

Brought to you by the Business Families Centre at the Sauder School of Business and the Vancouver Chapter of the Canadian Association of Family Enterprise.

LEGACY MATTERS

Herding Cats and Sleeping Dogs: Resistance to Change

By J. Joseph Paul, MS

I am mixing metaphors in my title to focus our minds on resistance to change that is based in a family's Intangible Liabilities. Most families in business have good advisors that help them manage their tangible assets and liabilities. But facilitating change when it comes to intangible liabilities is a different kind of challenge. These are the issues that lurk in our relationships that make business and estate planning difficult. Issues like:

- Mistrust
- Feelings of unfairness
- Unclear or incompatible ideas about the purpose of the business
- Unclear or incompatible individual visions of the future of family and business.

There seems to be two kinds of intangible issues that keep families stuck in their planning. They are the "Let Sleeping Dogs Lie Issues" and the "It's Like Herding Cats Issues." Here are some examples -

Sleeping Dogs:

1. A lack of trust in a founder's competency due to age related limitations.
2. A reluctance to hold family members accountable for their performance.
3. Salaries and the distribution of benefits and dividends.

Like Herding Cats:

1. Vagueness about core values that underlie business decisions.
2. A confused or incompatible sense of purpose and/or mission for the company.
3. Governance responsibilities mixed up with management issues and family dynamics.

The Sleeping Dogs are about avoiding uncomfortable issues that may jeopardize family harmony. The Herding Cats issues are about getting people organized and focused to take action. Any of these issues become intangible liabilities when they slow down the capacity of the business to adapt to change.

"Any of these issues become intangible liabilities when they slow down the capacity of the business to adapt to change. Diligence and persistence needs to be maintained to keep the process moving."

Interventions to manage resistance to change

Shakespeare said that "we would rather bear those ills we have than fly to others that we know not of." Here are a couple of ideas that can help manage resistance to change.

1. If you need to make a change happen but are not doing it because you are afraid of something, you have a sleeping dog that you

are afraid to wake up. Ask yourself the question, "If this issue didn't involve a family member would I know what to do?" The answer is almost always, "Yes." This question often makes it clear that it isn't a matter of not knowing what to do, it is a matter of not having the will or the courage to do it.

Einstein said, "A problem that is well defined is a problem half solved." If the real problem is a matter of your own will or courage to make a necessary change then it is easier to figure out what needs to be done. If you need it, get executive coaching to help you do what you need to do.

2. If you are trying to get some cooperation among members of a group (scheduling a family meeting, getting a Shareholder Agreement finished, having a meeting over succession of ownership of the family summer home, etc) you are facing a problem of herding cats. This kind of disorder is often a good way for a family to resist change. If you are facing this kind of resistance you need to focus on creating the structures and

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A Word from the Chair

Lorraine Cunningham
Chair, Business Families Centre

Summer marks the end of another programming year for the Business Families Centre, and the past 12 months have been incredibly busy and exceedingly rewarding. Over 500 family members and advisors have attended our programs and events in the past year—this is five-times as many participants from the previous year! This impressive increase in the number of family members and advisors attending our programming reflects the rapidly growing community interest in the subject of Business Families.

Looking forward to next year's program beginning September 2007, there is an even greater range and number of seminars and events to participate in. In particular, we have developed two very interesting special offerings - Preserving Families, Preserving Wealth will be held at the beautiful Sonora Resort and will focus on assisting entrepreneurial families to envision and create a shared future.

Another interesting development is our new Certificate in Business Families Advising. Designed for all types of business families service providers, this program will compliment advisor's technical ability with knowledge and skills in the complex environment of business families dynamics. Please call or consult our website for further information on these and any other programs.

The momentum and interest in the Business Families Centre continues to grow which is very exciting! Our two main initiatives for the upcoming year include growing the membership of CAFE, our Business Families organization, as well as finding a family that would like to lend their name to the Centre by endowing a gift. Any support, guidance or assistance you might offer to either goal would be graciously accepted.

I hope that you find value in the updates and views in this newsletter and that it provides some insight and guidance for your family. I also look forward to September and to another great season of business family programming.

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processes (e.g. documents and meetings) that disentangle family, management and ownership. Write a shareholder agreement, define meaningful subgroups (i.e. Generation-2, Shareholders) and have a meeting to discuss issues relevant to that sub-group.

If it is a Sleeping Dog issue, figure out what part of it is about your own fear and what part is about your attempt to protect others from themselves. You can manage your own emotions a lot easier than you can manage the emotions of others.

If, on the other hand, you feel like you are trying to herd cats it may be best to focus on managing process. If it means having meetings without everyone present, so be it. Those with the most to lose from a change will tend to be the most resistant. Diligence and persistence needs to be maintained to keep the process moving. Schedule meetings, when possible proceed with the meeting even if one or two people cancel. Use conference calls and speaker phones. Craft an agenda and circulate minutes to keep the process moving.

Resistance to change is a normal part of life. Too much change is chaos. Too little change is paralysis. Think of resistance as an indicator

of fear in the system and let it help guide you to the people and the issues that need your attention.

J. JOSEPH PAUL, MS
DIRECTOR EMERITUS, FAMILY FIRM INSTITUTE.
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Developing Authentic Wealth

By Franco Lombardo

Where did we learn our values and behaviours about money, and more importantly, what are we teaching our kids?

When it comes to finances, as a society we are generally focused on our earnings, our investments, and the reduction of our taxes. In later years, this focus often moves toward planning the transition of our valuables. In the wealth management industry, these areas fall under the category known as the quantitative component. However, there is an emerging component of wealth management on the horizon known as the qualitative component, which deals with our beliefs and behaviours surrounding money. In other words, our emotional relationship with money—an area many people have never taken the time to stop and consider. Taking this fact into consideration, ask yourself the following question: “Is your current relationship with money empowering you, or limiting you, from achieving what matters most?”

Each of us has a responsibility—to ourselves and the generations to come—to examine our attitudes and behaviors regarding money and wealth. We must use this process to identify dysfunctional behaviours and attitudes and reconfigure them accordingly. The process starts by making the decision to have open and candid conversations with ourselves, our spouses and our children concerning our values, beliefs and behaviors about money.

We all have tapes about ourselves that play in our head (“I’m too fat, I’m too skinny, I’m not smart” etc.), which often affect our lives in more ways than we realize. Just as we have tapes regarding ourselves, we also have tapes regarding money. Although we may have a variety of tapes regarding money (such as “money buys me power, money is a measure of my worth, money allows me to fit in” etc.), one usually stands out as a central belief. I call this tape the “Money Motto.” As with the tapes people hear about themselves, a Money Motto can be empowering or destructive. If we do not identify and assess the validity of our Money Motto, we run the risk of allowing it to motivate our behaviour, as it is our beliefs regarding money that dictate most of financial decisions—how we invest, spend, negotiate, and transition our finances.

Once you are aware of your Money Motto, you can measure it against your core values and determine if it is helping you achieve what matters most. If you discover you have a Money Motto that is not serving your best interests, you have the power to change it. As much as it is important to understand your own Money Motto, it is also important to understand how Money Mottos belonging to key people in your life—such as spouses, children, business partners, etc.—have the potential to radically affect your relationships. Imagine the impact of sitting down and formulating a group (family or business) Money Motto, essentially forming a collective acknowledgment of the family or business thoughts and values surrounding money and wealth, and creating an atmosphere where money is talked about and analyzed in healthy way. But the Money Motto is only the beginning, a first step on the path to Authentic Wealth.

For most people, the word “wealth” evokes thoughts of money and material possessions. I would like to challenge you to consider that “wealth” may mean something different, something more than just money. What I would like to propose to you is the theory of Authentic Wealth, which suggests that financial gain does not solely determine how “wealthy” we are. Authentic Wealth is the alignment of your Money Motto (which is variable) with what matters most to you—your core value (which is fixed). Authentic Wealth is comprised of the following four components: Human Wealth, Intellectual Wealth, Legacy Wealth, and Financial Wealth. In order to understand our Human Wealth, we must explore where we first learned about money, and understand how our childhood experiences played a key role in molding our current beliefs and behaviours surrounding money. What values did your parents or guardians instill in you? Do you know what you stand for? What is non-negotiable? Do you have a clear idea of your guiding principals, and do you hold yourself accountable accordingly? It is critical to know and understand who you are in order to ascertain where you want to go.

Intellectual Wealth is who you are becoming, or want to become in relation to your principles and behaviour regarding money. Intellectual Wealth is also what you are teaching the younger generation. Just as your parent’s beliefs and behaviours had a part in shaping your Money Motto, your current beliefs and behaviours surrounding money will affect your children. Accordingly, Intellectual Wealth entails examining your current Money Motto and deciding if it is serving you (based on what matters most). If the answer is yes, you can accelerate what you are currently doing. If the answer is no, you can look at what you need to do to change it. As a point of reference, close to 95% of the people that I work with (initially) have a Money Motto that is not working for them.

When most people hear the phrase Legacy Wealth, they conceive of finances or wealth they leave behind. What many people fail to focus on is the notion that a powerful legacy often has nothing to do with finances at all. Set aside the myth that a legacy must be financial, and conceive of legacy as what you give back to the community. Think back to your parents and the life each of them lived. Reflect on the impact they did, or did not, make on this world. Was it simply finances, or was there something more? What if you designating a Family Money Motto that works for you and the family? This could be the kind of legacy that can be sustained for generations.

Once you understand the first three facets of Authentic Wealth (Human Wealth, Intellectual Wealth, and Legacy Wealth), Financial Wealth takes care of itself.

FRANCO LOMBARDO IS A CAFE VANCOUVER MEMBER AND ASSISTS INDIVIDUALS AND FAMILIES IN UNDERSTANDING THEIR RELATIONSHIP WITH MONEY.

2007 - 2008 Business Families Programs

HSBC Celebration of Light at the Maritime Museum

Enjoy an evening to view the magnificent fireworks in English Bay. This event is proudly sponsored by ZLC Private Investment Management.

July 28, 2007



PRIVATE INVESTMENT
MANAGEMENT INC

Two-day Seminar: Navigating the Business Family Relationship -Road Map Part One

Part one of our foundation seminar for Business Families.

September 28-30, 2007

Family Retreat: Preserving Families, Preserving Wealth at Sonora Resort

Join some of Canada's most prestigious business families in a stimulating exchange of innovative ideas and information about wealth preservation.

October 11-14, 2007

Two-day Seminar: Communications & Conflict

Explores the nature of the family-business dynamic -build skills to capitalize on the positive competitive advantage of the family.

November 1-2, 2007

Two-day Seminar: Navigating the Business Family Relationship -Road Map Part Two

Part two of our foundation seminar for Business Families.

January 18-20, 2008

Two Day Seminar: Working with Non Family Executives

February 21-22, 2008

Two Day Seminar: Strategic Planning for the Family Business

Understand the potential pitfalls and maximize the value of owning a Family Business.

Spring 2008
Date TBA

Two Day Seminar: Governance for the Family Business

Understand the proven models to ensure family harmony and business legacy.

Spring 2008
Date TBA

Certificate in Business Family Advising

Delivered in two to four day modules - balance of theory (learning and reviewing theoretical knowledge) and practice (specific skills), must be completed within three years.

Fall 2007

CAFE Advisor Briefings

This series will consist of eight to ten, 2-hour breakfast seminars. These seminars, taught by CAFE advisor members, are designed to educate family business members and family business advisors on a variety of technical topics from a variety of disciplines.

September 2007-June 2008
Dates TBA

Executive Breakfast Briefings

These briefings will discuss issues around corporate social responsibility and sustainability. Two out of the eight topics will be specifically tailored to business families.

September 2007-June 2008
Dates TBA

Family Legacy Series

Our annual flagship event is an important feature on the Vancouver social/ business calendar. As a gala evening, it is an event for learning, socializing, and celebrating all that is good about family business.

Fall 2007
Date TBA

Inside the Entrepreneur

This event will showcase prominent Canadian Entrepreneurs and audience members will learn from the experience of these business leaders. The purpose is to celebrate Canadian business.

Winter 2008
Date TBA

To register, or for more information, visit our website www.sauder.ubc.ca/bfc

All programs and seminars are held at UBC Robson Square, 800 Robson Street, in downtown Vancouver, BC.



How comfortable are you with Investment Risk?

A defined strategy, a disciplined approach, and consistency can help you manage Risk.

By John Vidas
Investment Advisor, RBC Dominion Securities Inc.

When dealing with Money Issues most of us encounter strong emotions. The trouble comes when emotions are the unseen driver of our behaviour, distorting perceptions, and sparking reactive, short-term decisions that end up being counterproductive. Irrational fear is usually the force behind a classic investment mistake or may keep us boxed into an unrealistic investment framework. Alternatively, propelled by ego we search for over-aggressive and unsustainable returns. Nobel Prize winning Psychologist Daniel Kahneman explains two factors that characterize good investment decisions:

First - Well-calibrated confidence - Do I understand these investments as well as I think I do?

Second - Correctly anticipated regret - How will I react if my analysis turns?

Financial risk resides not in what kinds of investments you have but in what kind of investor you are. Focus on getting the analysis right and mitigate loss if the analysis turns out to be wrong, as even the best analysis will be at least some of the time. The probability of making at least one mistake at some point in your investing life is virtually 100% and those odds are entirely out of your control. However, you do have control over the consequences of being wrong. The salient considerations for

“Human felicity is produced not so much by great pieces of good fortune that seldom happen, as by little advantages that occur every day.” -Benjamin Franklin

good decisions are **Research, Measurement and Intuition.**

Kahneman demonstrated one very important result about our behaviour toward risks concerning gains may be quite different from our attitudes toward risks concerning losses. For example, when given a choice between getting \$10,000 with certainty and having a 50% chance of getting \$25,000 we may well choose the certain \$10,000 in preference to the uncertain chance of getting \$25,000, even though the mathematical expectation of the uncertain option is \$12,500. This is a perfectly reasonable attitude that is described as risk-aversion. But Kahneman also found that when confronted with a certain loss of \$10,000 versus a 50% chance of no loss or a \$25,000 loss we often choose the risky alternative. This is called

risk-seeking behaviour. This is not necessarily irrational but it is important for us to recognize the asymmetry of our human behaviour.

The better you understand risk, the greater is your **“Avenue of Opportunity.”**

Warren Buffet, John Templeton, and Peter Lynch are gifted investors that stand out from the crowd. What they all have in common is a well-articulated philosophy about how money is made. Each had the conviction to stick with that philosophy confidently and consistently. Yet, even with their exceptional track records some of their approaches don't work. Markets aren't machines moving in regular, predictable patterns, but rather an ever-changing mosaic that can be approached successfully in many different ways. If one approach were clearly superior, everyone would quickly embrace it, and that approach would inevitably lose its advantage.

A brief overview of the more salient risks impacting our wealth.

Inflation and taxes will likely have the most impact on your assets – There is a natural tendency to look at gross returns rather than net or real returns. A simple example—you sell a three year-asset, real estate or Canadian stock equity, excluding income, dividends and expenses, and your gross return was 40% or 11.9% compound annually. Factoring in

inflation and taxes your return is reduced to 6%. Naturally taxes have the greatest impact. Yet inflation even at 3% over 20 years reduces your asset value by 45%.

Market risk – How would you react if your assets suddenly dropped by 10%? What about 20% or more? If, by realistically anticipating your emotional reactions during tough times, you can come to terms with risk before you face it, you'll be better able to resist making rash moves during downturns.

All assets are exposed to market risk except, “technically,” government Treasury Bills. Yet, even here there is a degree of uncertainty. Two hours before the final outcome of the 1995 Quebec Referendum I was attempting to exchange several million Canadian dollars for U.S. dollars on the aftermarket. Throughout the day the Canadian dollar was trading in the \$0.74 range and towards 5 PM PST dropped to

\$0.69 range. With a very close race between the Yes/No forces there were no bids on Canadian dollars for approximately three hours prior to vote outcome—not unexpected. While in constant communication with the traders I was privy to the potential market scenarios of a yes or no vote. If the Yes forces prevailed they expected the Canadian dollar to drop and trade in the \$0.50 to \$0.55 range. Fortunately Quebec voted No. If they voted “Yes” the repercussions to the Canadian economy and its financial markets would most likely have been very severe. The technically “risk-free” treasury asset would not be so risk-free in this environment.

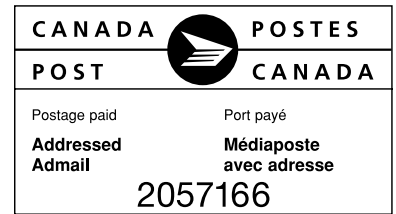
Political risk – Two of the more striking recent examples are government legislation on income trusts and the softwood lumber dispute. Demography and Energy Policy will increasingly preoccupy future political agendas. Paying close attention to the political winds of change and leaning our assets away early mitigates surprises. It also focuses us towards opportunity.

Economic and industry risk – How do changes in interest rates, stock markets and inflation impact your investment assets? What is the impact of managing assets in the new G-26 world environment vs. the old G-8? Macroeconomics and microeconomics analysis are important tools in lowering risk. It may be as simple as writing a forward contract or a swap to protect your Canadian-dollar position.

Liquidity, timing, tenure and reinvestment risk – You may have bought or sold a business or investment asset at the wrong time, or held onto it when it continues to lose money, or procrastinated at reinvesting sale proceeds. There is a natural tendency to become mesmerized, hoping that the issue will resolve itself –and sometimes it does. However, focusing energies on better opportunities is in your best interest. A brutally honest evaluation and a realistic plan of action always lead to the best solution.

Your intuition is sharp on how to mitigate Risk in your business and take advantage of Opportunities as they arise. In an increasingly more complex economic and market environment you may not be as comfortable with the potential Risks and Opportunities impacting your External Assets. To reduce risk, it's essential to have a **“Strategic Framework That Meets Your Personal Goals”** that encompasses realistic risk levels only you are comfortable with, and is flexible enough to not only transition through probable future outcomes but also to mitigate, as much as possible, severe impact to your total assets.

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Thanks & Acknowledgements

This issue of Legacy Matters is proudly sponsored by Borden Ladner Gervais and ZLC Financial Group



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Comprehensive Support for Your Family's Success

Do you or your family own a family business? Does your family business have adequate governance, ownership or family support structures to face the unique challenges involved with family enterprise? Are you prepared for ownership transition to the next generation?

Are you wondering what your role will be in the future? The Business Families Centre (BFC) and the Canadian Association of Family Enterprise (CAFE) are dedicated to supporting both business families and families in business. Through a comprehensive program of family networking, educational programming, and peer support, your family can develop knowledge necessary for future success.

Join a Peer Advisory Group

A Peer Advisory Group is a group of 8-10 individuals who meet monthly to share personal and business ideas and support. It provides the members with expert, objective and confidential advice. Peer Advisory Groups are consistently rated the best value by CAFE members.

www.sauder.ubc.ca/bfc/cafe/

Contact us to find out how you can join a Peer Advisory Group.

Call for Submissions

Legacy Matters is always interested in news, articles and ideas from business families and their advisors. If you would like to contribute in any way, please contact us with your ideas.

Sauder's activities in the Business Family community are comprised of The Business Families Centre and the Vancouver Chapter of the Canadian Association of Family Enterprise. We are committed to assisting business families, their advisors, and their enterprises through research, programs and academic education.

Contact us to find out more about:

- how you can become involved in the Business Families Centre
- joining CAFE Vancouver
- how to make your tax deductible contribution to the Business Families Centre

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