INSIDE Family Business

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Why you should trade in the throne for the round table

Benefit from a collaborative management approach

Many family business owners still apply a traditional, top-down management approach. But this style can leave management and staff feeling inadequate and helpless. The resentment and poor morale typically result in a decline in productivity and profits. By embracing a more open and collaborative management style, your company only stands to gain.

THE ADVANTAGES

Close collaboration with and among your employees is important because it enables increased:

- Understanding of your business's vision and goals,
- Team spirit and cohesiveness,
- Operational and work efficiencies,
- Communication,
- Support for decisions,
- Appreciation for different ways of thinking,
- Innovative solutions,
- Quality of products and customer service delivery, and
- Job satisfaction and commitment.

These benefits ultimately translate into higher productivity and profits and can be felt in all areas of your company — from the management level, where the objective may be to cut operational costs or improve employee retention, to the project level, where the goal may be to develop or enhance a product or service.

5 KEYS TO EFFECTIVE COLLABORATION

To achieve a collaborative work environment, you'll need five key elements:

1. Leadership. At the heart of any truly productive team is a strong leader who clearly communicates the company vision and rallies team members to fulfill organizational goals. The team leader also provides direction around obstacles and mediates conflicts that may arise among team members.

2. Governance. The team leader must establish policies and procedures for the team. Otherwise, infighting may erupt when problems arise. Rules to consider include requiring punctuality, preparedness and adherence to deadlines.

3. Communication. Open, regular communication fosters greater understanding and trust among team members — building blocks for enabling collaboration. Effective forms of communication include reports, newsletters, intranet updates and meetings.

4. Listening. Communications among team members should be multidirectional — not one way. Encourage employees to listen to and reflect on all ideas and avoid making hasty judgments. This will enhance communication and help workers develop respect for one another.

5. Measurement. To motivate employees to adopt a team-oriented attitude, establish a performance measurement system that emphasizes and rewards teamwork. For instance, evaluate product development team members on how they performed their individual responsibilities and how they collaborated

> CONNECT WORKERS AND IMPROVE PRODUCTIVITY WITH COLLABORATIVE SOFTWARE

Increasing complexity and globalization in the business world is driving the need for enhanced workforce collaboration. If employees remain isolated, efforts can be disconnected or duplicated, draining a company's productivity. But frequently bringing workers together in a face-to-face meeting can be too costly for many family businesses.

Fortunately, networked desktop or Web-based collaborative software is a cost-effective solution that enables improved teaming in local business settings and over remote networks spanning geographies and time zones — think phone and video conferencing and e-mail. More advanced collaborative tools include:

Electronic meeting systems. They allow users to work on the same product without interruption, and contributions are anonymous.

Online chat rooms and message and discussion boards. They facilitate text-based communications.

Electronic time management or calendar software. It provides event and activity scheduling among networked work groups and automatic notifications and reminders.

Workflow and project management systems. They make possible automated work process and project planning, schedule charting and tracking, and management of related information resources.

Collaborative software can enable increased contact and productivity among employees across operations, improving decision making and streamlining the product or service development process. But employees must know how to use the software effectively, so training is critical.

with others to achieve the team's goal of a successful product launch. Metrics could include actual total cost to develop and produce and total time to market against targets.

NETWORKING OPPORTUNITIES

In addition to encouraging collaboration internally, there are opportunities waiting beyond the walls of your business. For starters, you can tap the expertise of outside professional advisors, such as your accountant, lawyer or family business coach.

Another great opportunity is to network with other family businesses to discuss common challenges, share insights and work together on solutions. For example, a family-owned manufacturer may consult with family-owned manufacturers of noncompeting products. The business owners can trade experiences, learn from each other's mistakes, and take comfort that they're not alone in the challenges they face.

To find other family businesses to network with, check out industry and business associations, chambers of commerce or your local family business council. Or you could even organize your own networking program, inviting other family businesses to participate in roundtable discussions or deliver presentations on topics unique to family businesses. Then follow it up with dinner or a social event, such as a golf outing, where the networking can continue.

Budget permitting, you might offer to sponsor the first networking event and then charge companies who wish to sign up and continue with the program for successive events. The initial investment can pay off with a continuous flow of invaluable insights.

UNITING IN SUCCESS

The value of collaboration is simply conveyed by the phrase "United we stand, divided we fall." You can win the support of your staff and boost morale by inviting other managers and employees to work with you on business challenges and solutions. Without the support of your staff, your family business can go only so far. Adopting a more open, collaborative management style is essential to ensuring your company continues to succeed and grow.

Ensure buy-sell provisions do what they're intended to do

As you think about stepping down from your company, you may already know who will be succeeding you and to whom you want to transfer your business interests. But when the time comes, your plans may not come to fruition because your operating or shareholder agreement doesn't reflect your desires.

To ensure business ownership transfers the way you want it to, review the buy-sell provisions of your operating or shareholder agreement or, if you have one, your buy-sell agreement (a separate document addressing ownership transfers). Any of these agreements should spell out how to pass interests when you or another owner chooses to leave or retire, becomes incapacitated, or dies. But a buy-sell agreement is generally preferable, because it is separately negotiated specifically for the purpose of addressing ownership transfers.

CHOOSING THE RIGHT BUY-SELL AGREEMENT

A buy-sell agreement sets up the guidelines for the transfer of business interests, such as the method that will be used to value the interests and those to whom ownership can be sold or transferred. It can also create a market for the ownership interests by requiring a sale under certain circumstances and provide mutually acceptable terms and prices.

Determining the best agreement for your company is difficult because it depends on a number of factors, including your business structure, financial status and the individual needs and circumstances of all the owners.

Here are the three most common types of buy-sell agreements:

1. Redemption. After a triggering event occurs, such as when an owner retires, becomes incapacitated or dies, the company is required to purchase the withdrawing owner's shares.

2. Cross-purchase. The withdrawing owner's shares must be purchased by the remaining owners.

3. Hybrid. Either the business or the remaining owners must buy the withdrawing owner's interest. The decision is made at the time of the triggering event, rather than at the time the agreement was signed. This may mean that both the company and remaining owners purchase shares.

Buy-sell agreements may also cover other triggering events, such as an owner's decision to leave the family business simply to pursue another interest. In such cases, the agreement may specify a different standard for handling the transaction. For instance, it may include a right of first refusal, which requires the withdrawing owner to give the company first right of refusal before the withdrawing owner can sell his or her interest to a nonowner.

LEARNING FROM OTHERS

Unfortunately, even the most well-drafted buy-sell agreement can fail if it's outdated. Many family business owners or their loved ones have found this out the hard way. Consider two siblings, Joe and Jennifer, who opened a store. At their lawyer's suggestion they signed a cross-purchase agreement, setting the business buy-out price at $350,000.

With each passing year, the company grew and soon the owners' individual salaries exceeded the cross-purchase agreement's buy-out price. The owners were so focused on growing their store that they never thought to update the document. When Jennifer died suddenly, Joe adhered to the terms of the cross-purchase agreement and cut a $350,000 check to Jennifer's husband. But, because the business was now valued at more than $6 million, Jennifer's husband felt he deserved more and took the matter to court. Instead of opening a second store as planned, Joe had to spend the next two years tied up in court.

To avoid this kind of scenario, specify in your buy-sell agreement a purchase price that's been set by an objective business appraisal or outline how the purchase price should be determined, such as using book value or a formula approach. Most important, be sure to update the purchase price at least every three years, or sooner if necessary.

FUNDING THE OWNERSHIP TRANSFER

It's also essential to ensure money will be readily available to cover the terms of the buy-sell agreement. Some funding options include sinking funds, loans, installment purchases and life insurance, which is bought on the lives of the owners for the value of their interest.

Funding an agreement with life insurance is a popular method. It ensures that beneficiaries receive the agreed upon price for the business in a timely manner. It also provides assurance that buying out the other business shares won't strain your company's cash flow or force the other owners to sell off assets to pay for the interest.

PROTECTING YOUR FUTURE

Transferring business interests is a complex process, but it's important to ensure that your company is able to continue successfully after your or another owner's departure. It's also key to ensure your wishes are spelled out in your operating, shareholder or buy-sell agreement. Otherwise, your planning will be for naught.

> REELING IN BETTER CATCHES WITH COST-EFFECTIVE SALES TIPS

When it comes to sales prospects, there are lots of fish in the sea — but not all are good catches for your family business. Before casting a line for new business, chart a course for identifying, qualifying and developing prospects that offer the greatest profit potential. To aid you in your fishing expedition, apply these tips:

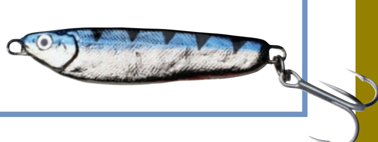
Start with a big kahuna. If the CEO or another chief officer in a prospective company isn't the right person to pitch, he or she will generally refer you to the correct individual, saving you a lot of time. And having a referral within the business gives you a more credible edge than cold calling.

Fish in friendly waters. Ask a set of qualifying questions to assess how and why a prospect can benefit from your product or service and whether they're ready, willing and able to afford it. If they're not biting now, don't force them. Instead, move on and redirect your time and energy to qualify and develop the next prospect on your list.

Don't rock the boat. Once you've drawn prospects in, avoid being overly pushy or giving a canned sales pitch. Otherwise, you'll come across as being more concerned with meeting your company's sales quota than with addressing their specific needs. So, listen to your prospects and be sure you understand their businesses' problems. Then ease them on board by explaining how your company's products or services can help.

Hire a sales captain. Consider bringing in an experienced outside sales manager or coach to help train and manage your sales team — this will free up your team to focus more on selling. If resources are limited, you may want to outsource part or all of your sales function.

Command a top sales crew. Family business owners often hire loved ones because they're related and need a job, but this could be a waste of the company's time and money. Plus, it can put owners in the uncomfortable position of having to reassign or terminate family employees later if it doesn't work out. So be sure your salespeople have the appropriate sales skills, such as perseverance and enthusiasm, and have a goal-oriented and professional demeanor.



What's cookin'?

Determining whether your family business should partake in IT outsourcing

If you were planning to host an elegant dinner party but didn't know the first thing about gourmet cooking, let alone have the proper equipment to cook with, what would you do? Well, the fear of a cooking catastrophe would probably lead you to call a caterer to come to your rescue. Moreover, the investment you'd have to make in special cookware wouldn't be worth it, unless you decided to take up gourmet cooking on a regular basis.

The same philosophy can be applied to your family business. Contracting out noncore but essential business services to an outside provider — known as outsourcing — is practical and cost-effective for family businesses of all sizes.

Companies today are outsourcing a potpourri of business needs, from catering to building and property maintenance to back-office management functions, such as payroll processing and accounting, to name a few examples. Let's look at how outsourcing information technology (IT) can benefit your family business and how to maximize your investment in this area.

IT OUTSOURCING SOLUTIONS MENU

IT outsourcing solutions range from outsourcing the management, maintenance and support for all or select parts of a company's IT function. Specific services to outsource include:

- Ongoing IT applications management and maintenance,
- Information security, such as monitoring your system network, installing and upgrading antivirus software, and applying fixes,
- Disaster recovery planning and data backup,
- IT project management support, which includes software and hardware development, implementation, upgrades and enhancements, and
- System user training and application transition support.

Of course, you can receive assistance on-site or through a remote help desk for computer network systems, printers and other office equipment.

A BIG BUFFET OF BENEFITS

Outsourcing IT services can provide a range of valuable benefits to your family business, such as:

Reduced IT investment and ownership costs. You reduce your IT management and support costs, giving you more capital to invest in your core, revenue-generating competencies. For instance, you can save substantially by not having to hire, train, manage and pay salary, benefits and taxes for additional IT staff.

The ability to stay focused on improving productivity. Outsourcing noncore IT functions frees up time so you can focus your attention and limited resources on your core business competencies or "reason for being." This, in turn, can lead to improved productivity and the ability to grow your company and generate more income. If your primary business focus is on manufacturing and selling widgets, for instance, it would probably be more beneficial to outsource IT services.

Minimized system disruptions and downtime. Having continuous access to a pool of highly skilled, knowledgeable and dependable IT staff helps you minimize system disruptions and downtime. This may prevent costly productivity losses and customer dissatisfaction that further results in lost business revenues.

Reduced risk of IT investments. As with any business investment, IT investments run the risk of failure or poor return. However, outside service providers generally assume these potential risks for your business because they're more knowledgeable, skilled and equipped to minimize them.

Streamlined IT project implementations. Instead of trying to rustle up and hire specialized resources in-house, you can leverage the readily available resources and economies of scale of an IT provider. This allows for faster and more cost-efficient IT implementations.

The opportunity to think and act like a bigger company. Outsourcing helps smaller family businesses compete against larger companies because it provides affordable access to comprehensive and advanced IT services.

RECIPE FOR SUCCESSFUL OUTSOURCING ARRANGEMENTS

Before charging at the buffet of available outsourcing solutions, prepare your business case, which should explain your needs, justification and expectations. This will help you keep your business needs and goals in mind when reviewing outsourcing providers' proposals and negotiating with them.

If you don't have a designated CIO or senior IT staffer in your company, consider bringing in an experienced outside consultant to help manage the process. He or she can help with identifying viable providers, sending out the request for proposal (RFP) and evaluating the responses. Also, discuss your goals with your CPA — he or she can help you manage this process.

As you work with a provider to develop and finalize the outsourcing service agreement, specify goals and expectations, such as the specific type and volume level of service to be provided, timeline, metrics for assessing performance, and fees and any bonuses to be paid in return.

Failure to document each business partner's obligations can result in dissatisfaction and disputes. Thus, you'll find it worthwhile to spell out all the details and consult a legal advisor with experience in structuring fair outsourcing arrangements.

TIME TO DIGEST

IT outsourcing solutions can help family businesses cost-effectively address a variety of business needs, from reducing operating costs to increasing business productivity to gaining access to advanced technologies and skilled IT resources.

The decision whether to outsource any area begins with determining what your core, revenue-generating business competencies are vs. your noncore, support and overhead competencies.

If IT isn't a part of your core competency offering, it's probably more practical and economical for you to offload all or part of your IT services to an outsourcing provider. Whatever you decide, remember that the goal of outsourcing is to better enable your family business to achieve its revenue and profitability goals. So you'll want to take the necessary time to thoroughly digest the pros and cons of this opportunity before digging in.

> TOO MANY COOKS IN THE KITCHEN?

When it comes to selecting an outsourcing service provider, you may opt to outsource all of your IT needs to one overall provider or split them up among multiple highly specialized providers. Whether too many cooks in the kitchen will spoil the broth depends on your family business's ability to effectively manage them.

No matter what, you'll want to dedicate staff to work with your providers and oversee these relationships.