

ing branded lines of beauty products, like shampoos, lotions and cosmetics, a job she and Heath (who had joined the company by this time) attacked with relish. "Lina and I have spent months in all corners of the world sourcing our products," Charles says. "We have our skin-care products and aromatherapy products sourced in France. Our nail colours come from Italy. We source from the best manufacturers and those with the strongest traditions in beauty care. And every single component is 100 percent customized for us. Everything we offer is unique and very difficult to replicate."

That focus on customization didn't stop at the EvelineCharles product lines. As the chain grew, Charles and Heath paid careful attention to the details of opening each new store. They oversaw construction at each location, designed the layouts, and picked the colours and the lights to create a feel consistent with the company's high-end positioning. Customers certainly noticed. Many asked if the new stores were part of a U.S. chain making its way into Canada. Industry peers were paying attention, too, and Charles started to win industry awards, including Entrepreneur of the Year for Canada in the Global Salon Business Awards, in both 2004 and 2006. By the middle of this decade, it had become a major player in the salon and spa business, with stores in Edmonton, Calgary, Vancouver and Kelowna, B.C.

Back in the salon, Charles and Heath continued to discuss their options. Their existing growth strategy had taken them a long way. But opening stores themselves was a slow process. Real estate had to be found, leases negotiated and construction managed. Bringing stores to maturity in terms of sales also tied up working capital. And even though EvelineCharles had a source of recruits thanks to its beauty academy, hiring was still a major task.

For these reasons, among others, Charles and Heath were intrigued by the prospect of franchising the EvelineCharles brand. For starters, franchising would help the brand grow quickly, as EvelineCharles would be able to leverage the financial resources of its franchise partners. On the revenue side, the company would earn a percentage from each franchise and create a whole new market for its inventory of branded products.

Of course, franchisees would have to be selected carefully to maintain the quality of the EvelineCharles brand. And they'd have to be committed to growing their locations, keeping a close watch on local trends and ensuring that costs were controlled. Still, the prospects looked very tempting. "One day, EvelineCharles could become a nationwide brand," Heath mused.

But their inexperience as franchisors left Charles and Heath with nagging doubts, no matter how much they liked the idea. Turning to Heath, Charles had only one question: "What do you think we should do?"



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14

THE FAMILY AS ENTREPRENEUR¹

The very elements that foster success, as well as the attitudes bred by success itself, can precipitate failure. The systems that built great companies often work to destroy them.²

Danny Miller & Isabelle LeBreton-Miller
HEC Montréal and University of Alberta

RESULTS EXPECTED

Upon completion of this chapter, you will be able to:

1. Describe the significant economic and entrepreneurial contribution families make to communities and countries worldwide.
2. Appreciate the different roles families play as part of the entrepreneurial process.
3. Provide a definition of family enterprising and transgenerational entrepreneurship.
4. Assess a family on the mind-set and methods continua for family enterprising and identify key issues for family dialogue.
4. Explore key questions on the six dimensions for family enterprising.
5. Plot a family's resource and capabilities on the "familiness f+ and f- assessment continuum" and understand their advantages and constraints.

RESULTS EXPECTED

FAMILIES, ENTREPRENEURSHIP, AND THE TIMMONS MODEL

The tension among generations in families can often revolve around the aggressive younger executives seeking to explore new and exciting deals and the older executive who seeks to march forward on the pathway that created the family's fortune. The purpose of this chapter is to help families (and those working with families!) understand that opportunity recognition and balance in the Timmons Model help guide the family's decision-making process. By encouraging the discussion toward the model, we ask, "What is the richest opportunity?" and "Are the opportunity, team, and resources well balanced?" Families have special knowledge, experience, and often resources that bring competitive advantages. We aspire to leverage these special factors to create a "familiness" advantage that creates value. But there also exist pitfalls with which enterprising families need to be aware. As Lloyd Steier of the University of Alberta, James Chrisman of Mississippi State University, and Jess Chua of the University of Calgary indicate, "family based approaches to organizing enterprise might yield advantages or disadvantages."³

BUILDING ENTREPRENEURIAL FAMILY LEGACIES⁴

When we hear the phrase *family business*, images of high-flying, harvesting entrepreneurs are not usually the first thoughts that come to our mind. We more often think of the small mom-and-pop businesses, or the large business family fights that hold the potential for reality TV. It is fair to say that family businesses do not always look and act entrepreneurially. They can focus on serving local markets, sustaining the family's lifestyle, or providing jobs to family members. They are often conflicted due to family dynamics, constrained by nepotism, or limited by their conservative risk profile.

But these realities should be held in tension with the corresponding truth that families comprise the dominant form of business organization worldwide and provide more resources for the entrepreneurial economy than any other source.⁵ We must be careful that we do not form mental caricatures about either family businesses or entrepreneurs that might keep us from exploring the link between entrepreneurship and family or, more important, keep us from understanding the significance the linkage holds for social and economic wealth creation in our communities and countries worldwide.

The purpose of this chapter is to deepen our understanding of entrepreneurship in the family context. We will explore the entrepreneurial commitments, capabilities, and contributions of families and their businesses. To describe families who leverage the entrepreneurial process in the family context we use the phrase *family enterprising*. As enterprise refers to economic activity, enterprising is the action of generating economic activity. Consistent with earlier definitions of entrepreneurship, families who are enterprising generate new economic activity and build long-term value across generations. We refer to this outcome as *transgenerational entrepreneurship and wealth creation* and it is how to build entrepreneurial family legacies. This chapter will provide families with three sets of assessment and strategy tools to assist them in knowing how to become enterprising and build their family legacy.

Large Company Family Legacies

We must first begin by understanding the economic and entrepreneurial significance of families. It is difficult to walk into a Marriot Hotel, see the father and son picture of J. Willard Marriott Jr. and Sr., and not think about entrepreneurial family legacies. From a small root beer concession stand, who would have expected the emergence of a \$13.3-billion and 151,000-employee company? The Marriotts are now operating in their third generation of family leadership and are just one example of the many companies and branded products that are synonymous with family names and legacies.

John Molson founded his brewery in Montreal in 1786. In speaking with employees in 1825, he asserted "We are all members of a larger community which depends on everyone playing a part." In 2004 the Molson family united with the Coors family of Colorado to form the Molson Coors Brewing Company, of which sixth generation, Eric Molson is chairman. Molson is presently North America's oldest beer brand, in Canada it employs 3,000 and has \$7 billion in sales. Seventh generation members of the Coors family are engaged in the business including Eric's sons Geoff, a VP and Andrew on the board of Molson Coors Brewing Company.⁶

Robert MacPherson founded Northern Metals and Engineering in 1936. The company became BC Bearing Engineers Ltd. in 1944. Robert died in an airplane crash in 1950 and his wife Wendy took over as president. In 1988, Robby MacPherson was appointed president/COO and Wendy became chairman/CEO, Scott MacPherson continues to play a role in the company. Widowed three times, mother, grandmother, and great grandmother, Wendy has guided the BC Bearing Group for over 50 years to its present global status.⁷

While it is often assumed that family companies cannot play in the technology and telecommunications arena, the Rogers family have shown otherwise and grown one of Canada's largest communications companies with revenues over \$10 billion and nearly 30,000 employees.

Many of the popular branded product companies are controlled by families including Tyson Foods, an Arkansas-based \$26-billion company in which the family controls 80 percent and the grandson of the founder is the current chairman. Wal-Mart, of course is probably the best-known family firm from Arkansas. Mars, the makers of M&M's, is still 100-percent family owned and the \$30-billion company has multiple generations of family members at all levels of top leadership. Cosmetic, fragrance, and skin care products company Estee Lauder generates nearly \$7 billion in revenues with the founding family controlling approximately 88 percent of its voting shares with six members in top management bearing the Lauder name. Wrigley's gum, a \$6-billion company currently run by the founder's great-grandson, William Wrigley Jr. II, far outperforms its rivals with a 20-percent return on assets. Smucker's Jam—"With a name like Smucker's, it has to be good"—has sales of over \$2.2 billion with brothers Tim and Richard continuing to grow the 113-year-old company.

Another interesting category of entrepreneurial family involvement is the investment-holding company. Warren Buffet may be one of the most famous examples. Buffet's company, Berkshire Hathaway, owns many recognizable companies such as GEICO Insurance, Fruit of the Loom, and Dairy Queen. For over 45 years, Buffet's investments in companies have provided an average annual return of 22 percent and have increased the value of Berkshire by over 195,000 percent since 1965. His 38-percent stake in Berkshire Hathaway makes him one of the richest people in the world. Warren's son, Howard G. Buffet, is a director at several Berkshire subsidiaries and currently sits on the board at Berkshire. While succession planning at Berkshire is highly secretive, it is anticipated that Howard Buffet will take over as chairman of the board.

In keeping with this picture of family legacy contributions, a recent survey showed that 35 percent of Fortune 500 companies are controlled and or managed by families. These family-influenced companies consistently outperform non-family businesses on annual shareholder return, return on assets, and both annual revenue and income growth.⁸ A study of firms listed on the TSX and included in the S&P/TSX composite index reveals that Canadian family firms "carry more long-term debt than non-family firms."⁹ Anthony Markin of Simon Fraser University finds that "stock return volatility is substantially lower for family firms. . . It appears that the family firms long-term perspective translates into a more efficient utilization of the firm's assets." But these large family companies only begin to tell the story of the entrepreneurial and economic contribution made by business families. (See Exhibit 14.1.)

EXHIBIT 14.1 Canada's Family Firms

- ▶ Employ 4.7 million full-time and 1.3 million part-time
- ▶ Total annual sales of \$1.3 trillion
- ▶ 27% of family business leaders will retire within 5 years, another 29% will retire in 6 to 10 years
- ▶ 44% of family firms have an exit strategy, 29% have a succession plan
- ▶ 3 out of 10 family firms make it to the second generation
- ▶ 1 out of 10 family firms make it to the third generation

Samuel, Son & Co.: A Growth-Oriented Family Enterprise

Samuel, Son & Co. Limited began in 1855 as "M & L Samuel" by Lewis and Mark Samuel in the metal and hardware business with operations in Toronto and Liverpool, England. In the late 1880s Lewis Samuel's son Sigmund became president and did away with "shelf" hardware and focused on metals and heavy hardware. In 1931, when a non-family partner retired, Sigmund took over that individual's sizeable stake in the company and became a sole proprietor. In 1962 a grandson of Sigmund, Ernest Samuel, became president. Ernest died in 2000, having opened and acquired facilities throughout Canada and the U.S. Having

been at the helm for 38 years, Ernest left a strong legacy. Samuel, Son & Co. had become one of the top 10 processors and distributors of metals in North America, "We have a history we can be proud of and a strong future to look forward to."¹⁰

Smaller and Mid-Size Family Legacies

In many regards, the real heart and often-overlooked segment of the Canadian economy and entrepreneurial activity is the smaller and mid-size companies. This segment is substantively controlled by families, and they are not all your typical "mom and pop" operations.

Vector Construction Group began in 1965 in the earthworks business, building roads. "After several years of highway grading, dam building, site development, and other heavy construction projects, the opportunity came to take on a significant concrete repair project on a hydro-electric facility for Manitoba Hydro. This start in concrete rehabilitation soon led to new opportunities to provide the latest concrete restoration and protection technologies to a broad range of clients." From their home base in Winnipeg, they expanded to Saskatchewan and Sarnia, Ontario. Later they opened branches in Alberta and Fargo, North Dakota. They expanded further to Thunder Bay and Stoney Creek, Ontario, and in the United States to Nebraska, Iowa, Florida, Illinois, and Colorado. Vector Construction Group has been known for its advanced technologies and for itself advancing the technology frontier in its field. In early 2009 it acquired the electrochemical products business to prevent and treat concrete corrosion from a global leader in the field.

Richard Stewart Sr. arrived in the Okanagan Valley in 1908 from Ireland. Having worked in the greenhouses of Lord Guinness in Ireland, with his brother Bill he started Stewart Brothers' Nurseries. "Inspired by Richard, his son Dick ventured out on his own in 1956 and purchased the site on the slopes of Mt. Boucherie, Kelowna, which is now the home of Quails' Gate Winery. As Dick neared retirement, he called on his eldest son Ben to come home to the family farm."¹¹ They then transformed the family farm from its diverse crops to high-density premium vinifera and became wine producers. Ben, with his siblings Tony, Cynthia, and Andrea have pursued the creation of wonderful wines. And this pursuit has meant looking outside the family to recruit those with expertise in winemaking.

Many family companies may not have brand names consumers recognize, but they are dominant in their industries because of the important part they play in the supply chains of large multinationals. They may make ingredients or inputs for other known wares or may produce goods in their entirety under another's moniker—take Magna for example. The list of these "everyday" family entrepreneurs is endless. They may be a regional or a national distributor behind the scenes, or an unnamed printer.

In this montage of families we have not even mentioned the nascent entrepreneurs and smaller companies that will become the next-generation Marriot, Reitman, Smucker, or Bronfman family company. Nor have we considered the children in existing family firms who will become nascent entrepreneurs. In a recent undergraduate class on family entrepreneurship, more than 80 percent of the students said that they wanted to start *their own company* as an extension of their family business. They were not just looking to run their family company. Students like Toby Donath created a business plan to move his mother's business, Backerhaus Veit, from manufacturing and wholesaling to retailing and branded products. Brothers Colby and Drew West started auctionPAL with their parents as "support investors" based on ideas developed by Drew. Student Jonathan Gelpy had a plan to commercialize a product for which his grandfather holds the patent. All of these young entrepreneurs fulfill our vision for next-generation entrepreneurship and family enterprising.

The Family Contribution and Roles

It is clear from our descriptions of family companies that families still dominate the Canadian economy and even more fully the economies of other countries worldwide.

The most recent economic impact study in Canada reported that family businesses contribute more than 45 percent of Canada's GDP and paycheques for about half of working Canadians.¹² Family-controlled businesses in Canada create nearly 70 percent of new jobs, one-quarter of the top 50 Canadian companies (by market capitalization) are controlled by family, and the top six families generate \$100 billion in annual revenues.¹³ Worldwide, the economic numbers are similar to those in countries like Italy, reporting 93 percent of their businesses are family controlled, and Brazil, 90 percent.¹⁴ (See Exhibit 14.2.)

Once we acknowledge the economic relevance of families we can better understand the significant pool of resources and potential they represent for entrepreneurial activity. There was a day when "business" meant "family" because the family was understood to be foundational to all socioeconomic progress.¹⁵ Today, however, we must more intentionally categorize the roles families play economically and entrepreneurially. Exhibit 14.3 presents five different roles families can play in the entrepreneurial process and distinguishes between a formal and informal application of these roles.

In this regard the categories are both descriptive and prescriptive. They describe what role families play and how they play them, but also hint at a prescription for a more formal approach to entrepreneurship in the family context. By "formal" we mean establishing individual and organizational disciplines and structure of the entrepreneurial process. We do not mean "bureaucratic." Many family entrepreneurs, particularly senior generation entrepreneurs, embrace the myth that any formalization will constrain their entrepreneurial behaviour. Nothing could be further from the truth. With informed intuition, disciplined processes, clear financial benchmarks, and organizational accountability, family teams can generate higher potential ventures and get the odds in their favour for transgenerational entrepreneurship and wealth creation.

The first and dominant role families play is what we call *family-influenced start-ups*. Data from the Global Entrepreneurship Monitor indicate that worldwide there are about 25 million "new family firms" started every year.¹⁶ Because families are driven by social forces of survival, wealth creation, and progeny, it is natural that start-up businesses think family first. Family-influenced start-ups are new businesses where the family ownership vision and/or leadership influence impacts the strategic intent, decision-making, and financial goals of the company. They may have family involvement in the beginning, intend to have family involvement, or end up having family involvement during the formative stages

EXHIBIT 14.2 Worldwide Highlights of Family Businesses

Country	Definition	% of FBs	GNP
Brazil	Middle	90%	63%
Chile	Broad	75%	50–70%
USA	Broad	96%	40%
Belgium	Narrow	70%	55%
Finland	Narrow	80%	40–45%
France	Broad	>60%	>60%
Germany	Middle	60%	55%
Italy	Broad	93%	
Netherlands	Narrow	74%	54%
Poland	Broad	Up to 80%	35%
Portugal	Broad	70%	60%
Spain	Narrow	79%	
UK	Middle	70%	
Australia	Narrow	75%	50%
India	Broad		65%

EXHIBIT 14.3 Roles Families Play in the Entrepreneurial Process

	Family-Influenced Start-ups	Family Corporate Venturing	Family Corporate Renewal	Family Private Cash	Family Investment Funds
Formal	An entrepreneur with no legacy assets/existing business, but who formally launches a new business with family and/or intending to involve family	Family holding companies or businesses that have formal new venture creation and/or acquisition strategies, plans, departments, or capabilities	Family-controlled companies with a formal strategic growth plan for creating new streams of value through change in business strategy, model, or structure	Start-up money from family member or business with a formal written agreement for market-base ROI and or repayment	Stand-alone professional private equity or venture capital fund controlled by family and/or using family generated capital
Informal	An entrepreneur with no legacy assets/existing business who happens to start a new business out of necessity and it begins to involve family members	Family holding companies or businesses that grow through more informal, intuitive, and opportunistic business start-up and acquisitions	Intuitive growth initiatives that result in a change in business strategy, model, or structure and new streams of value for the family company	Start-up money or gift from family member or business with no agreement or conversation about ROI or repayment	Internal capital and/or funds used by family owners to invest in real estate, passive partnerships, or seed new businesses

of the company. Some families begin their collective entrepreneurship experience with a more formal vision and planning process that delineates how the family will capture a new opportunity. This approach often clarifies the role family members will play in the start-up and puts them on a faster path for successfully meeting their family and financial goals.

The *family corporate venturing category* is when an existing family company or group starts new businesses. Families are often, and quite naturally, portfolio entrepreneurs who build numerous businesses under a family umbrella. While they may not always grow each of the businesses to their fullest potential, the new businesses are often synergistic, create jobs for a community, and grow the net worth of the family. Often they are started so that family members have their own business to run. The more formal approach to family corporate venturing makes the new business process part of an overall strategic plan for growing family wealth while leveraging the resources and capabilities of family members.

Family corporate renewal is where the family's entrepreneurial activity is focused on creating new streams of value within the business or group through innovation and transformational change activities. Companies that launch new products or services, enter new markets, or establish new business models are renewing their strategies for the future. This type of strategic or structural renewal is particularly prevalent during family generational transitions or when a family realizes their legacy business can no longer compete. A more formal approach to corporate renewal is proactive, continuous, and institutionalized versus waiting for transitions or competitive triggers to start the renewal processes.

One of the primary roles families play is to provide *family private cash* to family members who want to start a business. More than 63 percent of businesses in the planning stage and up to 85 percent of existing new ventures used family funding. Between 30 and 80 percent of all informal (non-venture capital) funding comes from family. In Canada this amounts to nearly .25 percent of GDP and as high as 3 percent of GDP in South Korea.¹⁷ Most often the family cash is given based upon altruistic family sentiments rather than having more formal investment criteria. While providing seed capital whether it is formal or informal is clearly a significant role in the entrepreneurial process, having some formal investment criteria can avoid future confusion or conflict among family members. It also creates more discipline and accountability for family entrepreneurs, which is a good thing. (See Exhibit 14.4.)

Family investment funds are pools of family capital that families use for entrepreneurial activities. These family funds, both formal and informal, are becoming increasingly more common as families find themselves flush with cash. Most often, the formal family investment funds are created after a family has liquidated all or part of their family group. These

EXHIBIT 14.4 Distribution of Businesses with Family Venture Backing

	Planning Stage Start-ups	New Firms	Established Firms
Number of Cases	1,425	1,594	3,743
Family-Sponsored Ventures	63%	76%	85%

Source: Joseph H. Astrachan, Shaker A. Zahra, and Pramodita Sharma, "Family-Sponsored Ventures" First Annual Global Entrepreneurship Symposium, United Nations, April 29, 2003.

funds are generally formed in conjunction with a family office. Informal family investment funds are pools of money, generally from cash flows, that family leaders invest in entrepreneurial activities as a way to diversify their family portfolios and/or have fun. They often invest within their network of peers and the investments are usually non-operating investments in businesses or real estate deals. These investments are often significant portions of their total wealth.

When we catalogue the wide range of informal and formal roles families can play in the entrepreneurial process, we see the contribution they are capable of making to the entrepreneurial economy. We believe business families who are interested in transgenerational entrepreneurship and wealth creation must cultivate the more formal approach to entrepreneurship. The remainder of this chapter assists families in formalizing their entrepreneurship roles. We present three strategy frames that are based on the Timmons Model introduced in Chapter 2. The frames focus on the controllable components of the entrepreneurial processes that can be assessed, influenced, and altered.

FRAME ONE: THE MIND-SET AND METHOD FOR FAMILY ENTERPRISING

Families who are enterprising are a particular type of family and *not* just a family who is in business. Enterprising families understand that today's dynamic and hypercompetitive marketplace requires families to act entrepreneurially. That is, they must generate new economic activity if they intend to survive and prosper over long periods of time. The Timmons Model shows us that at the heart of the entrepreneurial process is the opportunity. Those families who intend to act entrepreneurially must be opportunity focused. Consistent with this focus, enterprising is seen as the decision that leaders and organizations make to investigate opportunity and seek growth "when expansion is neither pressing nor particularly obvious."¹⁸ The enterprising decision to search for opportunity precedes the economic decision to capture the opportunity. It is when families are faced with a decision (knowingly or unknowingly) to continue along their existing path, versus to expend effort and commit resources to investigate whether there are higher potential opportunities that are not yet obvious, that the "spirit of enterprising" is evidenced. We thus define family enterprising as the proactive and continuous search for opportunistic growth.

12 Challenges To Family Enterprising

Like the gravitational pull that keeps us bound to the earth, families face a number of inherent challenges that may keep them bound to past strategies rather than pursuing new opportunities.

1. Families assume that their past success will guarantee their future success.
2. Family members attribute "legacy value" to their businesses or assets, but that value does not translate into a market value or advantage.
3. Families want a "legacy pass" in the market—"We are 50 years old and we deserve another 50 years since we have been such good citizens."

4. Leaders try to balance the risk profile (risk and reward expectations) of their shareholders with the risk and investment demands of the marketplace.
5. Senior and successor generations have different risk profiles and goals for how the business should grow in the future.
6. Families find it hard to pass the entrepreneurial commitments and capabilities from the senior generation to a less “hungry” successor generation.
7. Families build their first-generation businesses on the founder’s intuition, but the business never establishes more intentional entrepreneurial processes to keep the entrepreneurial contributions alive.
8. Families will not use many of the financial strategies that entrepreneurs use to grow businesses—i.e., debt, equity capital, strategic alliances, and partnerships.
9. Families do not “shed” unproductive assets and underperforming businesses to reallocate resources to more productive places.
10. Successor generation family members feel entitled to get a business rather than seek next-generation entrepreneurial opportunity.
11. Senior leaders communicate to the next generation that business planning and entrepreneurial analysis is a waste of time.
12. Family members are given a business to run as part of their legacy and that is viewed as entrepreneurship in the family.

Enterprising families institutionalize the opportunity seeking processes in the mindset and methods of both their family ownership group and their business organizations. Those families who simply try to maintain their local advantage, safeguard their brands, assets, and customers, or hone their operational efficiencies put themselves at a competitive risk in the shorter run. In the longer run, if their strategic planning is mainly focused on how to pass their business from one generation to the next, rather than developing people and strategies for creating new streams of value, their future may be limited. We would certainly not describe these types of families as enterprising or assume that they are transgenerational.

Enterprising Mind-set and Methods

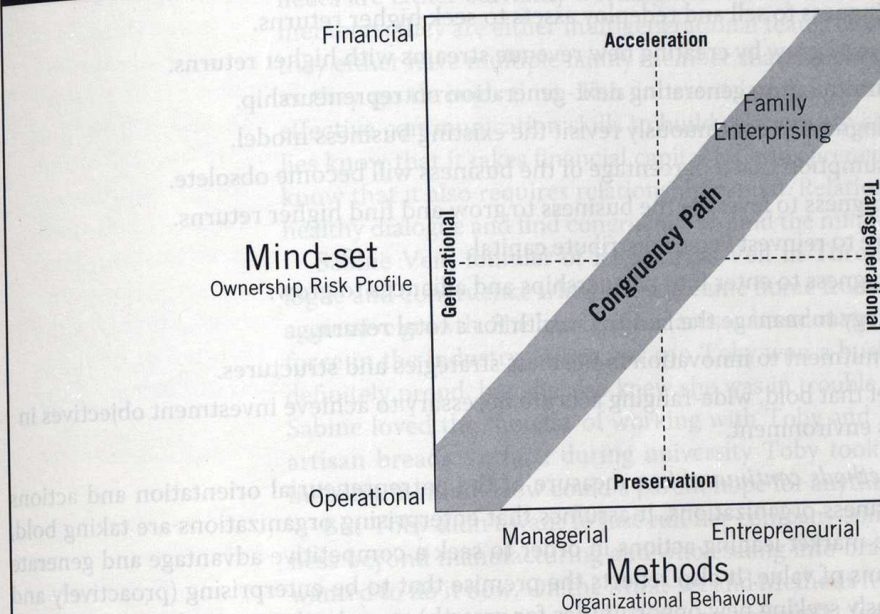
The first assessment and strategy frame for family enterprising is the Mind-set and Methods Model (Exhibit 14.5). The model shows that family enterprising is the combination of a financial ownership mind-set and entrepreneurial strategic methods. The purpose of the model is to ensure that families talk about both the ownership *and* management requirements for carrying out the entrepreneurial process in their family and business. The mind-set and methods assessment instruments¹⁹ for this chapter (see end of chapter exercises) will enable families to determine their level of congruence on the two dimensions. It will also allow them to have a strategic conversation about where they currently are and how they might need to change in order to become more enterprising.

What Enterprising Is Not

It is often useful in defining a concept to understand *what it is not*. Renowned economist, Edith Penrose takes this approach by contrasting the concept of enterprising with three categories of firms that are not necessarily enterprising.²⁰

“Just grew firms”—The “just grew” category are those that were in the right place at the right time. They were on the wave of an expanding market and they had to expand to keep up with demand. The decision to grow was automatic, and because they were able to capitalize on the circumstances, they grew. The situation may continue for a long period of time, but because markets do not

EXHIBIT 14.5 Mind-set and Methods Enterprising Model



Source: © Habbershon and Pistrui.

expand indefinitely and competitors fill the opportunity gap, firm growth and the firm will come to an end.

“Comfort firms”—This category is often referred to as lifestyle firms. There are firms who refrain from taking full advantage of opportunities for expansion because it would increase their effort and risk. Firms that are comfortable with their income and position have no incentive to grow beyond their acceptable level of profits. These are firms where the goals of the owners to be comfortable are closely aligned with the goals of the firm. Like “just grew firms,” comfort firms may continue for decades, but in the end meeting the comfort needs of the owners is not a driver for advantage or renewal.

“Competently managed firms”—Many firms are competently managed and consequently are able to find normal returns for relatively long periods of time by maintaining their operational efficiencies. Competently managed firms are often striving to sustain the entrepreneurial efforts of a founder. They may be competing in more traditional, less dynamic circumstances, have a distinctive market niche, or maintain a regional advantage as a favoured business. While these are exploitable strategies, they are not inherently sustainable and may quickly disappear.

The mind-set continuum is primarily a measure of the financial risk profile of the family owners-shareholders. In general, it reflects the financial premise that entrepreneurial leaders gain strategic advantage and find above normal rents by deploying their resources to points of highest return and by developing strategies that exploit new opportunity. Family leaders who have an operational mind-set predominately focus on management strategies, operational efficiencies, and the perpetuity of a particular business. A financial mind-set moves beyond the operational focus to an investor focus with a view toward the overall capital strategy of the family, creating new streams of value and finding a return on the totality of their assets. While the operational mind-set is a requirement for running an efficient business, the financial focus is a requirement for transgenerational entrepreneurship and wealth creation.

The financial mind-set for enterprising includes the following characteristics²¹

- A proclivity for higher risk and above normal returns.
- A willingness to sell and redeploy assets to seek higher returns.
- A desire to grow by creating new revenue streams with higher returns.
- A commitment to generating next-generation entrepreneurship.
- A willingness to continuously revisit the existing business model.
- An assumption that a percentage of the business will become obsolete.
- A willingness to leverage the business to grow and find higher returns.
- A desire to reinvest versus distribute capital.
- A willingness to enter into partnerships and alliances to grow.
- A strategy to manage the family's wealth for a total return.
- A commitment to innovation in business strategies and structures.
- A belief that bold, wide-ranging acts are necessary to achieve investment objectives in today's environment.

The *methods continuum* is a measure of the entrepreneurial orientation and actions in the business organizations. It assumes that enterprising organizations are taking bold, innovative market leading actions in order to seek a competitive advantage and generate new streams of value. It also reflects the premise that to be enterprising (proactively and continuously seeking new opportunities for growth) organizations must have a collection of individuals who act like an entrepreneur and not just a single leader or small group of family leaders. A single leader acting entrepreneurially might generate entrepreneurial actions in the business during their generation, but it will not create a transgenerational family business or group. Enterprising organizations move beyond managerial methods that focus on maintaining the existing and implementing incremental change. They are seeking and creating "the new" and establishing entrepreneurial renewal processes. While entrepreneurial methods do not replace the need for managerial actions, managerial actions are not sufficient conditions for enterprising and transgenerational wealth creation.

The entrepreneurial methods for enterprising include the following characteristics:²²

- Allocating disproportionate resources to new business opportunities.
- Systematically searching for and capturing new investment opportunities.
- Seeking new opportunities beyond the core (legacy) business.
- Creating a core competency in innovation at the business unit level.
- Making significant change in products, services, markets, and customers.
- Initiating competitive change to lead our market.
- Investing early to develop or adopt new technology and processes.
- Typically adopting an "undo the competitor" posture in our markets.
- Having institutionalized the entrepreneurial process in the organization.
- Having formal routines for gathering and disseminating market intelligence.
- Having people at every level in the organization "think like competitors."
- Typically adopting a bold, aggressive posture in order to maximize the probability of exploiting potential investment opportunities.

Creating the Dialogue for Congruence

The Mind-set and Methods Model helps families fulfill key process conditions for family enterprising and transgenerational wealth creation:

Creating a healthy *dialogue* in the family ownership group and organization around the mind-set and methods issues.

Establishing *congruence* between the mind-set of the owner-shareholder group and the methods of the business organization(s).

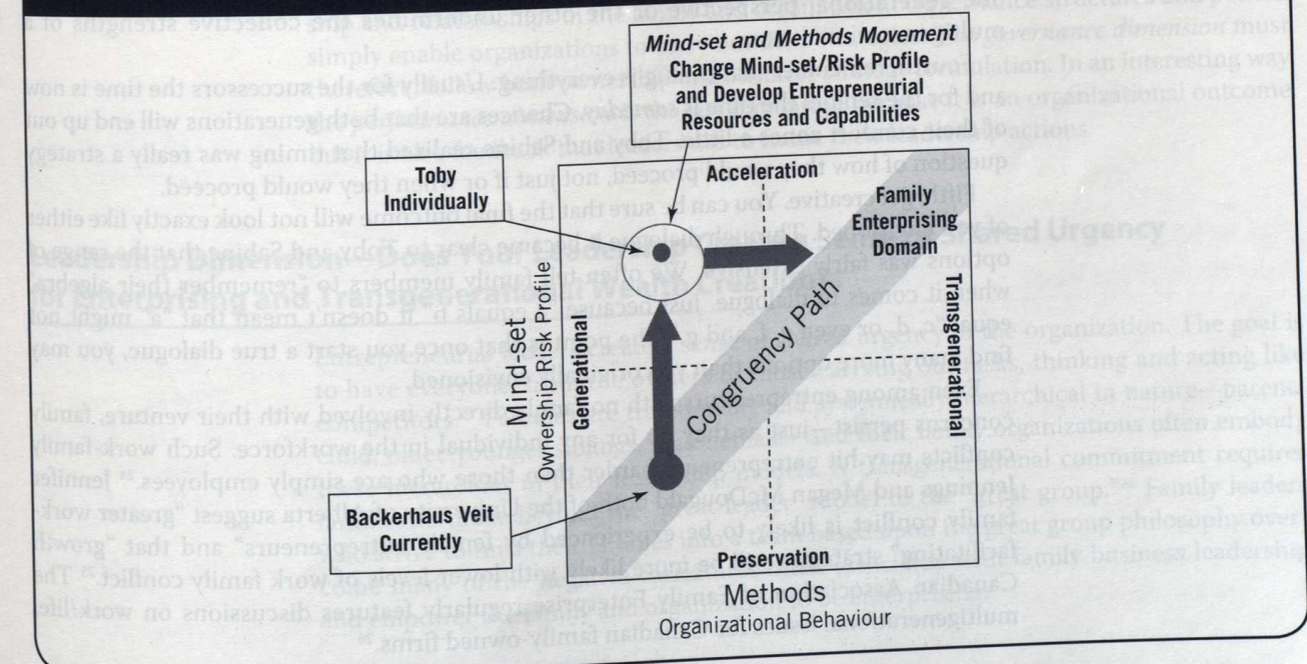
One of the major differences between family enterprising and entrepreneurship as it is normally envisioned is that by definition the team includes the family. Family entrepreneurs are either currently working with family members or planning to work with family members; they are either multigenerational teams or hope to be a multigenerational team; they either have multiple family member shareholders and stakeholders or will have them as they go through time. This inherent familial condition requires families to cultivate effective communication skills to build relationship capital for family enterprising. Families know that it takes financial capital for entrepreneurial activity, but they do not always know that it also requires relationship capital. Relationship capital allows families to have healthy dialogue and find congruence around the mind-set and methods for enterprising.²³

Sabine Veit, founder of Backerhaus Veit in Toronto, realized the importance of dialogue and congruence when her son came home from university toting a business plan for aggressive growth. She had built her artisan bread manufacturing company into a \$24-million force in the industry. When her son Toby won a business planning competition she was definitely proud, but she also knew she was in trouble. The plan was to grow *her* business. Sabine loved the thought of working with Toby and he definitely shared her passion for artisan breads. In fact, during university Toby took every class with the artisan bread industry in mind. How could a parent hope for anything more?

But Toby didn't want to just run her company someday. He wanted to move the business beyond manufacturing and wholesaling into branded products and retailing, and he wanted to do it now. On the Mind-set and Methods Model (Exhibit 14.6), Backerhaus Veit was on the congruency path as an operationally focused, managerially sound business. Sabine had a self-defined lifestyle firm that was competitive in her niche with a clear harvest strategy. But Toby was committed to family enterprising and wanted to be a growth firm. This meant moving beyond their current niche and lifestyle expectations. Clearly Toby had a mind-set for much higher risk than Sabine.

On the methods continuum, Backerhaus Veit did not have the entrepreneurial methods to exploit Toby's plan. Sabine individually had the capabilities and Toby believed he did, but the entrepreneurial team and organization would have to be built. There was clearly significant incongruence as a family and business. The challenge for Sabine and Toby was to establish a plan and process for aligning their mind-set and methods if they want to capture the new opportunity and become an enterprising family.

EXHIBIT 14.6 Backerhaus Veit Analysis



Successful Next Generation Entrepreneurship

The challenge for multigenerational family teams like Toby and Sabine is to “keep it in dialogue” rather than letting it turn into a debate or disconnect. Debates become personal and disconnects cut off opportunity. When family members turn the situation into right and wrong, good and bad, winning or losing, there is very little listening, give-and-take, or changing one’s position. In contrast, the word dialogue actually means “talking through” an issue. It assumes the ability to challenge each other’s assumptions, to keep an open mind, and to test different options. It looks at the big picture, considers the long-term perspective, and discusses the process for getting there. Most important, dialogue does not follow hierarchical roles like parent-child, boss-employee, or the one who owns the business versus the one who does not. The goal of dialogue is to find solutions that are not constrained by the boundaries of either of the original positions.

There are a number of things Toby and Sabine need to do in order to ensure they are an enterprising family. First, they need to develop communication skills to have an effective dialogue. Most families assume they are able to carry on a dialogue simply because they are a family. In actuality the familiarity of a family can make it very difficult to challenge assumptions and talk about differing views. Often families need a facilitator to help them develop communication skill and have a dialogue.

Second, they needed to make sure their views of the future were the same. Families often have a vague notion of “working together” and they assume that they will figure the details out over time. This is a clear formula for future discontent and conflict. In reality, Toby and Sabine had very different visions for their futures. Sabine’s vision was to enjoy her passion for breads while balancing growth with her lifestyle interests. Toby’s vision was to exploit his passion for breads by building new businesses on the family’s reputation and skills.

Third, Toby and Sabine had very different risk profiles. What Sabine was willing to risk for future returns was very different from what Toby was willing to risk and the returns he desired. It is not surprising that the successor generation is willing to risk more than the senior generation. The key is to keep talking until you understand each other’s perspective. Once you understand each other you can create a business model and structures that accommodate the risk profiles of both generations. Locking into one generational perspective or the other undermines the collective strengths of a multigenerational team.

Fourth, remember that timing is everything. Usually for the successors the time is now and for the seniors the time is *someday*. Chances are that both generations will end up out of their comfort zones a little. Toby and Sabine realized that timing was really a strategy question of how they would proceed, not just if or when they would proceed.

Fifth, get creative. You can be sure that the final outcome will not look exactly like either of you envisioned. Through dialogue it became clear to Toby and Sabine that the range of options was fairly extensive. We often tell family members to “remember their algebra” when it comes to dialogue. Just because “a equals b” it doesn’t mean that “a” might not equal “c, d, or even e, f, and g.” The point is that once you start a true dialogue, you may find many more options than you originally envisioned.

Even among entrepreneurs with no family directly involved with their venture, family concerns persist—just as they do for any individual in the workforce. Such work-family conflicts may hit entrepreneurs harder than those who are simply employees.²⁴ Jennifer Jennings and Megan McDougald both of the University of Alberta suggest “greater work-family conflict is likely to be experienced by female entrepreneurs” and that “growth facilitating” strategies will be more likely with lower levels of work family conflict.²⁵ The Canadian Association of Family Enterprise regularly features discussions on work/life, multigenerational issues for Canadian family-owned firms.²⁶

FRAME TWO: THE SIX DIMENSIONS FOR FAMILY ENTERPRISING

The second assessment and strategy frame for family enterprising addresses the team component of the Timmons Model. In family enterprising “team” is a much broader and complex concept. It encompasses the family ownership group and the family and non-family entrepreneurial capabilities. The entrepreneurial process cannot occur unless there is alignment in the team’s ownership mind-set and entrepreneurial methods as described above. When the entrepreneurial leader is a family member there is potentially another layer of team complexity around issues such as parent-child relationships, altruistic versus entrepreneurial decision-making, nepotism and competency, family versus personal equity and compensation, and success measures. In essence, the family as team can create more perfect balance in the Timmons Model or can cause imbalance. One key is to stay focused on the opportunity and stress that the team is in support of exploiting that opportunity.

The six dimensions for family enterprising provide family teams with six areas that they can address to assist them in aligning their mind-set and methods and moving up the congruency path toward the enterprising domain. The six dimensions and the corresponding strategic questions apply key entrepreneurial considerations to the family context. As family owners and leaders answer the questions they are creating unity within the team for entrepreneurial action. The six dimensions are as follows:

- ✓ Leadership
- ✓ Relationship
- ✓ Vision
- ✓ Strategy
- ✓ Governance
- ✓ Performance

There is an internal logic and order to the six dimensions. We begin with the *leadership dimension* because leaders are the catalyst for organizational behaviour and have the responsibility for creating the team. Leaders also set the tone for the relationship commitments and culture in the family and organization. The *relationship dimension* is often overlooked, but it is the foundation for organizational effectiveness and health, especially in family teams and enterprising. The *strategy dimensions* flow out of the leadership and relationship dimensions. At the end of the day, strategy and planning are simply extended organizational conversations. Organizational strategy is only as effective as the leadership and relationships in the family and organization. Governance structures and policies simply enable organizations to carry out their strategies. The *governance dimension* must, therefore, follow both ownership and business strategy formulation. In an interesting way, the *performance dimension* is the last dimension because it is an organizational outcome, but it is also feedback that leaders use to frame their leadership actions.

Leadership Dimension—Does Your Leadership Create a Sense of Shared Urgency for Enterprising and Transgenerational Wealth Creation?

Entrepreneurial leaders create a sense of shared urgency in the organization. The goal is to have everyone, from the owners to those carrying out tasks, thinking and acting like competitors.²⁷ Families are traditionally and systemically hierarchical in nature—parent-child, older-younger siblings, male-female—and their family organizations often embody these hierarchies in their leadership models. A transgenerational commitment requires families to move beyond the “great leader” model to the “great group.”²⁸ Family leaders who strive to turn their families into a team based upon the great group philosophy overcome many of the negative caricatures often associated with family business leadership and empower the family and organization to be enterprising.

Leadership Dimension**Diagnostic Questions**

- Do family leaders understand the requirements to be transgenerational?
- Do they develop next-generation leadership?
- Do they move the family beyond the “great leader” model?
- Do they promote a sense of openness and mutuality?
- Do they encourage participation by family members at all levels in the family and organization?
- Do they lead others to think and act like entrepreneurs?
- Do they help the family grow beyond a hierarchical model of leadership to become the “great group”?

Relationship Dimension—Does Your Family Have the Relationship Capital to Sustain Their Transgenerational Commitments?

Effective teams are built upon healthy relationships. We describe healthy relationships as those that build relationship capital and allow efficient interpersonal interactions in the team. Relationship capital is the reserve of attributes such as trust, loyalty, positive feelings, benefit of the doubt, goodwill, forgiveness, commitment, and altruistic motives. Relationship capital is a necessary condition for long-lasting teams and transgenerational families. Now here are two opposite but simultaneously true statements: Families have the natural potential to build relationship capital better than other social groups *and* families have the natural potential to destroy relationship capital more ruthlessly than any other social group. Is this good news or bad news for family enterprising? It depends. Those families who intentionally gain the skills and strive to build relationship capital leverage the natural advantage of family teams. But those families who assume they will always have relationship capital or take their relationships for granted open themselves up to potentially destructive tendencies of families. Families who have relationship capital reserves are more likely to create the dialogue that moves them up the congruence path to the family enterprising domain.

Relationship Dimension**Diagnostic Questions**

- Is your family intentionally building relationship capital?
- Are you investing in the communication and relationship building skills you need to build relationship capital?
- Are there healthy relationships between family siblings, branches, and across generations?
- Does your family have formal family meetings to discuss family ownership and relationship issues?
- Do you experience synergy in your family relationships?
- Do you have a positive vision for working together as a family?
- Do family members see relationship health as part of their competitive advantage?

Vision Dimension—Does Your Family Have a Compelling Multigenerational Vision That Energizes People at Every Level?

A compelling vision is what creates the shared urgency for family enterprising and mobilizes people to carry out the vision. By compelling we mean that it “makes sense” to people in light of tomorrow’s marketplace realities. Often a vision might make sense for the moment, but it does not make sense for the future. For enterprising families, the vision must describe how the family will collectively create new streams of wealth that allow them to be transgenerational. It also has to be multigenerational. It is easy for the different generations to craft their personal visions for the future. Transgenerational families must craft a vision that is compelling to all generations and in a sense transcends generational perspectives. This multigenerational necessity also underscores the importance of establishing participatory leadership and building relationship capital.

Vision Dimension Diagnostic Questions

- Does your family have a vision that makes sense of tomorrow’s marketplace?
- Would all generations describe the vision as compelling?
- Was the vision developed by everyone in the family?
- Does the vision have relevance for your decision making and lives?
- Does your family regularly review and test the vision as an ownership group?
- Is the vision transgenerational?
- Is the vision larger than the personal interests of the family?
- Does the vision mobilize others to create new streams of value?
- Do all family members share in the rewards from the vision?

Strategy Dimension—Does Your Family Have an Intentional Strategy for Finding Their Competitive Advantage as a Family?

We have already said that there is a more intentional and formal application of the entrepreneurial process within the family context. Part of that formal approach is developing strategies for both cultivating and capturing new business opportunities. But for families it means much more. The family’s strategic thinking and planning should be based on determining how to exploit their unique family-based resources and capabilities to find advantages in enterprising. While we will address this more specifically in the next section, it includes things like finding synergies with current assets, leveraging their networks of personal relationships, cultivating next-generation entrepreneurs, and extending the power of their family reputation. Because families tend to take their family-influenced resources and capabilities for granted they often fail to see the opportunities they represent for providing them with a long-term advantage for enterprising.

Strategy Dimension Diagnostic Questions

- How does your family provide you with an advantage in entrepreneurial wealth creation?
- What resources and capabilities are unique to your family?
- Does your family have a formal planning process to direct their enterprising?
- Does your organization have formal systems for cultivating and capturing new opportunities?
- Does your family mentor next-generation family members to become entrepreneurs?
- Does your strategic thinking and planning empower your family to fulfil their trans-generational vision?
- What role does your family play in the strategy process?

Governance Dimension—Does Your Family Have Structures and Policies That Stimulate Change and Growth in the Family and Organization?

Few family leaders would consider that governance structures and policies could actually stimulate growth and change. Most would equate the word *governance* with bureaucracies and, at best, acknowledge that structures and policies are a necessary evil to be tolerated and minimized. But we offer two different perspectives. First the lack of effective governance structures and policies creates significant ambiguity in families and constrains enterprising. Second, when entrepreneurial processes are institutionalized through the governance structures and policies it promotes growth and change activities. For example, when ownership, equity, or value realization is unclear or un-discussable it dis-incentivizes family entrepreneurs. But when financial conversations are part of the professional culture and there are transparent ownership structures, family entrepreneurs are clear on the rules of the game. Governance structures are thus critical to transgenerational entrepreneurship and wealth creation. Danny Miller of HEC Montreal and the University of Alberta, Isabelle Le Breton-Miller of the University of Alberta, and Richard Lester of Texas A&M University find that family owners’ ties to one another lead to entrenchment, resource extraction, and conservative strategies, whereas entrepreneur owners without family ties pursue growth priorities and invest more in the firm.²⁹

- Governance Dimension Diagnostic Questions**
- Does your family view governance as a positive part of their family and business lives?
 - Are your governance structures static or fluid?
 - Do your structures and policies promote family unity?
 - Do your governance structures and policies give an appropriate voice to family members?
 - Do your governance structures and policies assist you in finding your family advantage?
 - Do you have formal processes that institutionalize the entrepreneurial process in your family and businesses?
 - Do your governance structures and policies promote next-generation involvement and entrepreneurship?

Performance Dimension—Does Your Performance Meet the Requirements for Transgenerational Entrepreneurship and Wealth Creation?

The performance dimension is where families clarify whether or not they are really committed to family enterprising. Families who are enterprising are market driven and seek to accelerate their wealth creation through their opportunistic entrepreneurial actions. They have clear financial benchmarks and information for assessing their performance against the market. Lifestyle firms often assume that they are performing well because they are sustaining their lifestyles. Enterprising also implies a process of matching the organization's core competencies with external opportunities in order to create new streams of value. Enterprising families do not rely on past performance as an indicator that they will perform well in the future, nor do they define success simply by the preservation of an asset. Their success measures are their ability to fulfill their transgenerational vision for social and economic wealth creation.

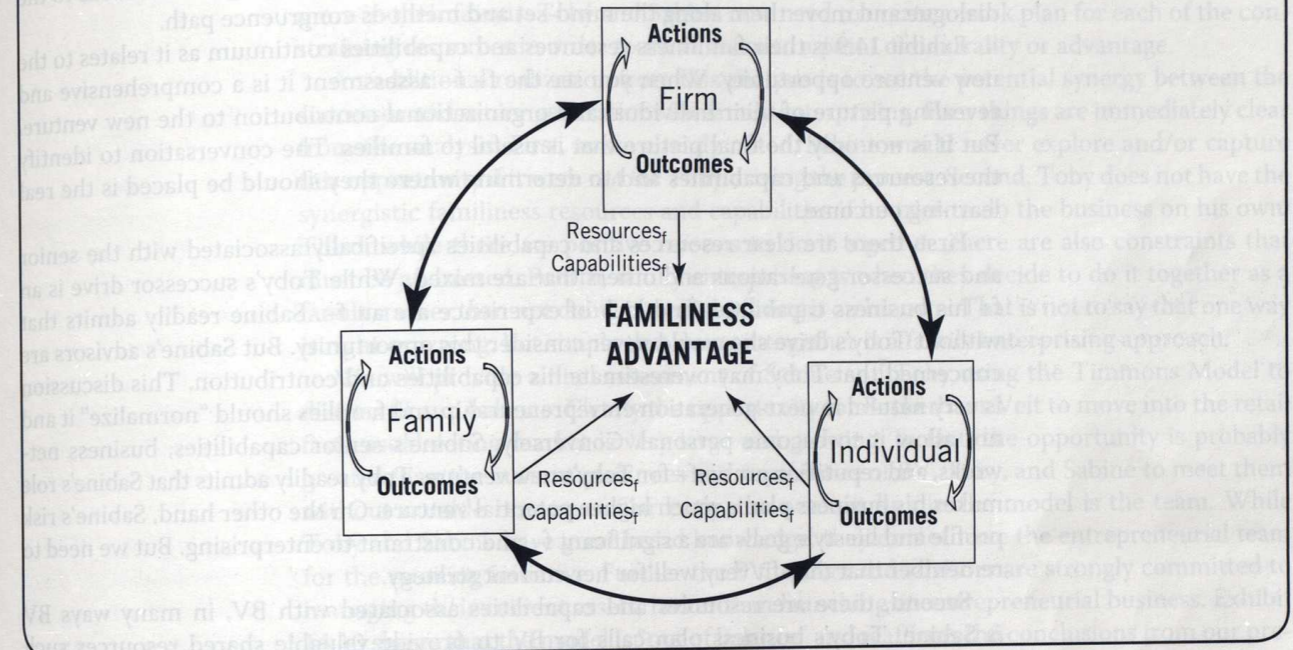
- Performance Dimension Diagnostic Questions**
- Does your family talk openly about financial performance issues or are finances secretive?
 - Are you in lifestyle or enterprising mode?
 - Are your performance and strategies driven by a clear market orientation?
 - Do family owners agree on their risk and return expectations?
 - Are performance expectations clear to next-generation entrepreneurs?
 - Are there clear transparency and accountability structures in relation to meeting performance expectations?
 - Is there family dialogue about performance expectations—growth, dividends, reinvestment, ROE?

FRAME THREE: THE FAMILINESS ADVANTAGE FOR FAMILY ENTERPRISING

All entrepreneurial success and the opportunity to capture above-average returns is premised upon finding an advantage over your competitors. Correspondingly, the potential for finding an advantage is rooted in the distinctive resources and capabilities that an organization possesses. The "resources" aspect of the Timmons Model is where enterprising can get exciting for families. Because every family is unique, they can generate very idiosyncratic bundles of resources and capabilities that can give them an advantage in the entrepreneurial process if they know how to identify and leverage them. We refer to this idiosyncratic bundle of resources and capabilities as their *familiness*.

The Family Systems Model in Exhibit 14.7 shows how the familiness bundle of resources and capabilities is generated. As the vision, history, and capabilities of the collective family interact with the goals, skills, and commitments of the individual family members, and they both in turn interact with the organizational history, culture, and resources of the business entities, it creates this familiness effect or the "f factor" of resources_f and capabilities_f. If we think of the four resource categories in Chapter 13—people, financial, assets, and plan—we can explore how the systemic family influence impacts, changes, or somehow reconfigures

EXHIBIT 14.7 Familiness Systems Model

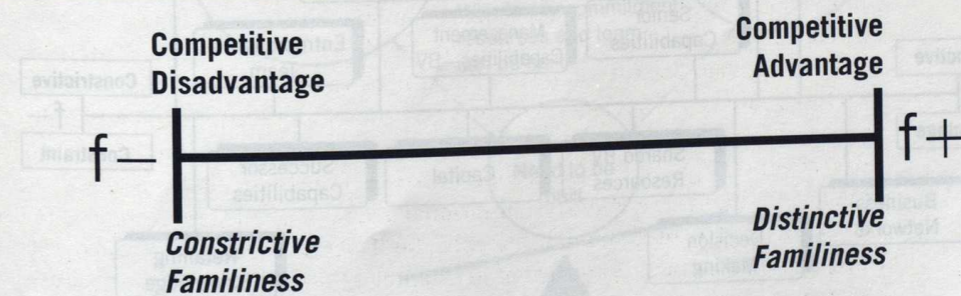


the properties of the resource. We identify familiness resources and capabilities with a subscript "f" such as capital_f, leadership_f, networking_f, knowledge_f, reputation_f.

The familiness assessment frame helps families become realists. What we mean is the assessment process leads families to realistically evaluate where their family influence might be positive and where it might be negative. One of the key insights from this model is the understanding that family cannot be characterized as either good or bad. Rather, family influence must be viewed as one of the inputs that entrepreneurs need to intentionally manage. As family leaders manage the actions and outcomes within the subsystems—family unit, individuals, and business entities—and between the subsystems, they are managing their bundle of resources_f and capabilities_f.

When these familiness resources_f and capabilities_f lead to a competitive advantage for the family we refer to them as "distinctive familiness" or an "f+." When they constrain the competitive enterprising ability of the family we refer to them as "constrictive familiness" or "f-." Exhibit 14.8 allows families to place their resources and capabilities on an assessment continuum. The job of families who desire to be enterprising is to determine how to generate and exploit their distinctive familiness and to minimize or shed their constrictive familiness. When families begin assessing and planning based upon their distinctive and constrictive familiness, they move from an intuitive and informal to the intentional and formal mode of family enterprising.

EXHIBIT 14.8 f+ f- Familiness Advantage



To better understand familiness let's return to the family enterprising decision that Toby and Sabine have to make in regard to Backerhaus Veit (BV). If we analyze the distinctive (f+) and constrictive (f-) familiness in their situation we can bring significant focus to the dialogue and move them along the mind-set and methods congruence path.

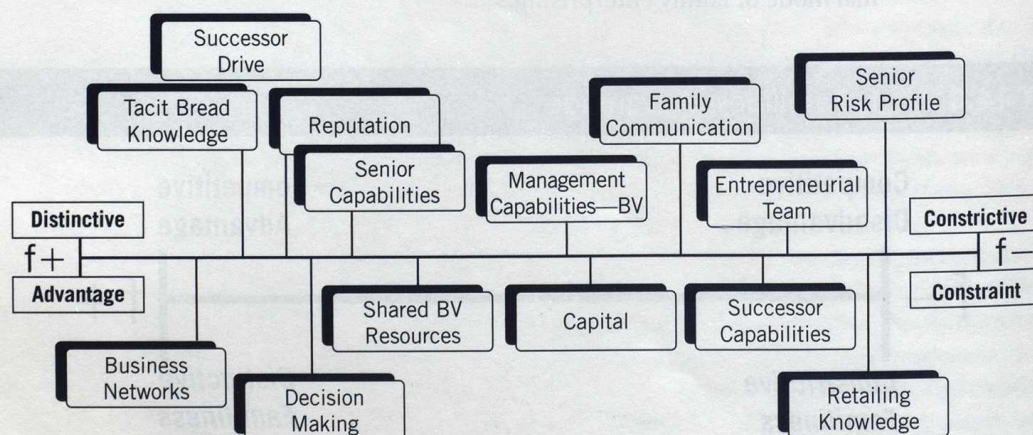
Exhibit 14.9 is their familiness resources and capabilities continuum as it relates to the new venture opportunity. When you see the f+ f- assessment it is a comprehensive and revealing picture of their individual and organizational contribution to the new venture. But it is not only the final picture that is useful to families. The conversation to identify the resources and capabilities and to determine where they should be placed is the real learning outcome.

First, there are clear resources and capabilities specifically associated with the senior and successor generations and others that are mixed. While Toby's successor drive is an f+ his business capabilities and lack of experience are an f-. Sabine readily admits that without Toby's drive she would never consider this opportunity. But Sabine's advisors are concerned that Toby may overestimate his capabilities and contribution. This discussion is very natural in next-generation entrepreneurship and families should "normalize" it and not allow it to become personal. Conversely, Sabine's senior capabilities, business networks, and reputation are an f+ for Toby's new venture. Toby readily admits that Sabine's role makes his business plan a much higher potential venture. On the other hand, Sabine's risk profile and lifestyle goals are a significant f- and constraint to enterprising. But we need to remember that they fit very well for her current strategy.

Second, there are resources and capabilities associated with BV, in many ways BV is Sabine. Toby's business plan calls for BV to provide valuable shared resources such as wholesale bread supply, bookkeeping, used equipment, repair services, and the like. This opportunity creates a very significant resource advantage that we would call "plan_f," because only family members with existing businesses could incorporate these into their plan. The existing management team capabilities are also an f+, but because the existing team is not entrepreneurial (in fact, they see the new venture as a drain on the existing business), we have to give an f- to entrepreneurial team.

Third, there are certain resources that are associated with both Sabine and Toby. Most important is the f+ for tacit bread knowledge. They both know bread making, but the particularly interesting point is to see how advanced Toby is as a young person because he grew up in the bread industry. Correspondingly, the f- for retailing is significant. While Sabine grew up in the retail bread industry (her family has 70 retail bakeries in Germany), she does not know the casual dining bread industry (like Panera Bread Company) and this is the target for Toby's plan. While decision making is an f+, family communication is an f-. The family has great relationships, but in the business setting, they sometimes communicate like mother and son rather than business peers.

EXHIBIT 14.9 Backerhaus Veit f+ f- Analysis



The f+ to f- continuum makes Toby's and Sabine's "pre-launch" work very clear. Managing the f+ to f- continuum is how families build their resources and capabilities bundle as part of formalizing the entrepreneurial process. It is a critical step in getting the odds more in their favour. Toby and Sabine now need to create a work plan for each of the constraining resources in order to move them to a point of neutrality or advantage.

An additional realization from this analysis is to see the potential synergy between the successor and senior generations for family enterprising. Four things are immediately clear from the analysis. First, as we already noted, Sabine would never explore and/or capture this opportunity if it were not for Toby driving the process. Second, Toby does not have the synergistic familiness resources and capabilities if he tries to do the business on his own. Third, while there are positive reasons to do it together, there are also constraints that must be addressed. Fourth, family enterprising is when they decide to do it together as a family, rather than not doing it, or Toby doing it on his own. That is not to say that one way is right or wrong, but simply that doing it together is a family enterprising approach.

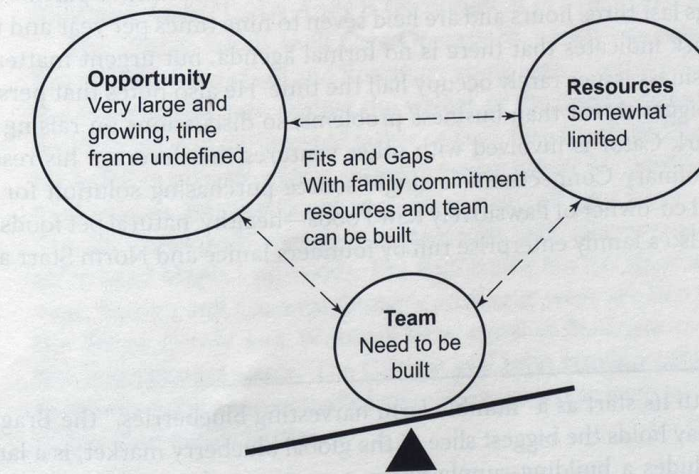
We will provide a final assessment of Sabine and Toby using the Timmons Model to discuss fit and balance. Clearly the opportunity for Backerhaus Veit to move into the retail fast-casual-eating market is very large and growing. In fact, the opportunity is probably greater than the current resources and capabilities of BV, Toby, and Sabine to meet them without outside resources. Currently, the weakest link in the model is the team. While Toby and Sabine have great bread knowledge, they do not have the entrepreneurial team for the retailing initiative. Further the BV leaders and advisors are strongly committed to managing their current assets, rather than launching an entrepreneurial business. Exhibit 14.10 shows that the model is "out of balance" and reaffirms the conclusions from our previous assessment that there is significant pre-launch work to be done to ensure a "fit." If they do this pre-launch work and can get the Timmons Model into balance, however, they have a great high potential venture for the family.

SUCCESSION

Familiness can be an advantage when it comes to succession as well. According to Grant Walsh, Director of KPMG Canada's Centre for Family Business, "History has proven that the influence of the family (active and non-active family members) on the business is too important not to make it one of, if not the major component of the succession process."³⁰

Four generations have managed to keep Butler Byers Insurance Ltd. going for 100 years. The Byers family is at the helm of one of the largest family-owned insurance brokers in

EXHIBIT 14.10 Timmons Model for Backerhaus Veit



Western Canada. Drew Byers, president, indicates that succession was “a very natural process that came about during a restructuring of the companies. . . buying out his father was a natural process with no real drama attached to it.” It was Drew’s desire to take over not a sense of obligation or duty that led him on a long path to president of the firm. The next handover is “way off,” but they are already making certain that the groundwork is “laid early for that process.” The Byers family has recently started a “family council to open the lines of communication that they know are vital to healthy business families.”³¹

The third generation of Teppermans, Andrew and Noah, transitioned to take charge of the family’s four furniture stores in Southwestern Ontario in 2006, becoming president and treasurer respectively. The brothers’ parents Rochelle and Bill Tepperman still maintained important roles in the family business, respectively, chair and vice-chair of the board. The brothers knew the family story well and had an appreciation for their grandfather’s hard work. In 1925, Nate Tepperman, a Russian immigrant began working as a door-to-door peddler; four years later he opened his first store.³² With his wife, Bill took over the business in 1970 when his father drowned while swimming in the ocean. In 1992, the one year old store in Chatham, Ontario, burned to the ground, but this did not halt growth and the Teppermans continued to expand. In 1997, Andrew became general manager of the London, Ontario, store and in 2000 Noah became director of Human Resources, overseeing a staff of nearly 300 employees.³³

The Wilson family has been in business in Nova Scotia for eight generations! Wilson Fuel’s original incarnation was as a distributor of wood and coal for home heating. They moved to heating oil and then became a full service home heating company offering equipment sales and leasing, delivery of furnace oil, propane, and biofuel. Today they have nearly 300 retail gas stations throughout Atlantic Canada. Ian Wilson recounts how he got to where he is now:

I did not see myself working in the family business when I was growing up. I did not grow up sweeping the floors at the business or with any regular involvement. I would occasionally visit the office with my father but never felt any pressure to become involved. I did not work at Wilson Fuel until after achieving a university degree and even then, it was a summer job to earn money for further education. Once I became involved with the business I did not really think about taking a leadership role. After seven years of work and at the age of thirty, I was thrust into the role when my father, the president of the company, died unexpectedly. I was the only family member who was active in a day to day role at the business and I volunteered to become the president of the company.³⁴

Family lore has it that Jack Cator started in the meat business with a sledgehammer and knife. He would buy a steer, butcher it in a barn, and sell the meat. His son Ralph Cator founded Cardinal Meat Specialists Ltd. in 1966. From the farm to butcher shops in Bowmanville and Toronto, Ontario, to burger production in Mississauga, Ontario, Cardinal has evolved its products and processes. Jack’s sons Mark and Brent have played important roles in the family business.³⁵ The Cator family has been holding family councils for 15 years—a dozen family members plus spouses; “We even included prospective spouses,” said Mark Cator. Not all members of the council are active partners in the company. Meetings last three hours and are held seven to nine times per year and usually end with a meal. Mark indicates that there is no formal agenda, but urgent matters are handled first and business issues rarely occupy half the time. He also notes that personal issues can become a bigger threat than business problems, so discussions on raising children are apropos.³⁶ Mark Cator is involved with other ventures that leverage his resources: he is owner of Coolinary Connection—“a single source purchasing solution for foodservice operators” and co-owner of Pawsitively Raw Foods—healthy, natural pet foods. Pawsitively Raw Foods is also a family enterprise run by founders Janice and Norm Starr and their daughter Lisa.

Succession? Maybe.

With its start as a “humble farm harvesting blueberries,” the Bragg Group of Companies today holds the biggest slice of the global blueberry market, is a large producer of carrots, includes a building-supply chain, a company that reclaims airplane de-icing fluid, and

Canada’s largest privately owned cable-TV company. John Bragg is the fifth generation and at age 69 has no succession plan and does not know when he will retire. In fact he has not decided if control will pass to one of his four children, all of whom are involved in the Bragg Group, or an outsider. John Bragg knows he cannot control the fate of the company, but would prefer to see the Bragg Group stay together under family control. Finally he says, “I want them to think of themselves as trustees, rather than inheritors. If it’s an inheritance, you think it’s for you. If you’re a trustee, you know it’s for the next generation.”³⁷

Succession? No.

For Kenneth Levene, the third generation owner of his family’s Crescent Furniture, the solution to succession was to exit the business and sell the chain. And he has no regrets, confident that he made the right decision, particularly given the rise of the big box stores and national chains. According to Levene, “Succession planning can be difficult, especially when two adult children who are close in age are involved in the process. . . always expect the unexpected and have some provisions for unanticipated events. In many cases with a family business, those who started the business have a driven personality and are successful at the beginning; however, often the qualities and skills needed to start a business may not be adequate once the business grows and becomes established.”³⁸ Kenneth Levene went on to focus on other matters of interest and 21 years after selling his family’s furniture business he donated \$4 million to the University of Regina’s Graduate School of Business.

Succession Woes

The Avedis Zildjian Company is a cymbal manufacturer founded nearly 400 years ago in Turkey by an Armenian named Avedis Zildjian. For centuries, the family tradition was to keep metallurgical secrets and pass the business to one heir. In 1908 Avedis Zildjian III and his uncle Aram Zildjian began manufacturing cymbals in Quincy, Massachusetts, around 1928 competing with K. Zildjian company back in Turkey! In 1968 Avedis Zildjian Co. bought K. Zildjian Co. and all European trademarks and opened production in Meductic, New Brunswick, to complement production in Massachusetts and Istanbul, Turkey. In early 1977 Armand Zildjian, Avedis Zildjian III’s eldest son, was appointed president. Conflict ensued with his brother Robert. Avedis Zildjian III died in 1979 at age 90 and in 1981 Robert started making Sabian cymbals in the Meductic facility. Armand passed the secrets and family namesake to his daughters Craigie and Debbie and now their daughters Cady, Emily, and Samantha are involved in the family enterprise.

Robert Zildjian, son of Avedis Zildjian III carried the family tradition though giving up the name. Avedis broke tradition by passing secrets to both his sons Armand and Robert. After a family feud and legal proceedings Robert became a rival of his older brother. The name Sabian is derived from the first two letters of the names of his three children Sally, Billy, and Andy. Today Andy is the president of Sabian and Robert serves as chairman.

The Phelan family took Cara Operations, which was founded in 1883, public in 1968. But in 2004 sisters Gail and Rosemary along with a deceased sister’s daughter Holiday took the company private against the wishes of the sisters’ estranged brother Paul. It was the death in 2002 of 84-year-old father of Gail, Rosemary, and Paul that caused the ill feelings. He failed to provide a clear succession plan before his health deteriorated. A full-on family feud ensued. But this is not an isolated case, within Canada, or even within this industry. The McCain family split over control over their empire resulting in one brother breaking off to head Maple Leaf Foods. The Bata family too has squabbled over the family shoe business. Eaton’s and Canwest Global’s economic woes are tied to family turmoil. Meanwhile the Sobey family and Westons have stuck to business as they battle in the competitive supermarket space. The Comrie and Leon families behind the Brick Warehouse and Leon’s Furniture respectively have also managed to keep an eye on economic competition rather than family battles.

CONCLUSION

For those business families who would like to act more entrepreneurially and become an intentional enterprising family that has multiple generations seeking higher potential opportunities we suggest that there are four strategic shifts that may need to occur:

- From lifestyle firm that has the goal of personal comfort to an enterprising family committed to transgenerational entrepreneurship and wealth creation.
- From an intuitive family business that “kicks around” (as one family entrepreneur described it) to see what new opportunities turn up to an intentional entrepreneurial process that seeks to generate and capture new opportunities.
- From a senior-generation entrepreneur who does it to a successor-generation entrepreneurial process and team that create opportunities for others to do it.
- From a “low potential” entrepreneurial family that creates one-off businesses as they can to a “higher potential” entrepreneurial family that mobilizes resources to create transgenerational wealth.

Chapter Summary

1. We began by demonstrating the significant contributions families make to the economy and entrepreneurial process. It is often overlooked that the majority of the businesses worldwide are controlled and managed by families, including many of the very largest businesses that we normally do not associate with family.
2. Families play a diverse number of formal and informal roles in the entrepreneurial process. We described them as (a) the family-influenced start-up, (b) family corporate venturing, (c) family corporate renewal, (d) family private cash, and (e) family investment funds.
3. Family enterprising was defined as the proactive and continuous search for opportunistic growth when expansion is neither pressing nor particularly obvious. The outcome of family enterprising is transgenerational entrepreneurship and wealth creation through balance in the Timmons Model.
4. The mind-set continuum assesses the family's risk profile and those interested in a move from an operational to a financial investor strategy. The methods continuum assesses the organizational behaviour of leaders and organizations and requires a move from managerial to entrepreneurial strategies for enterprising.
5. There are six dimensions for family enterprising that were described as antecedents from the entrepreneurship literature: leadership, relationship, vision, strategy, governance, and performance. The chapter presented key questions on each dimension to assist families in becoming more enterprising.
6. We defined the familiness of an organization as the unique bundle of resources and capabilities that result from the interaction of the family and individual family members with the business entities. Families can have positive and negative family influence, which we described as an f+ or f-.

Study Questions

1. What are the entrepreneurial implications of not appreciating or understanding the role and contribution of families to the economies of our communities and countries?
2. Describe the advantages of a more formal approach on each of the roles families play in the entrepreneurial process. Give a few contrasting examples from a family firm with which you are familiar.
3. Define family enterprising, familiness, and relationship capital and relate each of them to the Timmons Model of the entrepreneurial process.
4. How do the six dimensions for family enterprising relate to one another? How do they enhance family enterprising? Describe how the six dimensions can be used to stimulate positive family dialogue.

5. If a family is trying to find their competitive advantage, how can the familiness assessment approach help them? How is the familiness approach a more formal application of the entrepreneurial process? How can the familiness approach change the family dialogue?
6. Given the familiness assessment of Backerhaus Veit in this chapter, describe why Sabine should or should not partner with Toby to implement his business plan. Describe the familiness action steps that they should take if you say they should launch the business. Describe the familiness reasons for why they possibly should not launch the business.

Mind Stretchers Have you considered?

1. Like a bumblebee that should not be able to fly, it is said that family businesses should not be able to compete. Why might this be a true statement? Why are families so economically dominant worldwide if they are like the bumblebee?
2. How can a lifestyle firm be both a fine choice for a family and a dangerous choice for a family at the same time?
3. Give 10 reasons why dialogue can be harder for families than non-families even though families are supposed to have closer relationships.
4. If you were a Bronfman successor-generation family member, what expectations would you have about your future?
5. Watch the documentary *Born Rich* by Jamie Johnson (heir to the Johnson & Johnson fortune). What did you learn about wealth and entrepreneurship? Are wealthy families the same as entrepreneurial families? Is Jamie Johnson entrepreneurial? Is Paris Hilton entrepreneurial? Is this the same as family enterprising? What are their family legacies?

EXERCISES

Determine where your family is on the mind-set and methods continuum and what familiness advantage you might have for enterprising. Fill out the assessment surveys, plot your

family group on the Family Enterprising Model, and fill out the resources and capabilities continuum.

Mind-set Continuum

The mind-set continuum establishes the family's financial risk and return expectations and their competitive posture in relation to the marketplace. There are no right and wrong answers. The point of the assessment is to surface family members' beliefs and fuel the family dialogue.

Using the assessment continuums, have the family member shareholders and future shareholders answer the questions on the mind-set continuum listed below. Circle the number between the two statements that best reflects the strength of your belief about the family as a shareholder group. Total scores are between 12 and 84 reflecting views from the most traditional to the most enterprising.

In general, family member shareholders...

Have a strong proclivity for low-risk businesses and investment opportunities (with normal and certain returns).	1 2 3 4 5 6 7	Have a strong proclivity for high-risk business and investment opportunities (with chances for high returns).
Would sacrifice a higher return to preserve the family's legacy business.	1 2 3 4 5 6 7	Are willing to sell and redeploy their assets to find a higher return in the market.
Tend to think about cultivating our current businesses for current returns.	1 2 3 4 5 6 7	Desire to grow by creating new revenue streams with higher possibilities for returns.
Have a commitment to operating the business and providing job opportunities for family.	1 2 3 4 5 6 7	Have a commitment to mentoring next-generation entrepreneurs to create new streams of value.
Feel we have a good business model that will take us into the future.	1 2 3 4 5 6 7	Feel we should continuously revisit the assumptions of our business model.
Feel that our current businesses and products will serve us well in the future.	1 2 3 4 5 6 7	Assume that a significant percentage of our businesses will become obsolete.

Desire to avoid debt and grow with internally generated cash as they can.	1 2 3 4 5 6 7	Are willing to leverage the businesses to grow and find higher returns in the market.
Desire to increase their financial ability to provide distributions and/or liquidity.	1 2 3 4 5 6 7	Desire to reinvest more aggressively for faster growth and higher returns.
Desire to grow within our current financial and equity structures in order to ensure control over our destiny.	1 2 3 4 5 6 7	Are willing to use alliances, partnerships, share equity, or dilute share positions in order to grow.
Would describe themselves more as a conservative company meeting their family's financial and personal goals.	1 2 3 4 5 6 7	Would describe themselves as a risk taking group seeking higher total returns for the family as investment group.
Would describe our business models and strategy as making us steady rather than opportunistic.	1 2 3 4 5 6 7	Are willing to be innovative in our business models and structures in order to be opportunistic.
Believe that a steady and consistent approach will allow us to fulfill our family's vision and goals for the future.	1 2 3 4 5 6 7	Believe that bold, wide-ranging acts are necessary to achieve our family investment objectives in today's environment.

TOTAL:

Methods Continuum

The methods continuum establishes the organization's entrepreneurial orientation and actions. It reflects the beliefs of the shareholders and stakeholders on how the leaders incite entrepreneurship in the organization.

Using the assessment continuums, have the family member shareholders and future shareholders answer the questions on the methods continuum listed below. Circle the number between the two statements that best reflects the strength of your belief about the family as a shareholder group. Total scores are between 12 and 84 reflecting views from the most traditional to the most enterprising.

In general, senior leaders in our family organization(s)...

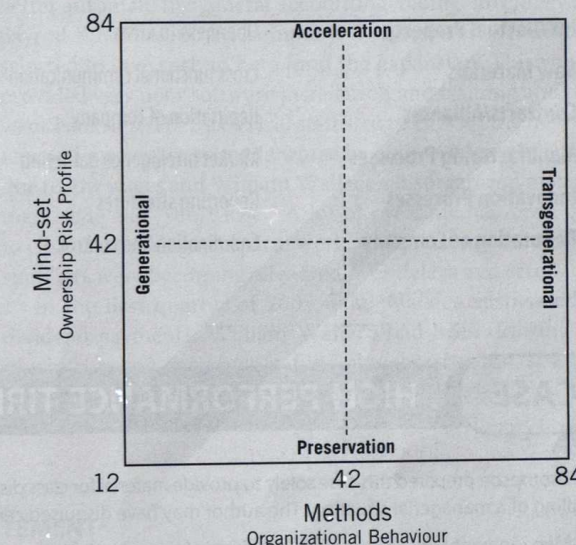
Spend their time nurturing the existing businesses.	1 2 3 4 5 6 7	Pay a disproportionate amount of attention to new business opportunities.
Place a strong emphasis on pursuing returns by reinvesting in tried and true businesses.	1 2 3 4 5 6 7	Place a strong emphasis on searching for and capturing new business investment opportunities.
Have pursued no new investment opportunities outside of our core operating arena (in last 5 years).	1 2 3 4 5 6 7	Have pursued many new investment opportunities beyond our core operating arena (in the last 5 years).
Believe our core competency is in managing efficient businesses.	1 2 3 4 5 6 7	Believe our core competency is in innovating for opportunistic growth.
Have made minor changes in our businesses, products, services, markets, or business units during the current generation of leaders.	1 2 3 4 5 6 7	Have made significant changes in our products, services, markets, or business units as the market required it.
Typically respond to actions that competitors or the market initiates.	1 2 3 4 5 6 7	Typically initiate actions and competitive change to lead the market and competitors.
Are generally moderate to slow in adopting new technologies and technological processes in our industry.	1 2 3 4 5 6 7	Are often early in investing to develop or adopt new technologies and technological processes in our industries.
Tend to avoid competitive clashes preferring friendly "live and let live" competition.	1 2 3 4 5 6 7	Typically adopt a competitive "undo-the-competitor" posture when making investment decisions.
Are more intuitive and informal in how the organization thinks seeking or capturing new opportunities.	1 2 3 4 5 6 7	Have established formal structures and policies to institutionalize the entrepreneurial process in the organization.
Rely on family leaders to know the markets and customers and get the information to the organization.	1 2 3 4 5 6 7	Have more formal plans and approaches to how they gather and disseminate market intelligence.

Rely on family leaders to set the tone and ensure that the organization is competitive through time.	1 2 3 4 5 6 7	Encourage and empower people at every level of the organization to think and act like competitors.
Typically adopt a cautious "wait and see" posture in order to minimize the probability of making costly investment decisions.	1 2 3 4 5 6 7	Typically adopt a bold, aggressive posture in order to maximize the probability of exploiting potential investment opportunities.

TOTAL:

Family Enterprising Model

Plot your score totals from the mind-set and methods assessment surveys above. The lowest possible score is a 12 and the highest possible score is an 84. Plotting the scores provides you with a visual basis for your family dialogue. Does the plotted score rightly describe your family? Is your family on the "congruence path"? Does everyone agree on where your family is on the model? Develop strategies to move your family on the model if necessary.



Familiness f+ and f- Continuum

Identify where the family influences on your resources and capabilities are part of a competitive advantage (f+) and a competitive constraint (f-). You can conduct this analysis on many levels. The "meta" analysis would be of the larger family group as a whole, while the "micro" analysis would be of a particular business unit, or in relation to a specific innovation or new venture (such as the Backerhaus Veit example in the chapter). Identify the unit of analysis you are assessing and list the f+ and f- resources and capabilities.

Identify Unit of Analysis	
Resources and Capabilities (f+)	Resources and Capabilities (f-)

Plot the + and - resources and capabilities from the chart on the continuum below. Place them in position relative to one another so that you see a picture of how the resources and capabilities are related.

A list of potential resources and capabilities to choose from:

Successor Leadership	Experienced leadership	Entrepreneurial processes	Team
Land	Treatment of employees	Firm specific knowledge	Patient capital
Location	Conflict resolution	Firm specific skills	Debt structure
Cash	Effective communication	Leadership development	Strategic alliances
Access to Capital	Decision making	Managerial talent	Compensation
Distribution Systems	Learning environment	Employee productivity	Strategy making and planning
Intellectual Property	Openness to ideas	Network of relationships	Information flow
Raw Materials	Cross functional communication	Employee commitment	Organizational culture
Contracts/Alliances	Reputation of company	Personal values	Unified beliefs and goals
Manufacturing Processes	Market intelligence gathering	Flexible work practices	Time horizons
Innovation Processes	Reporting structures	Trustworthiness	Brand name
Reputation of Company	Coordination and control	Training	Governance structure

CASE**HIGH PERFORMANCE TIRE**

Richard Ivey School of Business
The University of Western Ontario

IVEY

Research and
Development

Dan Thompson prepared this case solely to provide material for class discussion. The author does not intend to illustrate either effective or ineffective handling of a managerial situation. The author may have disguised certain names and other identifying information to protect confidentiality.

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Instruction

Assume the position of Jenny Chen and prepare a two-page memorandum that analyzes the financial condition of High Performance Tire and makes recommendations for the future. Specifically, the memo should be divided into sections describing liquidity, asset management, long-term debt ability, and profitability. A final recommendation section should discuss what Jane Wallace should do to address the problems at High Performance Tire and what might be done in the longer term relating to the management of the company.

High Performance Tire (HPT) Ltd. is a retail tire chain with a network of company-owned stores in the B.C. Interior. It was formed by Harry and Edna Wallace in 1952 and was passed on to their daughter Jane Wallace in the late 1960s. Jane Wallace maintained control of this family-owned business until 2001, at which time she transferred the responsibility for day-to-day management to her son William.

By early 2004, HPT was having difficulties and Jane Wallace decided to become actively involved again in the company to turn things around. Her first action was to hire Jenny Chen, CA, CFA, CMC from the accounting firm of Dexter, Mathews & Jones to review current operations and make recommendations.

William's Tenure

William Wallace had led a privileged and carefree life, and his mother did not feel that he would be able to operate the business successfully, but she had little choice if she wanted to keep the business under family control. Despite his MBA with double concentrations in marketing and finance from a major university, Jane Wallace did not feel that her son had the patience and general business acumen to operate such a sizeable business at this time. She was also fearful that he would recklessly try to expand the business and lose interest once things did not go exactly as planned.

Upon taking over operations in late 2001, William Wallace immediately began to put a major expansion plan into effect that he had worked on as the graduating project in his MBA. This plan had two major focal points. One was to expand the number of retail tire outlets in smaller communities and the other was to diversify the products provided at each of the outlets to include higher margin automotive maintenance services including fluid changes, tune-ups, alignments, batteries and brakes. A number of tire chains in Canada had followed a similar strategy of diversification and were successful.

In 2001, all the outlets were expanded to include bays for maintenance work as well as tire installation. Sales of these

new services were poor over the next two years. To have their fluids changed, customers had to leave the vehicle and wait for a considerable period of time in the customer reception area. An appointment was also required. This was not as convenient as other lube stores where patrons did not need either an appointment or to get out of their vehicles and generally could have the work done in less than 20 minutes. For more complicated maintenance work, like tune-ups and alignments, HPT's mechanics had a reputation in the community of not being highly qualified. There had been a number of cases that received extensive coverage in the local press, where HPT mechanics had made mistakes that caused major damage to the vehicles they were working on. Instead of admitting they were at fault and keeping public relations damage to a minimum, HPT was taken to court a number of times and forced to pay the repair costs.

In addition to its sales outlets in Kamloops, Kelowna, Penticton, Prince George and Vernon, in 2002/2003 additional stores were added in Revelstoke, Golden, Chase, Williams Lake and Salmon Arm. By early 2004, all outlets were underutilized. Canadian Tire, as well as local service stations with strong ties to the community, lowered their prices and improved their customer service and proved to be formidable competitors.

Prior to 2001, HPT Ltd.'s workforce was composed of a number of experienced tire professionals who had been with the company for years. When William Wallace took over operations, he decided to try to increase profitability by cutting wages

and benefits. The result was that most of these professionals left and were replaced by younger, less experienced staff with much poorer customer service skills. The tire sales staff was taken off salary and put on straight commission as a means of increasing sales. The sales staff did become "hungrier," but the more aggressive practices alienated many customers.

In order to increase gross profits, HPT began buying more no-name tires from overseas suppliers. These sales generated a higher gross profit margin for the retailer initially and the customer did receive a lower price, but quality concerns due to shorter tread life and blowouts soon caused sales and margins to fall.

A new accounting system was purchased in 2002 in order to better automate the general accounting, billing, inventory and payroll functions of the company. The low-cost vendor was selected to save cash to help fund the expansion. This vendor provided very poor software installation and training and then went bankrupt. HPT's clerical staff struggled with the new system and matters were made worse by high employee turnover due to low wages and William Wallace's disorganized management style and "short fuse." A lot of overtime had been used to clear the backlog of clerical work, while customers, staff and suppliers were becoming alienated over delays and errors.

In the first quarter of 2003, Jane Wallace suspended all dividend payments. William Wallace had been drawing too much from the company to fund the construction of a new home and to purchase a new luxury car.

Financial Statements**INCOME STATEMENT¹**
For Year Ending December 31

	2003	2002	2001
Sales	6,500,000	5,550,000	4,050,000
Cost of Goods Sold	3,965,000	3,385,500	2,430,000
Gross Profit	2,535,000	2,164,500	1,620,000
Depreciation	485,600	287,200	158,500
Other Operating Expenses	1,690,000	1,387,500	1,012,500
Earnings Before Interest and Taxes	359,400	489,800	449,000
Interest	331,956	160,125	50,645
Earnings Before Taxes	27,444	329,675	398,355
Income Taxes	10,978	131,870	159,342
Net Income	16,467	197,805	239,013

BALANCE SHEET
For Year Ending December 31

	2003	2002	2001
Cash	57,000	110,000	155,000
Accounts Receivable	95,000	59,000	45,000
Inventories	1,050,000	723,000	540,000
Prepaid Expenses	42,000	36,000	25,000
Total Current Assets	1,244,000	928,000	765,000
Property, Plant and Equipment	7,288,800	4,819,200	3,245,000
Less: Accumulative Depreciation	2,432,800	1,947,200	1,660,000
Net Property, Plant, Equipment	4,856,000	2,872,000	1,585,000
Total Assets	6,100,000	3,800,000	2,350,000

¹All funds in Cdn\$ unless otherwise noted.

BALANCE SHEET (continued)
For Year Ending December 31

	2003	2002	2001
Accounts Payable	440,556	165,000	99,000
Line of Credit	570,638	353,000	267,435
Current Portion of Long-term Debt	325,346	162,000	41,461
Total Current Liabilities	1,336,540	680,000	407,895
Long-term Debt	3,256,460	1,620,000	414,605
Equity	1,510,000	1,500,000	1,527,500
Total Liabilities and Equity	6,100,000	3,800,000	2,350,000

Financial Situation

HPT has a \$600,000 line-of-credit with the Toronto Dominion Bank. The limit could be extended, but only if the bank has sufficient loanable funds and the company is in good financial condition. The company must maintain a current ratio of 1.5, a times interest earned ratio of 5.0, and can only borrow up to 50 per cent of the value of its accounts receivable and inventory. The company negotiates separate term loans and mortgages to finance its capital purchases. Under Jane Wallace's leadership, HPT had an excellent relationship with its bank, but William's poor management and interpersonal skills had put this relationship in jeopardy.

Retail sales were paid for in cash or by credit card so there were no accounts receivable. Sales to businesses made up about 40 per cent of sales and were on terms 2/10, net 30 with negligible bad debts. HPT bought its tires from the various manufacturers on terms 2/15, net 30, which was the norm in the industry. Interest was charged on overdue accounts at 12 per cent per annum and many retailers who got too far in arrears were put on a cash-and-carry basis.

A slowdown was forecasted in the local economy in 2004 due to the forest fires that took place in the summer of 2003 and the collapse of the Canadian beef industry caused by the discovery of mad cow disease in neighbouring Alberta.

The following industry average ratios (based on year-end figures) were available for companies that sold both tires and automotive maintenance services:

Current Ratio	1.90
Cash Ratio	.51
Inventory Turnover in Days	60 days
Accounts Receivable Turnover in Days	30 days
Accounts Payable Turnover in Days	15 days

Fixed Assets Turnover	3.19
Total Assets Turnover	2.00
Debt Ratio	30.00%
Times Interest Earned	14.63
Cost of Borrowing	6.50%
Gross Profit Margin	42.00%
Operating Profit Margin	12.00%
Net Profit Margin	6.71%
Return on Assets	13.42%
Return on Equity	19.17%

HPT's marginal tax rate was 40 per cent.

Turnaround

Jenny Chen had just returned to her downtown office at Dexter, Mathews & Jones from a meeting with Jane Wallace in February, 2004—Chen was feeling quite sad. Jane Wallace had worked very hard the last 35 years managing the family business as a legacy to her beloved parents who had passed away in a car accident prior to her taking control in the late 1960s. At 64, she was in need of a rest after a long career building HPT, but her son seemed to have mismanaged the business terribly during his short tenure and she now had to take back control before things got even worse.

Jane Wallace asked Chen to prepare a comprehensive review of HPT's operations with a focus on why things had deteriorated so much and what she might do to improve operations. Knowing, quite reasonably, that she could not continue running HPT indefinitely, Jane Wallace also asked Chen to make further recommendations on the future management of the company.



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C · H · A · P · T · E · R

15

LEADING THROUGH TROUBLE, THE HARVEST, AND BEYOND¹

Another time, we had a cart go up in flames, and we went out on another cart, which we wrecked by running it into the cart that was on fire.

Mike Weir, Golfer

It's better to burn out than it is to rust.

Neil Young, Musician

Upon completion of this chapter, you will be able to:

- | | | |
|------------------|---|------------------|
| RESULTS EXPECTED | <ol style="list-style-type: none"> 1. Identify specific signals and clues that can alert entrepreneurial leaders to impending crises, and describe both quantitative (ratio analysis) and qualitative symptoms of trouble. 2. Describe the principal diagnostic methods used to devise intervention and turnaround plans, and identify remedial actions used for dealing with lenders, creditors, and employees. 3. See the importance of first building a great company and thereby creating harvest options. | RESULTS EXPECTED |
| | <ol style="list-style-type: none"> 4. Explain why harvesting is an essential element of the entrepreneurial process and does not necessarily mean abandoning the company. 5. Identify the principal harvest options, including trade sale, going public, and cash flow ("capital cow"). 6. Discuss the importance of creating a longer-term legacy from personal and family wealth by pursuing philanthropic activities and contributing to community renewal. | |

This chapter tackles issues that generally arise in the latter stages of a venture's existence. The first part of this chapter deals with problems after time has elapsed and the venture has made it through growing pains. With experience comes both comfort and an array of problems associated with apathy. Alternatively the entrepreneur may come to the realization that what served the enterprise so well in the past may now be a source of sub-par performance. The second part of this chapter deals with the harvest—the end of one venture—an action that may lead to a foray into another endeavour.

Perhaps the analogy of the automobile serves to demonstrate the service period and final kilometres of a vehicle are similar to events for an enterprise. A new car may require a period of breaking in—any number of things might go wrong early on—but once those bugs are ironed out, it should run fine for quite a while. Later on—depending on how well it's maintained and how hard it's driven—the car comes to the end of its useful life with