



Weathering the Storm

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Chances are you've already started taking steps to help ensure your business survives the economic downturn. But, have you given thought to things you might do to help ensure others who are critical to your family business – your employees and family members – get through the storm? If you haven't, you should because a deterioration in their financial well-being could have a big impact on your family business, not to mention your family relations.

Bolstering your business

When you've got a family business, your family's economic fortunes are likely tied to the business. Therefore, the best way of ensuring your family weathers the storm is to do as much as you can to ensure your family business survives. In this economic climate, even businesses with impeccable credit can suddenly feel squeezed if, for example, customers pull back on their orders, or accounts receivables begin to take longer to collect on. Your business can also run into trouble if your suppliers run into financial trouble and are unable to

ship, or ship slower than you're used to.

So, if you haven't already started to do so, now's the time to be proactive. For example, take steps to reduce costs, monitor your cash flow, and review the credit-worthiness of your customers. Be prepared to lower or adjust the credit terms you offer, and investigate new customers before extending credit. You might also consider offering early settlement discounts to customers to help speed up collection.

On the supplier side, it's probably wise to at least have some ideas as to alternative sources for various inputs.

For more ideas about what you can do to ensure your business is healthy and sustainable, check out our new publication: **20 Ideas for Your Business**. You can download a copy at:
<http://www.bdo.ca/library/publications/documents/20ideasforYourBusiness.pdf>

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Bolstering your employees

It's important to remember that the economic downturn isn't just hitting businesses – it's hitting families as well. So, it's also important to focus on your employees – and not just from a cost perspective. Even if you aren't cutting your own workers' jobs or pay, your employees might face increased pressure at home if their spouse or children lose their jobs. More than ever, your employees' morale and productivity may be impacted by things that you can't directly control.

To help your employees get through this tough economic time, consider offering them non-monetary help and support. For example, host financial workshops or help them get credit and other counselling. Doing so will help them personally and will also help ensure they have the energy and focus necessary to perform their jobs.

Bolstering your family

Family businesses also have another constituency that deserves special consideration when times are tough: family members – whether they're active in the business or not. Just because a family member is gainfully employed by the family business doesn't mean that they're insulated from the impact of the downturn. Just like other employees, their productivity and focus could suffer as a result of what might be happening to their spouses and families as a result of a weakening economy.

Family members who are not active in the business but who are shareholders should also be of

concern, as personal financial problems they may encounter can directly impact the family business. For example, a shareholder facing liquidity problems may push for increased dividends or may want to be bought out.

In "The Current Credit Crunch: An Equal-Opportunity Crisis," (*Family Business* magazine, Summer 2008), François de Visscher, a financial consultant, had some useful suggestions for steps family-owned businesses should consider to help ensure shareholders' economic woes have minimal impact on the business. As de Visscher points out, in a family-owned business, the shareholders are the source of "patient capital", which can be critical to the success of the family businesses, especially during an economic crisis.

So, for example, de Visscher recommends conducting a "liquidity survey" of your shareholders. The survey will help them – and you – assess their situation and potential risk. If they have a realistic idea of their situation, they are better positioned to take proactive steps to avoid, or lessen, potential problems. Examples of things that might be cause for concern include mortgages that might be adjustable, anticipated increased out-of-pocket expenses, such as funding children at university, or changes in economic circumstances as a result of divorce or separation.

If you discover that shareholders need financial help, there may be creative solutions that don't involve cashing them out. For example, if they've lost their job, perhaps the family business can

hire them for a period or for a special project. Or perhaps the business can work with its bank to help arrange a loan with the shareholder putting up his or her shares as collateral. Of course, if any special action or help is given to shareholders, it's important that you openly communicate to all the reason for such actions and you should make such help available to all shareholders who need it.

Be proactive

No one likes to focus on the negative, but the reality is that the troubled economic times we're facing could well hit your family business, your family members, or both. Taking steps now to shore up your balance sheet – and to ensure your family members' personal financial situations remain strong – makes good business sense.

Tidbit

Games have rules so everyone knows how to play and what to do when there's a dispute among players. The clearer the rules, the easier it is for the game to resume. Similarly, having pre-determined rules for resolving disputes among family shareholders will help keep the peace among family members and will limit the potential for disruption of the business.

Outside Directors: Good Business Sense and Good Family Sense

The idea of having outside directors has been in the news a lot the past few years, but many people still think of them as something only applicable to public companies. If that's what you believe, think again. There are a number of reasons family-owned businesses should have non-family members on their board of directors – or at least on an advisory board.

Traditionally, the main reason family-owned businesses consider bringing non-family members on their board is to tap into their expertise and experience with regards to business and strategic planning. While outsiders certainly can bring a new perspective and can provide objective guidance regarding business decisions, that's not their only benefit.

Tidbit

If your training budget is tight but the content of a particular course is relevant to a number of people on your staff, consider sending one or two on the course and have them present the information to others in your organization afterward.

A check on family members

In a family-owned company, outside directors can also play a critical role in preventing self-dealing by family members and abuse of privileges. The activities of John Rigas, founder of Adelphia Communications, and his son Timothy – both convicted of looting the company – are prime examples of the types of activities outside directors can be useful in at least questioning, if not preventing. Of course, to be effective, outside directors must be pro-active and must have the ability to hold management accountable.

Having outside directors on your board also signals to those you interact with – banks, investors, creditors, suppliers, employees, etc. – a sophistication and high regard for corporate governance. In the current economic climate, having a truly independent board will not necessarily open the door to financing and credit, but not having one might be a stumbling block with lenders and investors.

Useful in separating out family matters from business matters

Outside directors can also play a unique role in family-owned businesses because they can help ensure that family disputes do not get in the way of the business. Of course, outside directors should never be expected to mediate family disputes (at least, not if you'd like them to remain on the board). They can, however, facilitate discussions between family members and help

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Away from home because of work a lot? Webcams are a great way of ensuring your family doesn't forget what you look like!

identify an outside facilitator to help family members work through the problem.

As well, in family businesses, some decisions and issues that can be critical to the future of the business are avoided when sensitive personal issues underlie them. Succession planning is a good example. Founders may find the topic uncomfortable because facing it might require them to come to terms with aging or sibling rivalry. Outside directors can be instrumental in both raising the issue and in helping guide family members and management through a process to address the issue.

Conclusion

There are many reasons having outside directors makes sense for family owned businesses. Not only will outside directors bring business expertise and skills, they demonstrate to everyone you do business with – and to family members – that you value structure and professionalism. But perhaps most important, they can help you prevent blurring of the lines between family matters and business.

Transition Planning: Taking Contingencies Into Account

You've successfully built your family business. You've identified – and groomed – a successor from the next generation, and you've developed a transition plan.

Congratulations! You're in the minority – many Canadian family business owners who are approaching retirement age haven't gotten that far.

But, successful implementation of that plan is not guaranteed and any number of variables can impact the succession. So, much like you'd plan for contingencies when developing business plans, it's important to plan for contingencies in the transition process.

Contingencies related to financing

In developing your plan, you likely focused on issues related to financing the succession.

Ensuring that you'll have enough funds to retire is a threshold issue, as is making sure your successor can afford to finance his or her ownership. While the current economic turmoil might be a cause for concern in general, it might also necessitate reconsideration of the assumptions you have made about how the transition might be funded.

(continued next page)

Keeping Non-family Managers Happy

Most successful family businesses realize – at some point – that to continue growing, or to expand in certain directions, they have to bring non-family members on board. Obviously, to recruit non-family members to management and executive roles, a family business must address issues of compensation. But once non-family members are on board, how you treat them and the respect you show them will have far more impact on their likelihood to remain than just the pay they take home.

Here are some do's and don'ts when it comes to keeping non-family members happy:

- Don't take them for granted. Acknowledge their contributions publicly – among staff, to customers, suppliers, and to other family members!
- Trust their judgment and be sure your actions demonstrate that trust – lip service is not enough.
- Don't put them in a position of mediating between family members.
- Make sure the reporting structure is clear to all and respected by all.
- Make sure their responsibilities are clear and respected by everyone.
- Make sure their authority is proportionate to their responsibilities.
- Don't isolate or sabotage them by making business decisions at family gatherings, rather than at business meetings they attend.
- Make sure there are formal structures in place for dealing with HR issues that may come up with regard to behaviour and performance of all staff, including family members.
- Be aware of the role family dynamics plays in your organization and take steps to foster healthy family relationships; doing so will be beneficial for the family and will help ensure non-family managers are free to focus on business instead of having to contend with family issues.

Tidbit

When planning a marketing event you should also have a post-event communication strategy aimed at reinforcing your marketing message.

For example, between the time you established the plan and when you're ready to implement it, you may find that the bank or lender you had planned on using has tightened its lending criteria and may not be willing to help finance the transaction, or may impose more stringent requirements than you anticipated. If that's the case, what options do you have? Perhaps the founder and successor can agree to extend the time frame in which the transition takes place. But, if you do, you must also consider what impact such a change might have on the successor's decision-making authority over the extended transition period.

In considering the value of the business you plan on transferring to the next generation you have no doubt made projections about the continued financial success of your business. But in arriving at those projections you likely made assumptions about things like continuing good relations with key customers, suppliers, and staff. What if some, or all, of those relationships change as a result of the transition? Does your transition plan include action plans aimed at preserving and fostering good relationships? If not, you could be jeopardizing the validity of the underlying assumptions regarding the value of the business.

Contingencies related to the timeframe

One of the key factors that differentiate a plan from just thoughts about transitioning is the inclusion of a definite time frame. But, as mentioned above, things can come up that can delay the

transition. For example, what if the transition plan is premised on transferring the helm to the successor in three years, after the successor completes her MBA or returns to Canada after setting up a foreign manufacturing facility, but the founder runs into serious health issues before the successor is ready to take over? Have you considered who might take over on an interim basis, or whether an expedited changeover might be possible?

Contingencies related to the successor's commitment

What if, after a few years, your successor decides he no longer wants to run the business? If you made a complete economic break from the business (in other words, you were completely cashed out and no longer have any economic interest in the business), then your successor's decision won't impact you monetarily. But given the nature of family businesses, such a decision would likely have an impact on family harmony and relationships – unless the possibility was considered during the transition planning. If the founder's economic interests are tied to the success of the business, the possibility of the successor departing really must be raised and the issue of what steps the successor might take to protect the founder's economic well-being should be spelled out.

Contingencies related to family harmony

In a family business context it's important to remember that not all contingencies related to succession planning are about the business. The impact of changes

in the family and in relationships should also be considered and plans put in place to lessen the possibility of strains on family relations. Things like buy/sell agreements for family members who have an ownership stake should be instituted as part of the plan, as should policies and procedures relating to employing spouses of family members. Family harmony may not be an issue with the founder at the helm, but sibling rivalry and jealousy may surface once the founder steps down. Anticipating such issues and instituting formal procedures to deal with them will help ensure long-term stability in the business and family.

Conclusion

As a successful business owner chances are you've lived through your share of unexpected events. Those that you had at least given thought to, or considered, were probably easier to get through and helped you see the value of contingency planning. Given that transition planning is one of the most important activities you will do for your business, you would be well served to consider as many contingencies as possible and try to incorporate options into your succession plan. Doing so will benefit the business and the family.

Tidbit

When hosting a booth at a trade show, be sure to provide staff manning the booth with talking points. This demonstrates a professional approach and ensures consistency of message

Q&A – Decisions Around Dividends on Family Shares

Q. Our family business has been around a long time. My brother and I took over from the founders (my father and his brother) about 20 years ago and we both have adult children who are actively involved. Our father is deceased but my uncle is still alive. He has two children (our cousins) who are not actively involved in the business but my uncle and cousins all own shares in the company. My brother and I each earn a salary from the business, as well as dividends on our shares in the company.

An opportunity has come up for the business to expand but, to do so, there's a good chance the business won't be in a position to declare a dividend this year and maybe even over the next couple years. My brother and I are a bit worried about whether this plan will fly with the other shareholders. Any suggestions on how we might approach this, or what we might do to deal with this?

A. Thank you for submitting your question – it's a question that's likely to be of interest to many readers. The issue of whether to pay a dividend or keep the cash within the business is common to nearly every corporation. In non-family owned companies the decision is basically just a business decision – one management normally makes, though they may have to explain or justify their decision to the board.

But, in a family-owned corporation the decision is complicated because it typically isn't simply a business decision.

Often, family members who own shares depend – or at least, rely – on dividends to support themselves or their lifestyle. And, where family member shareholders are not active in the business, they often do not appreciate the need to plow the money back into the business. This certainly seems to be the dynamic you describe.

Unfortunately, there is no definitive way of handling this but open dialog is the key. It is up to you and your brother to explain the business need for re-investing the money in the business. Note that we said, “reinvesting” the money, not simply keeping the money in the business. If, in your explanation, you make it very clear that you believe that using the money to expand the business will, in the long run, increase the value of their shares and/or increase the amount of future dividends, we would hope that you would win your uncle and cousins' support and understanding.

Regarding the level of detail you go into in your explanation and the approach you take, we suggest you take care to never talk down to them and remember that, generally speaking, the more forthcoming you are – or are seen to be – with details, the more trust and confidence you will earn from them. And keep in mind that if they get the sense that you're withholding information, regardless of the reason why, you'll have a much harder time persuading them now – and in the future. The old adage: “honesty is the best policy” should be your motto.

Another important – and often unrecognized – reason for opening this kind of dialog is you might gain an appreciation for why your uncle or cousin need the money. Perhaps they have bills that you are unaware of (for example, medical bills). Indeed, they might have very compelling reasons for needing the money, in which case you may have to re-think whether to use the money for the business. There are situations where family need might trump the business reason for reinvesting the money in the business.

Of course, you can also consider trying to find alternative sources of capital to fund your business plans – or maybe to help financially support your uncle or cousins during the periods when you don't pay dividends.

And finally, we noted that you didn't mention whether you have a mechanism in place to allow unhappy shareholders to divest their shares, for example, through a buy/sell agreement in a shareholders' agreement. If you don't have such tools available, you should consider putting them in place. Having a shareholders' agreement in place will add options and the knowledge that there is an “out” often prompts people to try harder to find a middle ground and to compromise.

Thanks again for your question. The fact that you are concerned about this possibly becoming an issue shows that you are interested in doing what's best for both your business and your family. Good luck.