

Family Business

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Will Your Business Survive You?



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Succession planning is both the most painful and the most important topic for a family business. Obviously, for the business to continue, succession must take place.

Yet survey after survey proves that the vast majority of all family businesses have no succession plan. Why so few have a formal succession? Why do so many not even have an available successor?

The Nature of the Problem

Succession confronts the founder of a family business with a complex set of options. These options include:

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1. Appoint a family member
2. Appoint a caretaker manager
3. Appoint a professional manager
4. Liquidate the business
5. Sell, in whole or in part
6. Do nothing.

The first option of appointing a family member to succeed is particularly attractive as far as most founders are concerned, although options two and three also involve retaining direct control over the business. Option four entails selling off all the company's assets, paying its outstanding debts, and dismissing the work force. It also involves substantial expenses and is unlikely to result in the best price being obtained.

If possible, some form of sale as a going concern (option five) is likely to recover more value from the business. Alternatives within this option include a trade sale (i.e. an outright sale of the whole business for cash), which may be particularly appealing where no suitable successors can be found, or an equity sale can be the best answer if external capital to finance growth is a

priority. Similarly, a management buy-out (a sale by the founder to the existing management team, which may include family members) can offer a compromise between transferring the shares to the family and an outright trade sale.

Finally, the founder may simply avoid planning for succession by adopting the 'Do nothing' option, and it is here that we encounter the central paradox. It is the most costly and destructive of all the options, yet it is by far the most popular.

What Needs to be Done

When you strip everything else away, the core long-term decisions for business succession, in a family business, are those relating to control and wealth. The central issues become:

Who has or should have the power and control of the business today?

What can be done to ensure the appropriate return on the business assets and protect them into the future?

How to ensure the proper distribution of control and transfer of wealth to the next generation.

The most common errors in handling power and wealth can be classified into three categories:

Avoidance or Denial: At worst, no personal financial, estate or succession plan or will. Not much better is a simple will leaving everything to the spouse, then saddling them with the responsibility of dealing with all of the sticky issues.

Family Emphasis: The business belongs to all the family. Divide the shares equally among family members

regardless of interest in the business and without thought to the uncertainties of life.

Financial Emphasis: Taking all measures to minimise or save on taxes through appropriate structures without regard to their effect on the future worth of the business' assets and operations.

To avoid these mistakes, the founder / owner should define their other primary goals with reference to the distribution of power and wealth as protecting the values of the business as an asset.

In order to achieve this end, the owner should view their job as one of providing for management succession, ownership succession, and estate planning, and secure the best professional assistance that they can to assist in these areas.

Taking this three-part approach will ensure that the owner:

- Arranges for management to maintain the value of the business and the wealth associated with it;
- Recognises the different interest and needs of various family members and satisfies them using some of the business assets without inappropriately dividing control of the business;
- Places control of the business in the hands of those interested in its continuity and ongoing performance.

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Making Business Owners Happy

Have you noticed a business owner who is very satisfied with his or her personal, family and business circumstances? Have you wondered why?

1. Financial Security:

These business owners have organised their financial circumstances to achieve lifetime not just business goals.

Financial security is achieved when the owner is financially indifferent to the company's prosperity. This usually means reorganising the owner's investments, reducing the proportion that is committed to the family business and building up the owner's separate outside investments.

2. The Spouse is Happy:

Among other things spouses want time with the owner to enjoy life and they want a close family. When owners take the time to understand and respond to the spouse's feelings it makes for happy owners as well as happy spouses.

3. There is a good family relationship:

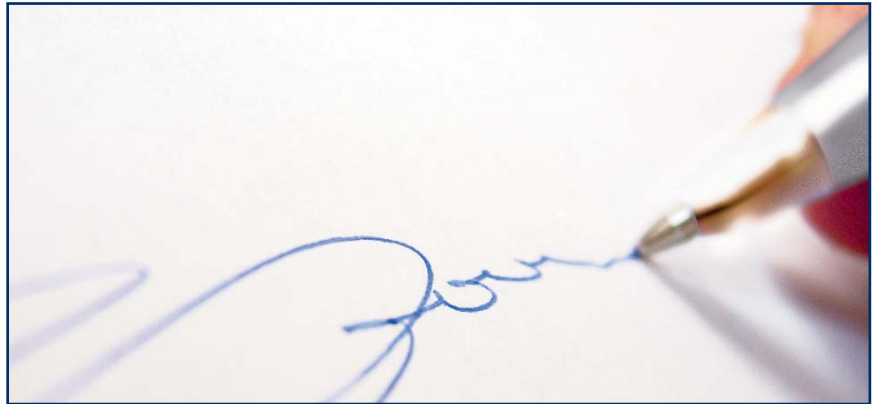
In families where there is open communication about real issues, where individual goals are respected, where not all family members are expected to fit the same mould, and where there is a commitment to fairness, the owner has good reason to feel content.

4. Fairness has been defined:

Should a family with children in the business whose abilities and contributions differ, nevertheless, strive to provide comparable lifestyles through



the company? If a family member wants to sell his or her interest in the



business should the value be determined with or without discounts for marketability and minority ownership? The issues of fairness go on and on. Owners who have addressed and defined fairness in their own circumstances and have implemented family plans accordingly are relieved.

5. There is a succession plan in place:

A succession plan impacts the owner, the company and the family. The choice is not whether there will be succession but whether it will be successful and according to the owner's and family's wishes. Happy owners have well thought out succession plans and they are in place.

6. The Owner has found a role for the future:

Owners want change, challenge and respect. These ingredients can't be found indefinitely in the corner office. More enlightened owners look for and find roles in the company that suit their abilities and the commitment that they want to make to the business as they advance in age. These owners tackle new roles and are pleased when someone else, maybe a family member, exercises leadership.

7. The Family has adopted a process of continuous planning:

Family relationships are a special kind of friendship. There has to be something

in it for each party. Owners who make the effort to initiate systems for continuous attention to family relationship are rewarded. This is best done by regular family meetings.

8. The Company has a business plan:

It is often said that the business is another of the owner's children. Perhaps this is why owners want plans that respond to the needs of the business almost as much as they want plans for themselves and their families. When these plans are compatible and the differences and priorities are reconciled owners have reason to smile.

9. The Company's future leadership is competent:

Owners know what it takes to build and lead their companies. They want comparable successors. Find a truly happy owner and you are likely to find a competent replacement who has been identified and already empowered by the owner.

10. The Owner is proud and satisfied with what has been achieved:

Owners deserve to be proud and to be recognised for their accomplishments. They've earned it. Owners who are satisfied with their accomplishments don't have to rove themselves all over again. This relieves a lot of stress and allows the owner to be a good shepherd for the family and business goals, as well as their own.



Do-It-Yourself Family Meetings

Come to learn, discuss, dream, and plan as a family.



Offices of Horwath Bastow Charleton Limerick

Family meetings improve the chances that the business can continue into the next generation. We are talking about regular gatherings one to four times a year involving multiple generations – including children and spouses – who come to learn, discuss, dream, and plan as a family.

While the family's business is often an important topic at these meetings, any family-related subject is appropriate. Thus, the entire family, regardless of ownership or employment in the business, is urged to participate.

Family involvement and participation contribute to the real goals of family meetings - greater cohesion, communication, and planning. Facilitating one's own family meeting can seem daunting because of the potential emotional intensity of family discussions.

We believe that families can have successful meetings on their own, especially if a family member has been trained to facilitate family meetings.

We offer the following tips to increase your probability of success:

Have co-facilitators. Elect at least two family members to facilitate the meeting. Co-facilitators provide checks and balances. If one wants to express strong opinions about a topic under discussion, the other facilitator leads that portion of the meeting.

Involve others. Having multiple family members involved in planning and running the meeting prevents the

impression that any one person dominates the show, and it gives those not employed in the business a chance for leadership.

Know yourself - and your limits. Reflect on how you work and communicate. Recognise your strengths and weaknesses. When you participate in family meetings, you will find that understanding your personality style and how it affects your responses will give you greater appreciation for family members' different styles.

Minimise surprise. Family members

Family meetings are their own reward. In the early stages, the process of meeting - communication, sharing, building trust and openness, resolving conflicts - is much more important than tangible outcomes.

want to feel safe as they approach the family meeting. Memos, reading materials, updates, and meeting agendas sent out far in advance are crucial for helping everyone feel prepared.

Set the rules first. A priority item on the first meeting's agenda should be establishing group rules that will provide the safety and reinforcement

necessary for family members to interact.

Have fun. Family meetings work best when they incorporate opportunities for family fun. Fond memories and jokes evolve alongside serious discussions and help lighten the mood during the meeting.

Pay attention to details. Logistical elements can make or break a meeting. People are naturally more willing to sit in a room and talk to one another if the chairs are comfortable, the coffee is hot, and the breaks are ample.



Take your time. Take it slowly - with meeting length and content. Give the agenda substance but avoid overload; one or two heavy topics are enough in the early going. Some families begin with a three hour meeting to set ground rules and to plan the agenda and arrangements for the next meeting. Later, families may choose to move to a half-day or full-day format or even a weekend retreat.

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Well facilitated meetings help families find the strength to deal with the challenges that come with owning and managing their businesses.



TEAM BUILDING

A successful family in business together should be a strong force united.



Team building within the family business is hard work, requiring conscientious thought and clear communication. But its benefits are many. Ask yourselves these questions:

- Do we pull together during times of need?

If someone in the family has suffered a loss, do you all stand by with open arms, to console and offer assistance?

- Do we work through personal problems within the family? In other words, do you cut through selfish motivations to truly help a family member in a time of need?

- Do we spend leisure time together? Are you the people you might choose to be with even if you weren't related?

"Yes" answers indicate a good foundation. The truth is, though, that even on the strongest foundations, independent personalities within the family can clash and break down the entire unit.

As you raise your children to be individual winners, remember to teach them also to be good team players. Having worked on team building over the years, in business it's time for team playing. A successful family in business together should be a strong force united against adversity. Are you?

Four Cardinal Rules: As a family, try to answer these key questions thoughtfully, honestly and sincerely, in an open meeting. When you sit down together to meet as a team, there are four "cardinal rules" to follow:

- 1. Show Up.** Meetings take time and often feel like formalities, but meeting

is essential to the communication process.

- 2. Listen.** When someone else is speaking, sit back and relax. Speak in turn. Stop saying, "I know", and start saying, "I want to know".

- 3. Tell the Truth.** Often, the hard part of telling the truth is just knowing the truth, cutting through the ulterior motives to actually uncover what is true. But once it's at hand, the truth is undeniable, and it's very, very liberating.

- 4. Seek Process, Not Outcome.** Team building is a dynamic activity, which provides fruit in itself. It is the action that must be developed and maintained. The outcome will follow naturally.

Do You Have What It Takes?

There are some keys to determining if, when it all boils down, your family does have what it takes to be a team in business together.

Ask yourselves:

- Are we a team? Do we need and / or want to be a team?
- Do we have good communication and trust?

Open communication is absolutely essential to the team building process – as it is to handling virtually all aspects of life. The truth should always be on the table, no matter how difficult that seems. If it's the truth, it is not to be feared.

- Are we well organised? Are we all clear on our individual roles and goals

within the family, and in the business?

- What is our direction? Is everyone committed to achieving common goals? What if you didn't answer yes to every one of these questions? Well, don't despair. Remember, there's a fine line between being an individual and being a renegade.

You and your family will need to address the questions and come to terms with the answers. This could require some tough judgements.

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