

Walking the Line Between Family and the Family Business

Drawing the line between family matters and business matters can be a tough job for many family businesses.

And often the line that separates the two can get very blurred indeed.

It's easy to see how on-the-spot decisions can be made under pressure, and personal issues handled when several family members are involved in the business. After all, when there's family involved you'd probably opt for calm rather than crisis where possible.

But ideally you want to remove the emotional guesswork out of family business matters. You want to be able to follow a pre-planned process which doesn't leave any room for surrendering to family pressures.

While many a good debate, and excellent decision, has been made around the dining table most family businesses would be wise to put some structure around their business.



Lay the ground rules

The formal family constitution or charter is a good way to do this and aims to prevent any blurring of the lines between personal and business matters.

Quite simply, a charter sets out the objectives of the family business and the rules by which it is governed.

For example: What are the foundation principles on which the company stands? What succession plans are in place? What is the process for decision-making? and so on.

One of the big issues to be addressed in the charter is how family members will be employed in the business.

There are examples of how siblings have moved smoothly into a family business with each having their own realms of responsibility. But when three siblings each have three children, the situation of how nine offspring might fit into the family business in the third generation raises a few more questions: Where will they all fit? Are they good enough? Do you include non-participating offspring as shareholders? Here are some questions that need addressing:

- Should family members work in another organisation before being offered employment with the family business?
- What kind of qualifications and experience should they attain?
- Can a family member approach the directors for a job, or should they apply in the normal manner?
- If there's no vacant position are you going to create one for a family member?
- How much will family members be paid? Will they be paid the same as non-family members who are equivalently qualified and experienced?
- What is the level of commitment expected from family members?
- Who can own shares and voting shares in the company? Should family members not involved in the business be allowed to own voting shares?

Will there be any restrictions in place, for eg, only "blood line" family members or can in-laws hold shares and management positions also?

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Guiding Document

As you can see there's a potential hornets' nest of issues that need guidelines attached. Some family business leaders may have put a charter in place long ago, but others who are just starting to put guidelines in place, may need to involve all family members to reach consensus. Once in place, however, the charter becomes the guiding document on which the business stands. All decision making should then follow the processes set out in the charter.

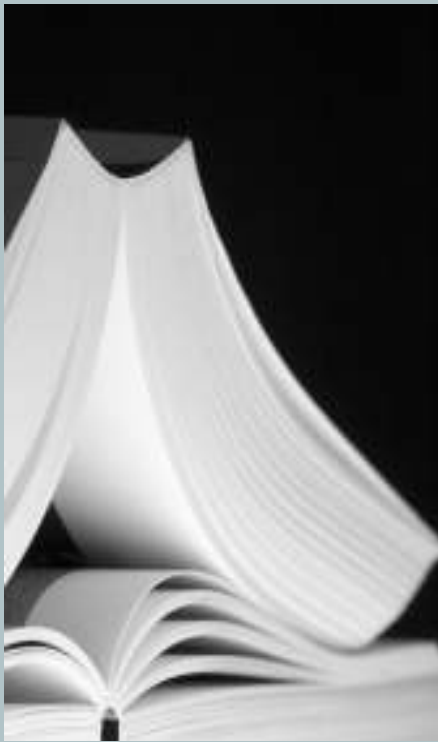
Core values, goals and objectives are other aspects the charter should cover. If a business is passionate about what it stands for and knows where it's heading, future business decisions can be weighed up with these key principles in mind.

The aim is to support families and their business leaders - who often have three hats to wear: family member, business owner and company manager - by laying out the ground rules on which the business stands.

That said, the family charter must be a 'living document'. If circumstances change you might need to amend the document so it continues to be relevant and up-to-date. It pays to regularly review the charter to make sure it continues to reflect current thinking within the family.

Next Steps - Write a Charter for Your Family Business

- If you are just starting out to write a charter with several family members already involved in the business you will probably need to involve everyone in the process. Your accountant will be able to provide a good starting point of issues and questions for discussion.
- Set aside time for family members to sit down and brainstorm the issues. If possible, getting away from the home and/or office might help focus on the task at hand.
- Bring all ideas to the table and aim to reach consensus among all parties - you'll never be able to prevent future conflict if some members never agreed to the charter in the first place.
- At the same time, make sure the core values of your business - the stuff that got you where you are today - are not overlooked or pushed aside.
- Consider bringing in an outside facilitator, especially if markedly different views make consensus challenging.



Family Business Resources

Given that family businesses account for such a high percentage of businesses in New Zealand it's not that easy finding written resources to support them. (In their book *Small and Medium-sized Enterprises: A New Zealand Perspective*, Alan Cameron and Claire Massey say New Zealand is probably similar to Australia "where more than 80 percent of all businesses are family-owned".)

Plenty of books have been written on small business management though and many of the issues covered will be relevant to leaders of family businesses. But family businesses encounter a myriad of other issues simply because of the relationships involved. Where do family businesses in New Zealand turn?

Until more local support is given to family businesses they will need to source information from elsewhere. While compliance issues may differ from country to country, issues regarding employment of family members, resolving conflict, succession and decision-making are doubtlessly grappled with the world over.

Try looking up this website: www.familybusinessmagazine.com. It offers a quarterly magazine, fortnightly e-newsletter, news, articles and information on books. While the e-newsletter is free, you need to subscribe to receive the magazine and download articles. You can also find out about the Family Business Handbook series which guides you through the particular issues involved in running a family business.

"Failure to adopt sound organisational practices can eventually pull the whole business down. The survival of the family business is at risk if these problems are not confronted in a constructive fashion."

Small and Medium-sized Enterprises: A New Zealand Perspective, Alan Cameron and Claire Massey. Longman, Auckland

Keep Up a Good Relationship with your Bank

Whatever the nature or size of your business, it pays to have a good relationship with your bank or financier.

Business is dynamic and ever changing. You need to be flexible enough to move in another direction if the market dictates and that might mean securing extra capital at short notice. Or, you may face seasonal peaks and troughs and need assistance from the bank to help you through temporary cash-flow predicaments.

Whatever your situation, your up-to-date business plan, honed management skills and previous solid relationship with your bank will support your chances of securing finance or seeking assistance should you need it.

When you need capital

An application for a loan needs to be carefully prepared. It's not okay to just verbally request loan funds from your bank. You need to prepare a detailed finance application and have a working business plan.

If the bank is going to lend you money it wants to know you:

- Have a business plan and can abide by it
- Know where the business is going and can manage it well
- Can meet your repayments and know when you aim to have the loan paid off
- Will stick it out when the going gets tough

If you've had a good, solid relationship with your bank, they'll know your business intimately as well as knowing how well you can service a loan - that puts you a long way ahead of a business who has little prior dealing with a bank.

Once you have a loan agreement with the bank you need to be in regular communication with your banker. That means you should:

- Have regular meetings throughout the year, say on a quarterly basis
- Continue to keep the bank informed throughout the year on what is happening in your business
- Include your accountant in the meeting with the bank at the end of the financial year
- Forward to the bank copies of interim financial statements, budgets and cash flow forecasts
- Make sure you don't overdraw your bank account; contact the bank beforehand and discuss the issue

Being prepared to take some financial risks usually goes hand-in-hand with setting up and running a small business and for many entrepreneurs, at some stage of their business lives, that means getting a loan, or having access to flexible overdraft arrangements. Maintaining a good relationship with your bank is a great start for any business.



Be sure to read each article with the mindset "How this could apply to our business". Thinking of it that way will guarantee that you get value. Also make copies for each team member. To really make sure something positive happens, work with your business development specialists to talk your team through ideas.



Watch, Look and Listen - Keeping an eye on competitor activity

Business operators need to be business savvy. You need to know your competitors and keep up to date with what they're doing.

If you have prior knowledge about future opportunities or potential threats you're in a much stronger market position because you decide your next move.

But if you fail to monitor the market you risk being left behind in the maelstrom and, worse, losing your market share and then spending years trying to regain it.

Following what your competitors are doing is essential. You need to constantly be on the look-out for changes in strategies, new developments, expansions, new products/services and so on. Add everything to your competitor files.

A lot of information is freely available through:

- Newspaper cuttings
- Advertisements
- Brochures and direct mail campaigns
- Information you hear from customers about your competitors
- "Gossip" in the market place



Regularly review your competitor files. The market research you carried out for your business plan was just the beginning of your competitor intelligence. You need to constantly build on it so that you gather enough information to try to determine anything different or interesting on which a competitor may have embarked.

If you know they're about to launch something new, you're then in a good position to do something about it.

The important thing is to avoid being surprised by new developments. If you keep your ear to the ground on what's happening in the marketplace, you can potentially counteract possible threats to your trade, or act quickly on forthcoming opportunities.

An important Message

While every effort has been made to provide valuable, useful information in this publication, this firm and any related suppliers or associated companies accept no responsibility or any form of liability from reliance upon or use of its contents. Any suggestions should be considered carefully within you own particular circumstances, as they are intended as general information only.

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