

Planning for Success*

The Canadian supplement to the 2007/2008
PwC Global Family Business Survey



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Canada's family firms play a critical role in the Canadian economy. According to the Richard Ivey School of Business, they produce 45% of GDP, create nearly 70% of new jobs and employ 50% of the country's workforce. Family firms, in fact, are the most common form of business structure around the globe.

At PricewaterhouseCoopers we have just completed our first truly global Family Business Survey to identify the issues that most concern business owners across the world. The survey draws on the experiences of top management in 1,454 small and mid-sized family businesses across a wide range of sectors in 28 countries. A full report of the global survey is available at www.pwc.com

This report analyzes the Canadian results and explores the key strengths and challenges faced by

our family-owned businesses. The data shows that they are in a strong position as they continue to push for growth. Confident in their own competitiveness, they are proud of the quality of their products and are committed to their customers. However, they are wary of market and economic pressures in the coming year. Indeed, the vast majority don't expect the market in their core area of business to see significant growth. And yet they seem to be holding back, limiting themselves to that market, with 84.2% of respondents not planning to invest in global expansion.

On the issues of succession and strategy, our data reveals that many of the leaders share a disconnect between perception and reality. An overwhelming majority of family-owned firms surveyed are well-

established, having been in business 20-plus years, and many are set to hand the reins to the next generation within the next five years. They cite sustainability as their desired legacy, but many are not taking the necessary steps to make that happen. Most of these firms do not appear to have formal succession plans in place and have not yet taken the time to assess the kind of tensions that lead to serious conflicts at the time of transition.

Lack of planning is a common theme for many of the respondents. Almost one-third do not have a strategic business plan in place for the future. "This is fairly typical for entrepreneurs who are often too busy running their businesses to invest the time in extensive planning," comments Eric Andrew, leader of the PwC Private Company Services practice. "Yet solid

planning will help these companies navigate market downturns and deal with such challenges as labour shortages and changes in leadership.”

The Canadian data highlights four main areas where family business owners can maximize their competitive advantage: strategic planning; assessing the risk and opportunities of entering new markets; addressing labour shortages by focusing on staff retention; and the ultimate challenge of transitioning their business to the next generation. Planning can turn these top four challenges into roadmaps for success.



Planning your strategy

Canadian Statistics

- 67.3% of family firms believe they are very competitive and 29.7% say they are somewhat competitive
- 81.2% are planning to invest in marketing and 76.2% in sales; however, 32.7% do not have a strategic business plan
- Only 2% view their strategy as a key strength over the competition

It seems as though it's business as usual for Canada's family firms. A substantial majority of Canadian family-owned businesses are confident in their competitive position in their market. This confidence, however, may disguise a complacency that maintains the status quo and curtails innovation as well as future thinking. While more than two-thirds say they have a strategic business plan, an overwhelming number, 98% in fact, do not view their strategy as their key strength over the competition. This lack of trust in their own strategic planning suggests these leaders might be unclear as to what effective strategic planning actually entails and what it can do for a company.

Figure 1. Thinking about your company's competitive position in the marketplace in which you operate, how would you assess your competitiveness relative to the market leaders in your sector? (%)

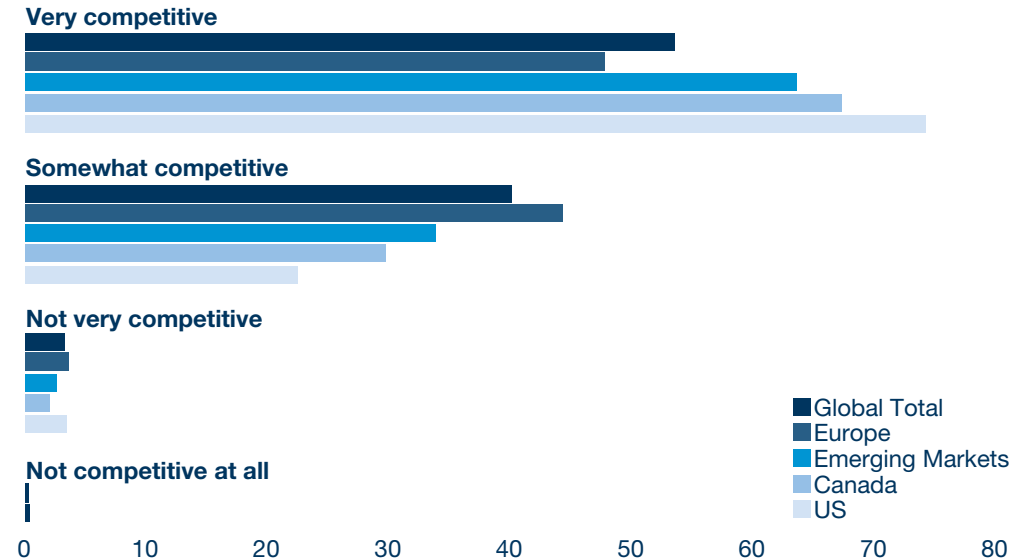
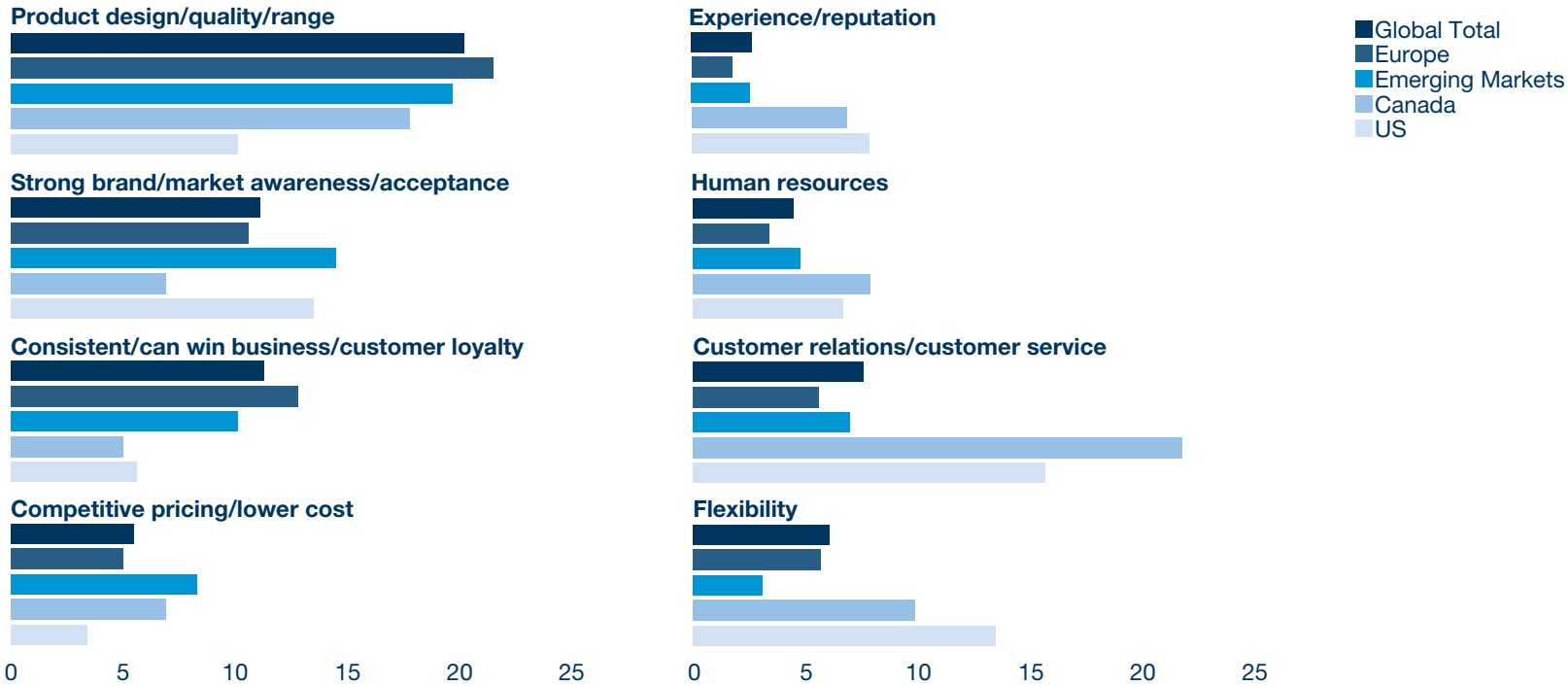


Figure 2. Which is one of the key strengths you believe you have over the competition? (%)



Planning your strategy

“A business strategy can only be effective if it is shared with employees.” —Yves Bonin, PCS Leader, Quebec

“Typically, most companies are executing against some strategy,” says Scott McLean, Advisory Partner, Vancouver. “They may have a strategic business plan but often family-business owners don’t have it in writing and they aren’t sharing it with their team, which means they aren’t planning or working effectively.”

Many business owners seem to be unaware of the differences between creating a strategy and strategic planning. The former provides a company its vision and approach to creating value; the latter creates the means to achieve the vision and capture value. In fact, effective strategic planning is an ongoing activity. It includes formal communication procedures to make certain that everyone in the organization is aware of the company’s strategic targets for the coming year and their role in achieving them. It also

identifies gaps between the company’s current and desired state and creates short and long-term action plans to bridge those gaps.

“In recent years, we’ve seen companies riding the tide of prosperity, but without strategic planning many are not taking the steps that will see them through a downturn,” says McLean.

“Last year we worked with a company that was anticipating the downturn in the US housing market with their strategic plan. Rather than go out and spend a considerable amount of money hiring more sales staff, they developed a strategy to deal with that anticipated contraction. That company is now in the process of buying two competitors. My guess is that those two competitors kept riding the tide of prosperity without any strategic planning.”

Best Practices: **Monthly Strategic Meetings**

Many of the most successful companies we’ve worked with run regular strategic meetings to review their progress and address issues as they arise.

- Typical duration is 2-3 hours
- Participants present performance scorecards
- Determine actions to address challenging areas
- Recognize key contributions of individuals and teams
- Review pressing business issues



Planning to grow

“Companies that play it safe, riding the tide of prosperity without planning effectively for growth, could be putting themselves at risk when they face a downturn in their business cycle.” — Don Edmonds, PCS Assurance Lead Partner, GTA

Canada's family-owned businesses, the backbone of the country's economy, believe themselves to be on solid footing. Almost 40% of Canadian family businesses view the quality of their products and customer service as their key strengths over the competition, compared to just 25.8% for their American counterparts. The study indicates they do not feel the need to move beyond local markets.

“These results are not surprising. Successful entrepreneurs with smaller private companies tend to know their local market very well and have very strong and reliable instincts to guide them,” says Ian Gunn, PCS Leader, Calgary.

The survey shows the vast majority have no intention of sitting on their laurels as they continue to strive for growth. That said, almost two-thirds of the respondents do not expect

Canadian Statistics

- 47% view the competition as their top external concern, yet almost 20% admire nothing about their competitors
- 74.3% of family firms are striving for growth and expansion but only 8.9% expect the market within their core area of business to develop substantially over the next year
- Only 15.8% of Canadian family firms plan to invest in developing markets overseas, compared to 40.4% and 42.7% for their counterparts in Emerging Markets and Europe respectively
- 67.3% of Canadian respondents have a strategy for the future, compared to 81.1% for Emerging Markets and 75.1% for Europe

the market within their core area of business to develop over the next year. This discrepancy could be the reason Canadian family business owners cite the competition as one of their top external concerns. Rather than looking to new markets, they appear to be counting on their competitiveness within their existing markets for growth. Their global counterparts do not share this complacency. They are going for it, and Canada could very well be in their sights.

“The decision to expand into a new market is a major strategic decision. Realistically, small companies can make small decisions on a dime. But there are very few family businesses that are capable of making big strategic decisions without a formal plan. If you’re a business owner who is 58 years old, do you want to risk everything you’ve put into your business to outsource your production to China when you have little or no knowledge or experience in this area?” says Gunn.

Staying within a local market can appear to be the safe option during favourable times but when a downturn occurs, companies that have taken this approach can face crippling consequences. Not only can solid strategic planning assess and reduce the risk of entering new markets, it can also help build a more resilient company.

“When you launch into a new market, not everything always goes right,” says Gunn. “With a good strategy, you will go back to the facts and data, identify what you’ve learned, analyze whether there is cause for a change in course, or recognize that the strategy remains sound and stick to it because it will work out.”

Best Practices: **Opening Up New Markets**

Whether it’s moving into a new town or a new country, these principles can help get you there safely.

- Establish formal strategic planning
- Align employees with the plan for growth
- Research new markets, gather facts and data
- Build a strong business case for the expansion
- Establish presence in new market
- Face hurdles with persistence and strategic analysis based on facts and data

Planning to grow

Figure 3a. 23.8% of Canada’s family businesses have experienced significant growth in demand for their product or services in the past year, compared to 46.9% and 32.3% for Emerging Markets and Europe respectively and just 18% of US family businesses. (%)

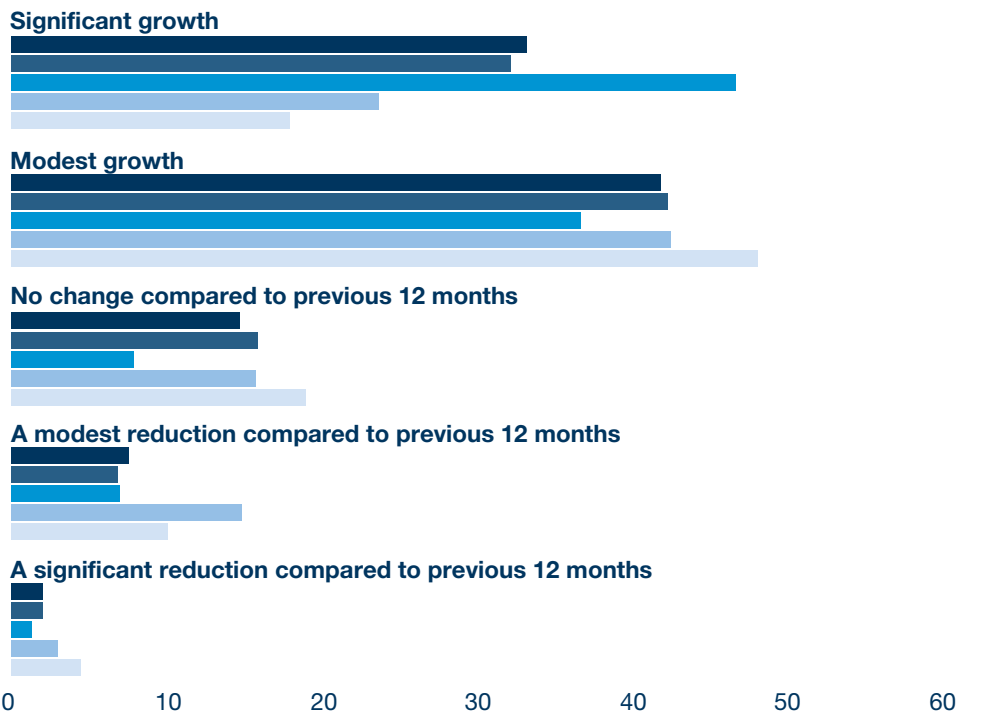
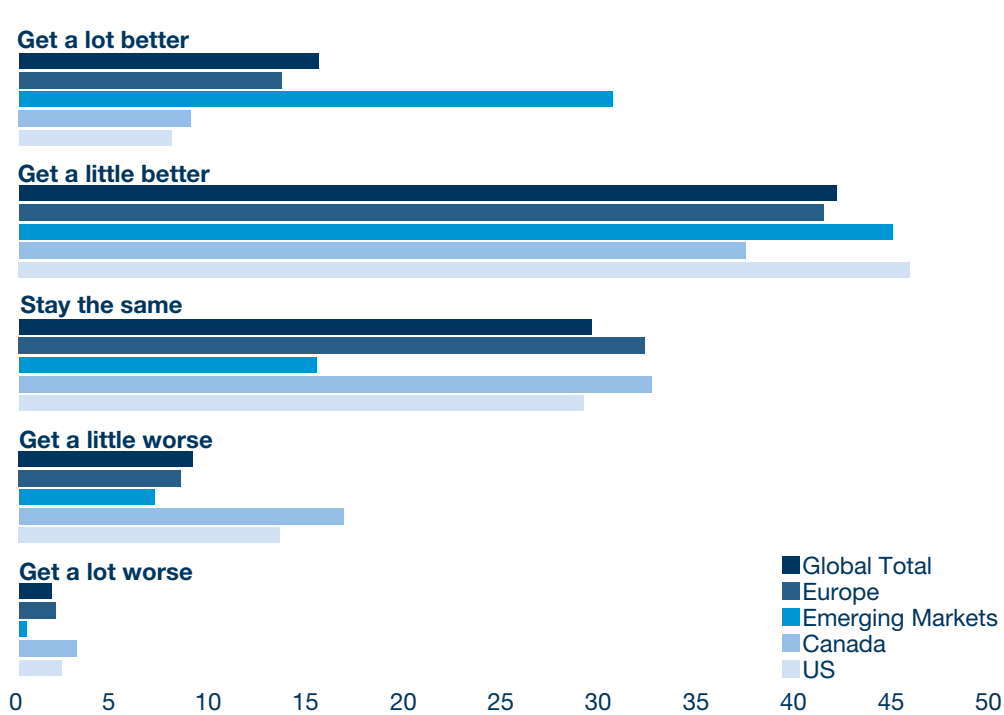


Figure 3b. Compared to the present situation, how do you expect the market within your core area of business to grow within the next 12 months? (%)





Planning to keep your staff engaged

Canadian Statistics

- 64% of Canadian family firms rate recruitment of skilled staff and labour shortages as one of the top challenges they will face in the next year, compared to just 49% for the US and Emerging markets and 37% for Europe
- By far the greatest investment priority of Canadian firms is human resources and training, with 83.2% of Canadian firms planning to invest in human resources in the next 12 months

The number one internal concern for almost two-thirds of Canadian family businesses is recruitment of skilled staff in the face of growing labour shortages. Attracting and keeping employees is a phenomenon business leaders across all sectors are concerned about as the boomers retire and are replaced by less plentiful and more demanding 20-somethings.

Our study reveals Canada's family business leaders are already taking steps to meet that challenge. More than 80% of respondents are planning to invest in human resources or training in the next 12 months. The survey findings also suggest Canadian leaders recognize that in order to continue to grow and improve competitiveness, they must focus on getting the right people in the right jobs and keeping them.

The challenge for employers is to create an environment where employees want and are given the latitude to not just do their job, but to put in extra, or discretionary effort. "The impact of that kind of effort cannot be underestimated," says Debbie Meloche in our Windsor office. "It can help drive innovation, improve customer and supplier relations, and help make the workplace attractive to both existing staff and potential hires."

Best practices reveal that type of environment can only happen when company strategy is clearly communicated to employees; when each employee understands his or her role, is well-trained and recognizes how they help achieve company goals. This needs to be backed by performance measurement system in place to track and reward positive results and reveal problem areas.

"The fact is most people naturally want to do a good job," says Meloche. "But many corporate cultures don't recognize that. Instead, they focus on the one mediocre worker and don't allow the rest to go that extra mile—something they instinctively want to do."

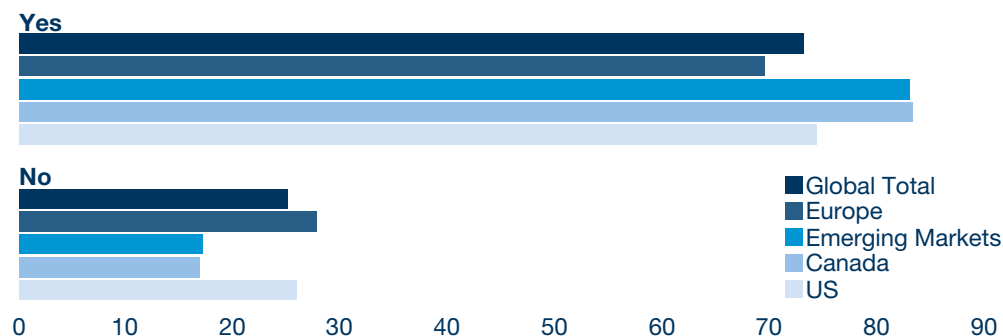
A good human resources policy builds engagement and aligns employees with the company vision. It encourages input and recognizes achievements. A good human resources policy is also why skilled employees are attracted to and stay with an organization. Yes, people want a fair wage but that's not the primary reason they stay with a company. They stay where they can have an impact.

Best Practices: The HR Plan

A holistic talent management plan is the ace in your pocket to beat the labour shortage.

- Communicate the overall strategy and goals of the company—this will ensure alignment
- Provide clear expectations and guidelines
- Ensure employees have the training they need
- Implement a system of performance metrics
- Follow up monthly to ensure targets are being met
- Recognize a job well done

Figure 4. Do you plan to invest in human resources or training in order to improve productivity and overall competitiveness in the next 12 months? (%)



“We worked with a company that wasn’t performing well. When we went to their manufacturing site we found very capable people who told us the mantra there was: Check your brain at the door.” – Debbie Meloche, PCS Leader, Windsor

Planning to succeed

Canadian Statistics

- 88.1% of Canada's family firms surveyed are 20-plus years old (42.6% are more than 50 years old)
- 30.7% are set to change hands in the next five years, with 90% planning to pass the business on to the next generation
- While 52% cite sustainability as their desired legacy, 44.6% do not have a succession plan for key senior roles and 55.4% have not chosen a leader
- 68.3% do not require family members to compete for jobs, and 65.3% have no defined criteria for choosing family members wishing to work in the business
- Although about 80% said their succession plans will not create family conflict, 36.6% already report underlying tensions over performance of family members active in the business
- As well, 31.6% also experience tension in relation to the future strategy of the business

Entrepreneurs by nature are optimistic. They have a can-do attitude that propels them forward and allows them to assume the risk that comes with launching a business venture and deal with all the attendant challenges. It's because of that optimism, drive and determination that Canada's family-owned firms are in such a strong position and continue to focus on growth, building strong customer ties and improving efficiencies.

That optimism, however, has contributed to a disconnect for many of these same leaders who are paying little attention to what could happen when they leave the business. The issue of succession is a sensitive one for many family businesses. Even though almost one-third are set to change hands within the next five years, more than

half of respondents have not chosen a leader. What's more they are not assessing the abilities and skills of the next generation and grooming them for success. This could be because of reluctance on the part of the founder to let go or could be that they do not have confidence in their successors. Some family business owners know that they want to give their business to their children but do not know where to begin and so resist planning. There are common areas that family business owners need to think about. First there are the business issues, which family members will work in the business and which will not; who will own shares in the business; and what are the roles and responsibilities of each family member involved in the business. Family members can be prepared for the transition through education about the business, communication, inclusion

Figure 5. What procedures do you have in place to handle conflict?
Top 7 (%)

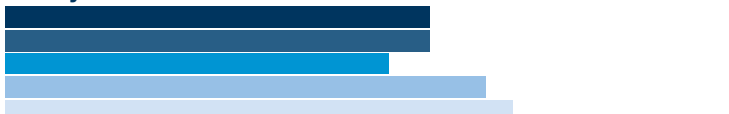
Family constitution



Third party mediator



Family council



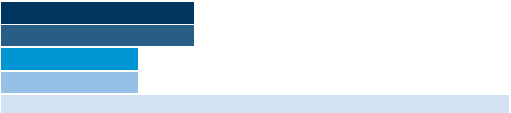
Shareholders agreement



Measuring and appraising performance



Incapacity and death arrangements



Entry and exit provision



Planning to succeed

“Succession planning should start as soon as the business is up and running in case there is an illness, a death, or there is a great opportunity to sell the business. You should always be ready.”
—Ruth Steverlynck, Director, PwC Centre for Entrepreneurs and Family Business, Vancouver

in key decision making discussions. But in a family business, there are also the underlying emotional and interpersonal issues that become magnified during times of transition. These include the complexity of the relationships: constituent groups with differing objectives and sibling rivalry. The need for children to be taken seriously by their parents, concerns about favouritism and fair treatment as well as established patterns of behaviour can also cause tension.

The family business needs to find a way to separate family and business issues to minimize conflict. Otherwise, conflict can destroy both the family business and the family. Unresolved issues in the family migrate into the business system and the family dynamics and emotions start driving the business.

The problem with intergenerational

transfers is that the lines between family, business and ownership can become blurred. It is very important to separate out these three systems and put structures around each system that optimize transparency, accountability and objectivity.

Many of the companies surveyed do not have formal succession plans in place and have not taken the time to address the kind of tensions that lead to serious conflicts when transition happens. Although about 80% said their transition plans will not create infighting within the family, more than one-third already report underlying tensions due to the performance of family members already working in the business. As well, almost one-third also experience tension over future direction of the business.

“The key is good communication. There is no point having a plan unless

you have communicated it to the key people who are going to be involved in the plan and have their input,” says Steverlynck.

Owners have plans but they are stuck in their own minds or in their estate planning documents.

“Many confuse an estate plan with a succession plan,” says Nadine Parla, Director, PwC Centre for Entrepreneurs and Family Business, Montreal. “An estate plan is not a succession plan; they serve different purposes.”

An estate plan protects the owner’s legacy and ensures that assets are passed on in a timely, tax-efficient manner. An effective estate plan is made up of several key components including a will, power of attorney, trust documents and insurance.

“A succession plan is the process of exploring options and choosing the right exit strategy that makes sense to you, your business and your family,” explains Parla. Generally, the most common options for exiting a business are: passing the business to a successor; transferring ownership through a management buy-out or employee buy-in; or selling the business.

Succession planning is a road map but you have to know your destination. A good plan for a family business deals with ownership, management and family.

An effective succession plan is a formal written document that sets out the process and schedule for a business owner’s eventual withdrawal from the business. It outlines the steps the business owner will be taking to transfer

management responsibilities and ownership interests. It also includes a contingency plan that covers the day-to-day responsibilities in the event of a crisis.

Best Practices: **Succession Planning**

A well-executed succession plan could be the difference between successfully handing off your business and hurling it and your family into chaos and conflict.

- Prepare well in advance
- Get full information at the table by involving key stakeholders in the process
- Have a number of potential candidates, evaluate and prepare them

- Use a head hunter if there is no potential successor within the organization
- Prepare for your future—this is as much about your transition out of the business as it is your successor’s to the top post
- Clarify the position/vision of the company
- Take care of staff and family members that did not get chosen
- Determine a time line with the successor
- Leave

“Estate planning is not succession planning.” — Nadine Parla, Director, PwC Centre for Entrepreneurs and Family Business, Montreal

Conclusion

This is a good news story. Canada's family firms are standing strong and seeking growth. They are looking to leave a legacy of sustainability and to pass the reigns to the next generation. It is this kind of spirit and character that has been the foundation of family businesses throughout the country's history and the reason they continue to play such a pivotal role in our economy.

But today's family businesses are competing in a globalized environment, with new, uncharted and complex challenges that can only be maneuvered with solid planning. Make no mistake about it, this is a globalized environment. Those who play it safe by staying close to home, thinking the only competition they'll face are known, local competitors, are kidding themselves. More family-

owned businesses in emerging economies are planning strategically than are our own family firms. And some are eyeing Canada for growth. This is not the time for Canadian businesses to be complacent. Labour shortages are a global concern as well. With increased mobility and opportunity for Canadian skilled workers around the world, Canadian firms are competing globally for their

workforce. What's more, the one in three Canadian firms that are looking to change leadership within the next five years without a succession plan in place are putting their companies' stability at risk in uncertain times. Effective planning and strategy can help see family firms succeed in this brand new world.



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