



December 2007

Strategic Planning Best Practices

Family Business – The Tie that Binds

A Written Code of Conduct May Pave the Way

By Dan Maloney CPA CFP® CM&AA CBI

Many business owners struggle with the decision whether to keep or to sell the family business, due to lack of apparent successors. The procrastination is a common issue in family businesses and should be expected. Major reasons for indecision are inadequate succession planning and faulty perceptions as to the “family rules of conduct.” Qualified successors to the CEO role may not have been identified or may not have stepped forward because expectations surrounding their working in the business may not have been communicated. It is very possible that the unwritten Code of Family Conduct (all family businesses have one) implies that members should wait to hear from the CEO before asking questions.

THE FAMILY MISSION STATEMENT

When the founding entrepreneur begins to be concerned about succession, several critical questions pertaining to the interplay of business and family life need to be asked. Without addressing some critical questions and without discussing the answers in an open family dialogue setting, it may be only a matter of time before crisis looms and the business must be sold. Just as every business needs a written strategic plan, the family needs a written Code of Family Conduct, or Family Business Mission Statement. The Family Code can be a powerful tool and can be used to develop the framework for dialogue during family gatherings or annual business retreats. Some critical questions to address to begin developing a Code of Family Conduct and mission statement include:

- How committed are we to keeping the business in the family?
- Can shares be transferred between family members?
- Is there a buy-sell agreement among family members?
- Should we form a Family Council that includes both active and inactive family members, so we can have a forum to openly discuss the business issues?
- Are family members expected to work in the business, or are they free to look elsewhere?
- What character traits or skills are expected of family members who join the business?
- Must all family members be offered a job?
- Will in-laws or other relatives be invited to join the business?
- What education level is expected before one joins the business?
- How will responsibilities and titles be assigned?
- Will non-family executives be hired?
- How will performance be evaluated?
- What training programs should we offer family members?

- Can family members be fired?
- How should each individual's compensation level be determined?
- Who will hold leadership positions?
- How will we provide meaningful careers for individuals not in executive positions?
- Is outside work experience required before entering the family business?
- Who is eligible to be the next CEO?
- Is there a scheduled retirement date for the current leader or a date for passing control to the successor leader?
- Is there a leadership succession plan?
- Should we have a Board of Directors and, if so, should there be non-family board members?
- Which family members are eligible to sit on the Board?
- How are business disagreements, as well as family disagreements, settled?
- Which family members get to vote on strategic business issues?
- Will we operate in a Business First mode or will we operate as Family First?

NO EASY ANSWERS

There are many more questions that could be added to the list. The questions are left for the entrepreneurs to ponder, since there are no standard answers. Questions such as these differentiate family businesses from other entrepreneurial ventures. A reason the questions often go unanswered is that family businesses are emotion-packed and answering the questions can lead to the proverbial "family feud."

Although addressing the questions can be painful, not answering them can lead to disappointment later. Holding a family meeting and opening a dialogue with family members may at first seem risky, but once the words start flowing, enthusiasm can build. As the questions are addressed, the future will become more clear and more manageable. Everyday emotions will lessen and more of the leadership's time can then be spent on critical operational and strategic issues. The business will then stand a better chance for success and may be better poised to survive generational ownership changes.

THREE DIFFICULT QUESTIONS

Three additional general questions should continually be asked as the future of the business is planned:

- What Do We Have?
- What Do We Want?
- How Do We Get There?

Don't be fooled and think these are the easy questions. These questions pertain to every business, as well as to the family's overall financial planning. Developing answers to "How Do We Get There?" may pave the way to tackling the specific questions on the longer list above. Developing and documenting a Code of Family Conduct is a great start.

Daniel J. Maloney CPA CFP®CM&AA CBI is a Certified Merger & Acquisition Advisor and Certified Business Intermediary. He is the Founder and Principal of Certified Acquisition Advisors LLC, a business intermediary and consulting firm specializing in sales, mergers & acquisitions of middle market companies. If you

have questions about preparing your business for sale, send a note to dan@certifiedacquisitions.com.