INSIDE Family Business

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Bridge the technology generation gap

As new or younger generations of employees join your growing family business, you're bound to encounter some differences between them and incumbent or older workers. In particular, when it comes to investing in new information technology (IT), newer and older generations, or other groups, may seem as if they're worlds apart. Let's look at how to bridge the technology gap in your company.

UNDERSTANDING WHERE "GUNG-HO" MEETS "PRUDENCE"

Younger workers typically are gung-ho about investing in and using technology, while older employees may be more prudent, such as wanting to see an estimated return on investment. In fact, a recent survey conducted by KRC Research for Microsoft Corp. of more than 250 family businesses attests to this conflict between the different generations. Six in 10 business owners employing multiple generations cited disagreements between older and younger generations about investing in technology.

The survey also reported that satisfaction with recent technology investments was highest among the youngest owners and those companies with the highest revenues. And two out of three owners said technology was important to recruiting younger workers.

REAPING THE BENEFITS OF TECHNOLOGY

Because younger employees have grown up in the IT age, they're usually more comfortable with new technologies and eager to invest in and apply them. Leveraging technology is relatively second nature to them.

Older generations, on the other hand, are more skeptical about IT investments, having weathered business highs and lows. The digital world is less familiar territory, and the benefits vs. the costs and

> MINIMIZING THE RISKS OF A MOBILE WORKFORCE

As the use of mobile devices increases among today's workforce, so does the potential risk for loss, theft and hacking, resulting in damaging security breaches. Any of your proprietary information systems may be compromised, ranging from your company's e-mail to customer accounts to financial and personnel information to competitive business intelligence.

To protect your family business's sensitive data, develop and implement an information security policy for all devices. Key measures to take include:

- Using passwords,
- Installing antivirus and firewall software,
- Limiting user access to data and the types of data that can be downloaded onto devices,
- Encrypting communications and files transmitted, and
- Enabling security features that can lock down a device reported missing and delete its memory upon attempting connection to the company's systems.

Most important, train your mobile users on how to effectively practice information security program procedures. Otherwise, all your work could be for naught.

risks are less certain. Consequently, they need more convincing to invest in new technologies.

For small to midsize companies, IT solutions can help level the competitive playing field by giving the impression of a larger, more sophisticated and established business presence. IT investments also help increase efficiency and productivity by facilitating streamlined business processes, greater collaboration among employees and automation of time-consuming tasks.

Other key benefits: improved decision-making and responsiveness through anytime, anywhere access; a more comprehensive, integrated view of company data; and greater flexibility to support a growing organization and customer business.

BALANCING BENEFITS VS. RISKS

When it comes to IT investing, striking the right balance is key to alleviating concerns about spending too much or too little. Due diligence, therefore, is essential to determining what technologies will generate the best return on investment and advance your company.

For starters, consider your company's business needs. Then determine where there are opportunities to leverage IT solutions to support those needs and improve your business processes. In other words, your business needs should drive the selection of your technology solutions — not the other way around.

Before you invest in any technology solution, answer these key questions:

- ❍ Who will benefit from the technology in performing their assigned jobs?
- ❍ How will employees' use of the technology benefit your company?
- ❍ Is the technology investment capable of scaling to support your company's expansion plans?
- ❍ How much customization, if any, is required to fully leverage the benefits of the technology for your business?
- ❍ How much effort is required to integrate the technology with your existing systems?
- ❍ How stable and established is the technology — is it at risk of soon becoming obsolete and no longer supported?
- ❍ What are the security risks and what measures do you need to implement to protect your business?
- ❍ Does the technology support business and industry compliance requirements, such as the Sarbanes-Oxley Act?
- ❍ What is the cost of buying and implementing the technology and training users?
- ❍ What is the ongoing cost for maintaining and supporting the technology and its users, including upgrades and add-ons?

Like other family businesses, yours may not have an IT expert on staff, so you'll likely benefit from outside expertise. An experienced IT consultant can help you objectively evaluate potential solutions.

BRINGING TOGETHER GENERATIONS

Applying a due diligence approach to working through key IT considerations can help you make more educated investment decisions, minimize risk and maximize your investments. Moreover, this can bring together your younger and older generations of employees, because they'll see that both of their perspectives are being addressed in a logical, structured manner.

Building a flexible foundation for business growth

When it comes to "professionalizing" a family business, there's more to it than simply changing your dress code from casual to formal. It involves proactively embracing change and accepting that there is no going backward if you want to continue to grow. No matter what stage your family business is in — young or mature — it can always benefit from enhancing operations.

THE INITIAL BUILDING BLOCKS

If your company is in the early "building block" years, you've likely assembled your operations in a much simpler, less formal fashion. In fact, you and your family may have successfully managed to run the company for some time without much, if any, outside help. But as the company grows, you'll eventually become spread too thin and unable to both effectively lead and run day-to-day operations.

With growth comes the need for maturity and increasing sophistication of your operations. Your company will need to advance its supporting operational infrastructure to efficiently handle a growing client base and business volumes as well as capitalize on new opportunities to expand.

4 PILLARS OF ADDED STRENGTH

Building a solid, yet flexible, operational infrastructure is fundamental to support your family business's growth. The pillars of strength needed to support your company's infrastructure are based on professionalizing operations in these four key areas:

1. Strategic planning and decision-making. For many family business owners, their business vision, goals and strategies tend to primarily reside in their heads. Business planning discussions may informally occur on an impromptu basis around the dinner table or during family gatherings.

But, as your business operations become increasingly complex, formalizing your plans in a written document and communicating them companywide is vital. This will keep employees in the loop and empower them to make effective decisions and act in alignment with your stated objectives.

2. Organizational management. Starting out, family business owners often serve as a "jack of all trades." Because it's your own company, you know what needs to be done and are used to doing whatever is needed. New employees, however, will need guidance. This includes providing them with written job descriptions and training.

Also, you should have a formalized system for measuring performance that gives employees regular and constructive feedback. Not only is this necessary to help them improve, but it also serves to motivate, compensate and reward them. This is particularly key to attracting and retaining nonfamily employees, who typically desire an objective performance evaluation system that's applied to family and nonfamily employees alike.

To minimize misunderstandings and conflict, issue a handbook of company policies to both family and nonfamily employees, and establish a formal advisory council to objectively mediate and develop solutions. Don't forget to outline the terms of ownership transfers with a shareholder agreement. (See "Protect your family's interests with a shareholder agreement" on page 5.)

3. Business processes. At the core of your family business are its processes, so the more you can systematize and document them, the more easily you can train your staff to follow them for increased efficiency, productivity and quality. Key areas to outline are:

- Operations,
- Sales and marketing,
- Finance,
- Human resources, and
- Customer product and service delivery.

Professionalizing your business processes also involves looking at opportunities to streamline them. Reducing the amount of manual effort required can free up your resources to process bigger business volumes.

4. Information technology (IT) systems. The software applications and tools your family business uses are likely limited to supporting specific business tasks and not as suited for managing overall, end-to-end business processes. As a company's operations grow and become increasingly complex, another common issue is the proliferation of disparate applications and tools that aren't linked or made accessible companywide.

Supporting a professionalized, process-oriented business environment requires integrated IT systems. For instance, implementing enterprise resource planning software can provide you with a more up-to-date, comprehensive view of the business, making for improved decision-making. And integrated systems let employees easily access operational information and automate work effort for improved productivity.

For more on this subject, see "Bridge the technology generation gap" on page 2.

EMBRACING CHANGE

Because you and your family may have been managing your company on your own and in a more informal manner, evolving to a more professionalized business environment will require a change in mindset and flexibility, plus unwavering dedication and hard work.

Yet, by doing so, you can focus more of your energies on providing leadership for the company and addressing more strategic business needs. And taking the opportunity to begin and continue professionalizing your family business will help ensure its successful transition to future generations.

> PROTECT YOUR FAMILY'S INTERESTS WITH A SHAREHOLDER AGREEMENT

As you expand your family business to include nonfamily members as employees or shareholders, it's natural to have concerns about maintaining ownership control within the family.

One strategy for protecting your family's ownership is a shareholder agreement, which specifies ownership rights, obligations and transfer options. For example, shareholder agreements generally will contain a provision for the family business and its other shareholders to have the first option to buy back shares when they become available.

These agreements also spell out when buy-backs are possible. Circumstances often covered are:

- Medical disability or incapacity,
- Death,
- Retirement,
- Divorce,
- Financial hardship, and
- Conflict.

To help ensure your shareholder agreement addresses your and your company's needs, consult legal and family business advisors with specialized knowledge and practical experience in developing such agreements.

Who will take the reins?

Managing emotions when transferring your ownership

Dividing your business interests among family members can be a daunting task. After all, you have to determine how to divide your company fairly, and your decision about *who* will get *what* may trigger strong reactions that could put you in the hot seat or cause dissension in the familial ranks. Developing a succession plan can help offset emotional tension and make for a smooth ownership transfer.

START YOUR SUCCESSION PLAN

Scott and Rebecca are adult siblings who've worked with their father, Michael, in the family business for many years. Patricia, their sister, is a shareholder but isn't interested in being involved with the company. Despite her indifference, Michael has casually said he's going to split the business equally among all three children. Scott and Rebecca are angry and feel that it would be unfair if their individual ownership interests were the same as Patricia's. And the uncertainty of when their father will step down and whom he will choose to take the reins has added tension.

A succession plan can manage the tension and uncertainty among the children because Michael's wishes for future control and ownership and their financial future with the company will be spelled out. To get the plan started, here are some tips Michael and other family business owners can employ:

Get your emotions in check. No doubt you'll grapple with tough issues that may take an emotional toll on you, such as which of your qualified family members you should name as your successor, when you should step down, how much control you should retain, and how to balance providing for your family and preserving harmony with what's best for the company.

When emotions are high, keep a cool head to ensure that your decisions are logical. Also, discuss your strategies — and feelings — with trusted advisors who can be objective and offer valuable feedback.

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Shoot from the hip. Discuss your wishes and plans for the business with your family directly, rather than making comments that may leave them unsure about your desires and goals. Be clear about your personal plans and ideas for the company's future, including your own future involvement with the business.

Discussing how you plan to divide your assets with your children or other family members as you develop your estate plan will help them understand the intentions behind your decisions and alleviate hurt feelings.

Ask active and inactive family members what they want. Ownership should be transferred to those who are capable and want to run the family business. So ask family members if they want to work in the business, be a shareholder or sell it. Depending on their desires, you can transfer ownership accordingly. For instance, if you're issuing stock, you may issue voting stock to family members who are heavily invested and active in the business and nonvoting stock to those who aren't.

If family members aren't interested in ownership, but you still want to leave them with part of your legacy, consider giving them other assets instead, such as your summer home or other valuable items. You can also name them as beneficiaries to your life insurance policy.

Consider financial aspects. To determine whom to transfer stock to — and how much — ask yourself: Will your adult children or other family members be able to afford to buy your shares? If not, is there a plan in place to help them do so?

One ownership transfer strategy is for family business owners to gift their stock to family members over several years. By doing so, you can take advantage of the annual gift tax exclusion, which allows you to give up to $12,000 per beneficiary annually gift-tax free — without using your $1 million lifetime gift tax exemption.

Speak with advisors. To ensure a smooth ownership transition, consult your CPA to create an effective estate plan and a valuation professional to establish your family business's value. Feedback from a board of advisors, family business consultants or other key advisors may also be helpful. If discussions with family members become too difficult or emotions run too high, consider using a psychologist skilled in family business dynamics to facilitate further discussions.

PLAN FOR PEACE

Transferring ownership of your family business can be a complex matter fraught with high emotions. But an effective succession plan combined with communication can help manage emotions because it gives family members a sense of where they fit into the company's big picture. And it may even prevent rivalries and family feuds.

> WHY YOU SHOULD CONSIDER KEY PERSON LIFE INSURANCE

The death of a key person can damage your family business's credit standing and ability to obtain financing, or result in a loss of supplier and customer confidence and revenue. The strained cash flow situation can even culminate in the forced sale of your company.

Just as you would want to insure against the loss of your family business's property, you want to insure your most prized asset — your employees. This is where key person life insurance comes in.

As an employer, you pay for, own and are the designated beneficiary of such coverage, which helps the company recover from the financial loss because of the death of a key person — such as the founding owner or partner, a senior executive, or a research or technical professional.

An individual generally is considered "key" if he or she has a primary ownership stake in the business; generates significant revenue; manages established relationships with major suppliers and customers; or possesses a wealth of knowledge, experience or special skills vital to the company's continued success.

The proceeds of a key person policy, which are generally tax free, may be used by the business to:

- Recruit and train a replacement for the key person,
- Compensate for lost revenue,
- Cover expenses resulting from the loss,
- Fulfill contractual obligations for salary continuation or deferred compensation to the key person's surviving spouse and children, and
- Provide financing to buy back the key person's stock.

Before you purchase any type of coverage, evaluate different policy options and determine which employees you need to cover. There are established industry methods and standard actuarial tables that can help you determine how much coverage is needed and the policy's cost.