



N.C.I. Solutions Limited

Playing Fair Can Get Rough-Part 2

By Michael Lobraico

The following is based on one of Michael Lobraico's clients, the Poole family. All of the names and telling details have been changed to preserve client privacy

After resolving the months-long wrangling among their children, Tony and Lucy, the second-generation owners of the Poole family HVAC business, figured the hard work in their transition strategy and succession planning was behind them. Unfortunately, this misjudgment was about to threaten all the progress we had made.

A few months ago, Tony and Lucy called a family council meeting to make an important announcement. When I met with them alone in their boardroom before the meeting, they appeared relaxed for the first time in a long while. Recently their eldest son James had peacefully agreed to leave the business, paving the way for little brother, John, to take over. And John in turn had agreed to a joint presidency with his younger sister, Sarah, after she'd worked as a lawyer in the green sector for a few years.

One of the keys to solving the disputes had been the concept of fair vs. equal. Instead of the kids inheriting an equal share of the business, a more sensible and fairer arrangement had been agreed upon in which James would get the cottage while John and Sarah would get the business. And any discrepancies would be made up with other assets and insurance monies. As Lucy explained, everyone was now getting along great and working well together. "This is one of the reasons we called this meeting."

"The other main reason," Tony said, "is we're thrilled with John and Sarah's plan to reinvent this business as a leader in the green sector." Tony looked to his wife. "And that's why we feel we would like to step out of the busi-

ness sooner rather than later—start transferring it to John and Sarah and retire."

Tony and Lucy had previously wanted to stay on for a few more years, and so their news surprised me. However, I was used to this kind of sudden change of plans with family businesses. Often when tensions are eased and peace is reestablished, people discover goals and

dreams they hadn't let themselves indulge in before. In this case, the couple wanted to travel through Europe, spend a few months a year there while they were still young enough to enjoy it. They intended to announce their plans at today's meeting.

I told Tony and Lucy I admired their plans but had some concerns that I'd like to discuss with them before sharing the news with the whole family. Tony shook his head. He and Lucy were eager to get

moving on things.

"But this doesn't just affect you and Lucy as shareholders. It has implications for the business and the family," I said. "And it's best we look deeper into the feasibility of your plans and how they'll affect everything before presenting to the council today. Otherwise we might reignite fireworks."

"I think we're past the fireworks stage," Lucy said. "The kids will be happy to take over the business in full."

Before I could plead my case any more, John, James, Sarah and Uncle Stan, a minority shareholder, filed into the boardroom.

After Tony made the announcement, John reared his head back. "How are you planning on doing this?"

"...one of the principles of fairness is that it must apply to all the generations."

“You don’t need us anymore. We’re not going to be much help with the green strategy. So we want to start taking our money out of the business—the equivalent of our salaries. A combination of consulting and directors’ fees and share purchases. You and Sarah will own the business outright in a few years. And as we discussed, James will get the cottage.”

John looked to me. “The business can’t afford that. This new strategy is going to require some major investment.”

“You can finance the investment,” Tony said.

“That’s how we expanded through the eighties and nineties.”

Sarah spoke up now. “The cottage is under chattel. It’s not free and clear. It’s how we’re financing the company right now. It can’t go to James yet.”

“Hold on. I gave up owning shares for that cottage,” James said.

It was my turn to introduce another issue. “Tony, did your annual payout take into account all the benefits you and Lucy would be giving up when you leave the business?”

When he asked me to clarify, I pointed out how the company subsidized their cars, gas, insurance, meals. If all that wasn’t accounted for, he and Lucy were likely to need more for their retirement.

Everyone in the room continued to voice their numerous concerns and when the feasibility of Tony and Lucy’s plan finally fell apart, Tony raised his voice. “We’ll sell the business then.”

Everyone’s face fell.

“Lucy and I have sacrificed a lot for this company and family, and it’s our time now.”

“Dad,” John said, “you and Mom deserve to live the life you want, but we need a sound plan. Think about what you’re saying. In a few years, with our new strategy, this business will be worth three times what it is today. You’d be giving all that up. And besides, this is my whole life too. I’m not going to watch it fall into someone else’s hands. I honestly don’t know if…” His voice had started to shake and he trailed off.

I raised my hands to settle everybody. “When we originally started working out all the problems, the focus was on the third generation and how to make things fair. But one of the principles of fairness is that it must apply to all the generations.” Looking at Tony and Lucy, I said,

“You’ve taken a backseat for a long while. A lot of parents do. And while that’s helped us sort things out with the children, you’re entitled to your share of fairness too. But we have to make sure the pendulum doesn’t swing too wildly here. I certainly don’t want you to give up your retirement dreams, but we have to look at what’s possible—and what’s possible in the context of fairness for all.”

“What are you suggesting?” Tony asked.

“True fairness usually means that everyone has to compromise—give up something so that the larger benefit is shared among the entire family. John could very well be right—selling now might not be the wisest choice. And if you’re willing to give John a chance with his strategy, and perhaps look at easing into retirement gradually, you might find you’re able to maximize the value you’ve created in the business, which will ultimately give you more to retire on. But you have to be happy with whatever you decide.”

Once everyone’s emotions had settled, Tony and Lucy admitted they had prematurely attached themselves to the idea of leaving the business, and agreed to compromise to create a new plan so that everyone got a fair deal.

Over the next few weeks, with their team of accountants and lawyers, the Poole family worked out a transition whereby Tony and Lucy would gradually extract themselves from the business, taking increasingly longer periods of time off each year until within eight years they were in full retirement mode. To help finance the buyout and the new green strategy Uncle Stan reinvested some of his capital. While the cottage would have to remain as chattel for a number of years, James was given priority use of it and was bequeathed it in the will.

When I last spoke to Tony, he told me they were experiencing a surge of new business, largely fueled by the bump in morale that the new harmony had inspired. He also mentioned he and Lucy were leaving in a couple of weeks for an extended vacation in Rome. They couldn’t wait.

Michael Lobraico is the founder of NCI Solutions, a company specializing in helping family businesses maximize their potential. For further information, visit his Web site at www.nci-solutions.com.

2880 Queen Street East, Suite 122
Brampton, ON L6S 6H4

T: 905-846-8162 F: 905-846-1895

E: mlobraico@nci-solutions.com

www.nci-solutions.com



N.C.I. Solutions Limited