

Changing Lanes

Transition planning for entrepreneurs and family businesses

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with compliments from



Edward Rosenfeld

**FORESIGHT
ADVISORS**

Guiding Families and Business. Now to Next.

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Not Interested in Retiring?

If you are like the majority of business owners, the last thing you want from your advisors is pressure to retire.

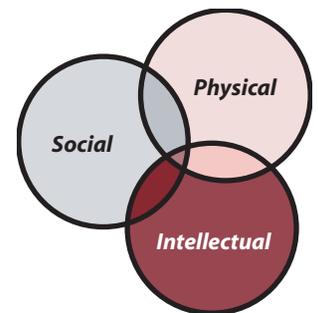
You have worked hard to build your business to what it is today and maybe you aren't ready to hand it over to someone else - someone you perhaps feel hasn't yet proven they can deliver the level of success you think is a worthy goal. Also, there are likely many things you still want to accomplish before you run out of time and energy.

As business transition specialists, we will certainly not try to persuade you to retire before both you and the business are ready. Instead we will help you plan for a transition to a bigger future, a future that can sustain and unite your family long after your lifetime.

In the last issue of Changing Lanes you read some of what Thom Penmaen was able to do in building his bigger future while avoiding the pitfalls that typically cause grief for many entrepreneurs and their families. This was Thom's Transition Plan - a plan that ultimately enabled the preferred future for himself and his wife Sophie, his family and his business. It was much more than a succession plan that would merely determine Thom's exit from the business and the handover to the next generation.

Unlike a typical succession plan that focuses on the transfer of business assets - what we call the Physical Capital - a Transition Plan ensures that the intangible personal and family assets, assets that are critical to the ongoing success of any family business, are also nurtured and protected.

The diagram on the right depicts the objectives of an Integrated Transition Plan. The Social Capital circle is important to enable the continued support of individual family members, the unity of the family, and the contribution to the greater community. The Physical Capital circle represents the need to provide financial independence and lifestyle for all: the exiting, incoming and all future generations. The focus of the third circle, the Intellectual Capital, is to enhance the success of the individual and the profitability of the business.



There's no doubt that your hard work over the years has amassed a lot of capital that deserves to be protected and ultimately transitioned for the benefit of your family. A key objective of a Transition Plan is to enable the continuity of all these assets - both tangible and intangible alike.

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Transitioning the Social Capital

In a business family, the social capital forms the roots of the culture that defines the family business.

Therefore, for your business to survive a transition, it is imperative that the social capital is successfully transitioned alongside the physical and intellectual capital.

The first step is to take an inventory of your social capital. Recognize that social assets are difficult to measure and therefore require a more intuitive scoring to evaluate. Consider the following sources to inventory your social capital:

- The principles and values of each family, owner, and management team member
- All interpersonal relationships that exist
- The reputation and trustworthiness of each individual
- Family traditions
- Community involvement and civic participation
- Current philanthropy
- The level of environmental concern

Secondly, consider the impact that the loss of one or more of these assets would have on the family unity or the success of the business.

Finally, actively engage everyone in planning for the transition of these assets.

Below are some examples of how you might inventory and plan for the transition of the **principles and values** that are the most important social assets.

Our principles are the source of who we have become. They are the beliefs from which our values are derived. Our values are the standards or inner state that is important to our feeling of well-being and ultimately guide our behaviour and decisions.

It is important to identify and understand the principles and values that formed the culture of the family and the business, and to determine the role they will play in the transition and continuity of that business.

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What is Social Capital?

Social capital is the term given to the actual or potential resources that give us the ability to share and collaborate with others.

While definitions of social capital vary, assets include such things as citizenship, neighbourliness, empathy, respect, philanthropy, community involvement, volunteering, traditions, relationships, and civic participation.

Founded on common principles and values, social capital enables cooperation among people. These principles and values are “the glue that holds us together and allows us to build bridges to others” (Robert D. Putnam). They enable the relationships and networks that are a key component of our social capital.

In a family business, social capital is initially created from the founder’s principles, values, trustworthiness, relationships and reputation. Over time these assets are perpetuated by the family, regardless of whether they are involved in the business or not.

When family members are connected to each other and to the greater community, social capital is greatly enhanced. Consequently, the entire family should participate in ensuring the transition of the social capital as part of an integrated transition plan.

Values driven families who control business enterprises build on their family’s core values and relationship strengths to nurture future generations of leaders.

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Transitioning the Social Capital *continued*

The process of identifying individual and common principles and values is not only enlightening but a perfect way to engage all family members in defining a common interest. It enhances communication, promotes empathy and respect, and builds connectedness and unity. It nurtures a future generation of leaders. And it can be fun!

Consider some of the ways successful business families have worked collaboratively to define and transition their values:

A Family Creed

A family creed is a statement that outlines who your family is and what is important in your family life. It not only portrays your principles and values to future generations but also to the employees, customers and suppliers of the business. The experience of creating a family creed is as impactful as the end result.

An Ethical Will

Often even more powerful than a legal will, an ethical will reflects “the voice of the heart” in communicating principles and values from one generation to another. By sharing personal reflections the author effectively passes on his or her hopes and dreams for future generations. Although ethical wills began hundreds of years ago in a written format, today’s versions may well be audio or video recorded.

Family Celebrations and Traditions

Celebrations are the building blocks of strong, caring families. They systematically build the family’s identity and morph into family traditions. They foster loyalty and keep the family connected while passing on key family values. Celebrating the family by documenting the history through stories, photos, video, books, quilts or even a museum is a great way

Families who tell and share stories are more likely to carry on their family’s heritage and traditions successfully.

Richard L. Narva

to ultimately ensure the family’s principles and values are remembered and upheld.

Code of Conduct

A more regimented way of transitioning principles and values, a Code of Conduct defines the rights and responsibilities of all family members. It serves to clarify the underlying family principles and defines the expectations with regard to behaviour. It lessens the chance of misconduct and therefore protects the integrity of both the family and the business.

Philanthropy

One of the greatest social assets of a successful business family is the ability to share wealth with others less fortunate. Creating a family GIVE piggy bank is a rewarding way to pass along family values while simultaneously increasing the

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Enhance your Social Capital

Consider the following sources of social capital that are outside of your immediate family. On a scale of 1 through 10, where 10 is the highest, score your current level of connectedness. Now repeat the exercise for the next generation of leadership.

You know your neighbours first names.

You often attend community parades or festivals.

You volunteer at your kids’ schools.

You help out senior citizens.

You have met your local politicians.

You frequent local theatre.

You sign petitions.

You attend neighbourhood meetings.

You often visit with friends.

You sit on local not-for-profit boards.

If you are working towards a successful transition, think about how you might enhance your social capital through a greater connection between next generation family members and the community.

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Transitioning the Social Capital *continued*

The core values upon which strategies and tactical decisions are founded, are often rooted in the history and experience of the founding family.

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Generational Values

For the first time in history, organizations could well have four different generations, each with a different values system, working together.

 <p>The Radio Age (1925 – 1945) Traditionalists with strong work ethic and loyalty</p>	 <p>The TV Age (1946 – 1964) Baby Boomers work hard for personal rewards</p>
 <p>The Computer Age (1965 – 1980) Independent Gen Xers don't like boundaries</p>	 <p>The Digital Age (1981 – 2000) Gen Yers value family, fairness, achievements</p>

Just as it is important to understand and accept the differing values, it is equally important to ensure that each person's resulting work ethics are understood.

Take time to understand the differences in values so that they can be turned into opportunities rather than allowed to create obstacles to transitioning the business.

Ask us how.

social capital inventory in areas such as citizenship, neighbourliness, empathy, respect, community involvement, and volunteerism.

Business Philosophy

Successful business families integrate their principles and values into the company culture, mission and business code of conduct. These principles and values are reflected in the way they do business and in their relationships with employees, customers and suppliers. From their strong commitment to their core principles they have built a solid reputation and a foundation of trust.

Unlike physical capital, social capital tends to accrue when it is used and be depleted when not utilized. Communication is the medium to access and increase social capital. Within the family and the business, regular meetings provide a forum for communication and ultimately the growth, preservation and transition of much of the social capital.

A Family Council is a proven structure to facilitate regular communication and promote the social capital and has been a successful vehicle for many business families. A Family Council also ensures a connection for those family members who are not involved in the day-to-day operation of the business.

If your ultimate goal is to transition your business, be sure to include a plan for the transition of the social capital. We can show you how. 



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