sale and purchase of family businesses
- Wealth creation planning and wealth preservation
- Asset protection
- Retirement planning, estate planning
- Strategic business planning
- Tax planning and compliance, including HST, capital gains tax and income tax.

### Why select us

It makes sense to work with advisers who understand how family business operates. Having worked with family businesses for decades, KPMG Enterprise has the experience and know-how to help you achieve your business objectives and family goals. Some of our professionals come from family businesses themselves.

### Value for money

KPMG Enterprise professionals seek to deliver value to their client beyond the fee charged. Our experienced family business professionals isolate the key issues quickly and efficiently. It means you're not paying for someone to learn on the job.

### Knowledge and experience

Detailed industry knowledge enhances the quality and relevance of our advice.

Our in-depth industry experience includes manufacturing, automotive, transportation, retailing, food services, franchising, property and construction, communications and technology, and hospitality. Benefit from our up-to-the-minute knowledge of business trends and developments coupled with our understanding of family business issues.

### **Culture and values**

You want business advice that is relevant, timely and, most importantly, objective and independent. KPMG Enterprise values its integrity and independence above all else. We set out to build long-term relationships with our clients built upon mutual respect and trust.

### **People**

Our professionals combine strong technical capabilities with deep business insight and experience. They're proactive in raising issues and know the importance of getting results in a timely, no-fuss manner.

### **Multi-disciplinary approach**

Our clients can draw on our firm's extensive capabilities across a range of disciplines. We've also forged alliances with academics, family business facilitators, lawyers, financial planners and business mentors. These resources can be "mixed and matched" to meet the specific needs of your business. It's an approach that can help avoid the expense and overlap of working with multiple advisers.

### **Clear, actionable advice**

We know our clients don't have the time to wade through advice that is vague and impenetrable. Our advice is practical, jargon-free, relevant and timely.

We work with family business clients to simplify complexity and isolate the key business issues.

### **About KPMG Enterprise**

With decades of experience working with family businesses across the country and with many KPMG Enterprise advisers coming from family businesses themselves, we understand that the nature of a family business is inherently different from a non-family business. That's why we pulled together a unique team of professionals within our firm and developed an equally unique portfolio of services that address the specific needs of Canadian family businesses and their owners.

### **About the Centre for Family Business brought to you by KPMG Enterprise**

KPMG Enterprise's Centre for Family Business is dedicated to assisting family owned and operated businesses to effectively deal with their unique management challenges. Our goal is to help guide family businesses in their day-to-day operations with a focus on the continuity of the family business. It includes an open virtual forum where members of any family business can share experiences, gain insight into leading practices and obtain the essential support to grow and thrive in today's competitive economy. Visit [kpmg.ca/centre-for-family-business](http://kpmg.ca/centre-for-family-business).



## Contact us

For more information regarding the Audit, Tax and Advisory services offered by KPMG Enterprise, visit our website at [kpmg.ca/enterprise](http://kpmg.ca/enterprise) or contact:

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