Your Family Business *Matters*

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What's Inside

Communicating During Difficult Times

Regardless of the type or size of a business, communicating with key stakeholders (bankers, vendors, employees, etc.) is always important. But, when a business is in crisis, the need to communicate can be critical. Robert Katz, managing director of Executive Sounding Board Association, a Philadelphia-based management consulting firm, offered up a number of specific communications suggestions for managers of troubled companies in the May 2, 2005 issue of the Family Business Magazine E-Newsletter. Here are some of Mr. Katz's ideas, along with some of our own.

When in Doubt, Say Something

Often, when you find yourself having to deal with a problem in your business, in the back of your mind you might be debating about whether to mention the problem to others, for example, your employees, your family members, or maybe your banker. Generally speaking, if you have this nagging feeling others should be told – tell them.

By telling others you might find they can help, offering moral support and sometimes even solutions you might not have thought of. For example, if you tell your employees about the financial problems the business is facing, they may have suggestions of measures they can take that might add to the company's productivity or sales, or they might offer to take a cut in pay or benefits until the business is back on track.

Even if others don't help you solve the immediate problem, telling them may prevent the problem from growing. Going back to our example, though there might not be anything employees can do right now that may help your business financially, your candor is likely to instill confidence (for example, that you are on top of the matter) or goodwill that could translate into their future willingness to accept a wage freeze, or agree to stay on even if their long-term future is tenuous.

Avoiding Guessing Games

Most of us played guessing games as children and many of us still do today, for example, when we're in situations where we sense that something's going on, but we don't have enough details to know for sure. The idea of keeping stakeholders informed so that they won't be guessing is very important in business – both in good times and in bad times.

Keeping stakeholders guessing is dangerous regardless of whether they are optimistic or pessimistic in their guessing. If they are optimistic (or generous) in their guessing, when things don't pan out as they anticipated, they may feel betrayed – even if you never gave them a basis for such an optimistic outlook. If people are pessimistic in their guessing, they may think things are worse than they actually are and they may be more inclined to abandon ship, leaving you in a more precarious situation. You're far better off keeping people informed rather than having them guess.

Asking for Help

Opening lines of communication in general often helps business owners get over the hurdle of being reluctant to ask for help. Many business owners are surprised at how understanding vendors or creditors are when they know what's going on, what's involved in the decision-

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making process, or when they feel they can be part of the solution. (Remember, if your business fails, it will have an adverse impact on many others, so they will probably be willing to help, as they will be indirectly helping themselves.) So, swallow your pride and take the chance of asking for help from stakeholders. The worst that can happen is that they refuse, in which case you're no worse off than if you hadn't asked for help.

Opening New and Different Lines of Communication

Every business has internal structures of communication that work well when everything is functioning properly. But if there are problems, it's useful to revisit the structures of communication to determine whether all the necessary information is going to the attention of those who need it most. For example, if the business is having problems paying accounts in a timely manner, a front-line accounts payable clerk may have important information about what vendors are threatening to cut the company off. Though in the past the general manager might never have spoken with the accounts payable clerk directly, doing so now may allow the general manager (who is in a position to negotiate with vendors) to take immediate action.

Make Regular Communications Part of Your Strategy

Regardless of how disciplined you may be, communication is one of the first things that usually gets pushed aside when you're struggling to manage a variety of other important details. Continue communicating with the necessary parties (giving them things like status updates) by setting up a schedule (for example, weekly or bi-weekly) for regular communication calls or meetings. A formal communication schedule puts others' minds at ease (they don't have to chase you down for information because they know when to expect to hear from you) and often ends up becoming a loose framework over which recovery plans are laid.

Fostering Trust

Naturally, when communicating you must choose your words carefully. It's important to appear in command of the situation and so it's a good idea to rehearse the message. It will serve you well to deliver a balanced message – giving as much information as you can and admitting when you might not have all the details or answers. Above all, don't lie. Problems only snowball if people learn to distrust you and problems that may have been fixable at one point will quickly become insoluble.

If you find your business running into trouble the best thing you can do is to fight the natural inclination to clam up and take extra care to keep lines of communication open. Both you and your business are likely to come out stronger as a result.

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Family Councils: a Useful Tool for Families and Businesses

In family-run businesses, the line between family and business can be easily blurred. If this happens, both the family and the business can suffer. A "family council" is one way of helping ensure that family relationships remain strong and that there is a balance between family and business matters.

A family council is essentially a group of family members who meet regularly with a view toward establishing family policies and making decisions on matters that are of mutual interest to all family members. Think of it as a board of directors that oversees the governance of your family.

The types of issues and decisions family councils typically deal with include general business policies, philanthropic goals, and general investment strategies and goals. The family council provides a forum for addressing all these types of issues. The council is charged with making decisions that are aligned with the family's core values, whether they're religious values, general moral values, or civic values (for example, promoting ecology or social welfare causes).

Getting Started

In creating a family council, the first action is to select members. Obviously those chosen must be old enough to contribute ideas and insights, but they need not all have the same amount, or type, of experience. Because the family council will deal with both business and non-business issues, it's not necessary that every member have experience in the family business.

The next matter of business – and arguably the most important – involves creating a family vision and statement of

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goals. The vision and goals statements are the framework on which all other decisions will be made, so care should be taken when crafting them. The statements should be broad enough for all family members to embrace now and in the future.

Initiatives a Family Council Might Get Involved With

There is really no limit to the types of initiatives a family council might get involved with, but there are certain areas that are especially appropriate, including:

- setting policies regarding family and non-family members entering the family business;
- setting policies regarding the roles and responsibilities of those involved in the family business;
- establishing conflicts of interest rules for family members participating in the business;
- setting succession policies, including issues of timing;
- developing policies regarding fostering development and education of future generations, for example, creating scholarships;
- creating education programs and events for family members;
- setting family goals regarding philanthropy, including the types of charities or causes the family will support; and
- coordinating investment and distribution of family assets to family members, including hiring investment advisors, etc.

Open Lines of Communication

The success of a family council is very much dependant on the openness of the council members, as well as of family members impacted by decisions made by the council. Respect for the opinions of all involved is also a must. If difficulties arise, as they sometimes do, given the sensitive and very personal impact the issues will have on all involved, the council should consider bringing in an outside facilitator to help work through the problems.

Interplay Between the Family Council and the Business' Board of Directors

Because it is important to keep family business matters distinct from purely family matters, the family business will likely have (or should have) its own board of directors. While the business' Board of Directors has oversight of the business, in making key decisions the Board can seek the input of the family council to ensure that the family's core values are reflected in business decisions.

Conclusion

A family council is a great tool that has been used very effectively by many families. It requires a time commitment and dedication, but the rewards are gratifying to those on the council and to the family and the business.

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Don't Overlook the Power of Appreciation

The idea that the customer is king has been around a long time – and for good reason because without happy customers a business won't stay in business for too long. But, a happy customer base is only part of the equation that makes for a successful business – satisfied employees are the other part.

Keeping Employees Happy

Offering competitive salaries and benefits are threshold requirements in terms of attracting employees, but they're usually not the only reason employees choose to stay. Many other psychic factors come into play, including pleasant surroundings, a feeling of being part of a team, and recognition.

Employee incentive plans are a great way of formally recognizing employees' work and exceptional achievements. Such plans can be beyond the financial ability of many family businesses, however. But, there are many ways of recognizing people that are just as valuable in terms of motivating employees and keeping them content. Indeed, spontaneous or unexpected small rewards can go a long way. For example, bringing in a special dessert to celebrate project milestones or employment anniversaries is an inexpensive way of showing appreciation.

Recognition of exceptional performance in a company newsletter or e-mail is another simple, yet effective tool. Such recognition provides a boost to the person named and provides incentive to others to do extraordinary things that are worthy of mention in future newsletters. Note, however, that we're not talking about generic platitudes like, "good job". We're talking about specific, positive remarks about an accomplishment, for example, "Terry, your straightforward presentation of our analysis made the difference between us winning the bid and our competition getting it. We're so glad you're on our team!"

Recognizing Good Works

Recognition of employees' non-work-related activities – for example, community work or charitable work – is another great

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way of generating goodwill with employees. While work is important, it's not the only thing that matters to them and by recognizing achievements in other aspects of an employee's life, you show that you care about the person, not just their work.

Atmosphere Impacts Behaviour

Though no one likes to admit it, looks matter. This applies to work environments as much as it does to personal appearance. The way your office or plant looks reflects on you and sets the tone for employees and visitors alike. A clean, comfortable, atmosphere creates relaxed, happy employees. Creating a functional, employee-friendly office can be done on a modest budget. And, as much as possible, seek input from those using the space when designing it or making changes, as they are the experts in what they need to do their job efficiently.

Don't skimp on things like a lunchroom or nice washrooms. If such common areas are dirty or unattractive you'll have employees headed for the door every time they have a break or want to stretch their legs and chances are, once they're out of the office, they'll be in no big hurry to return.

And finally, don't forget that a welcoming atmosphere is created just as much by the sounds people hear in the office as by the appearance. What we're referring to here isn't elevator music or background sounds – we're talking about negative talk. Though human nature is such that people gossip and complain, excessive amounts of such types of talk can be demoralizing. Be sure to set the example by never engaging in such talk yourself, and by actively discouraging such talk among others. To the extent employees have complaints, encourage them to make them in a productive way, either through suggestion boxes or through private conversations, rather than around the water cooler.

In most organizations, people take their queue from those at the top. Actively create a culture of appreciation among employees by the things you do and by the way you act. Recognizing good work and rewarding positive behaviour will pay dividends for the business and for everyone involved.

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Q & A – When a Family Member Applies for a Position

In this section we offer food for thought – based on our experience (and what we've gleaned from others who may have faced similar issues) – about specific situations you're facing or questions you may have.

Question

I expect a significant position in our family's business to come open soon. My step-son, who has worked in the business for about four years, has mentioned that he'd be interested in it. I'm not sure whether any other employees would be interested in the position, but there are a few non-family employees that I think might be qualified. My spouse (who's not actively involved in the business) has suggested that I simply post the position, opening it up to all employees and if his son (my step-son) applies, I should treat him like all the other applicants, including interviewing him. What do you think of this strategy? Any suggestions?

Answer

We think the strategy your husband suggested is bang-on! Though the idea of interviewing a relative for a position with the family business is pretty much the definition of awkward, there are lots of important reasons to ensure that when it comes to hiring family members, you do so with as much caution – and formality – as you would in hiring an outsider. So, an interview is a must.

There are many sad tales of business owners who regret not asking family member applicants the standard questions they would ask other candidates – for example, the kinds of questions that help you determine motivation. Too often business owners *assume* they know the answers to questions, which can lead to misunderstandings.

Though the standard procedures and impersonal nature of the normal interview questions sometimes seem inappropriate for a family member, following such procedures are especially important in situations like this because there is a strong emotional undercurrent that involves the whole family. We suggest you follow company procedures, ensuring that applicants go through the same application process, including submitting a resume or formal application, having a formal interview (not one over the family dinner table), and checking references. You can avoid some of the awkwardness by having a list of interview questions prepared. A good way of looking at it is to consider that by having to answer these questions you are giving the applicant (whether its your step-son or anyone else) the opportunity to focus on their own reasons for wanting to work in the family business, which is a valuable exercise for every applicant. And be sure to provide all applicants (including your step-son) with a description of the position – this can prevent future misunderstandings about the responsibilities and the opportunities for promotion.

Be sure to introduce all candidates (again, including your step-son) to the staff. After the meeting, get staff members' feedback. The insights you gain from non-family members could be invaluable and may help you assess how well staff might work with your step-son.

When all is said and done, your step-son may be the perfect candidate for the job – or he may not be. Either way, you, your business, and your step-son are all better served if you determine this early on.

Partners in Love and Business? Making It Work

For most couples, the standard vows of: "for better, or worse; in sickness, and in health" provide sufficient reminder of the types of things they may face as a couple.

But what about when your spouse is also your partner in business? What vows do couples adopt that will help them weather turbulence in their business partnership? That's the million dollar question that couples in business together must answer in order to stay happily married and successful in their business.

Phyllis Edgerly Ring, in "Marriages that work," Family Business Magazine (Winter 2005), offers tips for married partners in business together. Here are some of the ideas we've gleaned from that article:

- **Adopt a conflict resolution strategy** – A simple, yet effective conflict-resolution technique that often works is to have one partner listen (without interruption!) to the other person talk about what they see as the problem or issue. Then the partner who listened must repeat what they heard. This kind of listening/repeating exercise helps couples hear the underlying concerns much better. This is just one conflict-resolution strategy that has worked for some – it doesn't matter what strategy you choose, so long as it works for you and you use it when necessary!
- **Gather facts and clarify the nature of the disagreement** – Because discussions can easily veer off on tangents that don't relate to the business problem at hand, it is important that the couple agree to gather the facts related to the business issue and to work hard toward finding agreement regarding the nature of the disagreement. Often, once the facts are gathered and the scope and nature of the disagreement are clarified, the solution becomes quite obvious.
- **Delineate duties** – Not everyone is good at everything. Or, to put it in a more positive way: different people have different strengths. So, divide the business duties along lines that play to each person's strength. By clearly defining roles you also make it easier for those who deal with you (employees, customers, creditors) to know who to turn to for different decisions.
- **Keep it private** – We've all been in the uncomfortable position of seeing couples argue or disagree. Don't put others in that position. Agree to discuss disagreements and issues in private – this is common courtesy to others and it helps ensure a professional atmosphere at work, as well as prevents putting others (for example, employees) in a position of having to choose sides.
- **Your shared vision for the business must take precedence over individual feelings** – Remember that the business is *not* an extension of the marriage – your roles as professionals should take precedence.
- **Leave work at the office** – The idea of leaving your work at the office is axiomatic, but admittedly difficult. If you find you must end up discussing business at home, set aside a definite amount of time and try to make it structured time (for example, the 15 minutes you walk the dog together).
- **Don't let business success substitute for love and a relationship with family members** – Increased profits can be an intoxicating reward for your hard efforts, but without an equal amount of intentional effort put into fostering a happy, strong family, the monetary rewards you reap could leave you emotionally bankrupt.

Are You Prepared for Disruptions in Normal Operations?

Though most of us would rather look on the bright side and assume there'll be smooth sailing in the business waters that lie ahead, unexpected events can occur that can prevent a business from carrying on its normal activities or operations. Everything from natural disasters, like floods, earthquakes and fires, to man-made problems, like people hacking into our computer network, can cause disruptions.

While certain types of disruptions cannot be prevented, by instituting effective contingency plans, business owners can limit the potentially devastating impact of all sorts of interruptions.

Do It Now

Unexpected disruptions to your business can happen at any time. Paraphrasing from Nike's famous "Just Do It" ad campaign, when it comes to planning for business disruptions, your mantra should be: Do It Now – before something happens.

Depending on the size of your business, contingency planning may be done by one or two individuals, or it may require a team effort. Regardless of the number involved, it must be a priority for all.

Assess the Impact of Disruptions

The first step to creating a contingency plan is to consider possible incidents that could cause a disruption of your business. All incidents should be considered, regardless of how minor the potential impact, or how remotely likely it is that such an incident will happen. (Ok, so a business in Winnipeg might not be directly concerned with water damage caused by a tsunami. But, if the business' supply chain relies on goods being shipped through a port that could be affected by a tsunami, contingency planning involving finding alternative shipping routes in the event of such a disaster might be appropriate.)

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Once you've drawn up a list of possible incidents you should assess the impact each type of disruption would have on your business' normal operations. As well, you should rate the potential severity of the damage caused by each type of disruption.

The Plan Itself

Once the impact is assessed, the next step is creating a plan. Consider what should be done immediately after the incident and what will need to be done over the longer term. In the immediate aftermath, for example, you may need to involve emergency services or specialists trained in dealing with extreme situations. Over the longer term, for example, you may need document recovery or reconstruction help.

As well, you should consider things like the order in which various business functions need to be resumed and the key personnel responsible for carrying out different parts of the plan.

Testing and Training

Once you've developed a plan, you must test it. To the extent feasible, it's a good idea to test the plan by reproducing conditions that might cause the disruption. The test results should be documented and you should alter the plan, if necessary.

Also consider what training is needed to ensure that all staff are aware of the plan and so that they understand their role in implementing it.

Keeping the Plan Up-to-Date

Because businesses are constantly changing, be sure you keep your contingency and disaster recovery plans up-to-date. It's a good idea to make someone specifically responsible for ensuring the plan is maintained, tested and updated regularly.

No one likes to dwell on the negative, but time and effort spent putting together contingency and disaster recovery plans could be the difference between your business's demise and continued existence.

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Sample Information Included in a Business Recovery Plan

Here's a list of some types of things your disaster recovery plan should cover:

- Contact information for:
    - staff responsible for implementing the plan
    - emergency services providers
- Plan for contacting/locating staff
- Alternative communications methods (in case primary communication methods do not work)
- Relocation information
- Location of vital records and data, as well as location of back-up copies of data
- Critical vendor information
- Media information