

Compelling Reasons to Involve Your Family in Your Business

Familiarize your spouse, heirs or successors with the important aspects of your business. It's good protection in the event something should happen to you. An informed spouse or child will be better equipped to keep the business running. Even if the business is eventually sold, its value and sale price will be significantly enhanced by the fact that it is still operating and, even more so, is profitable.

"Familiarizing" does not require the spouse or child to become active in the operations. All that is necessary is a general understanding in five key areas:

1. Operations, Activities and Personnel
2. Financials and Financial Performance
3. Contracts, Documents and Agreements
4. Succession/Continuity
5. Estate and Estate Tax Plan

If you don't have a spouse and/or adult children, involve the executor/executrix of your estate or a trusted friend or business associate. The point is that someone must be ready, willing and able to step in should you become unable to work. Ideally, that someone should be the person who has the most to gain or lose by the ongoing success of the business.

Many spouses want little to do with the business. It's your deal, not theirs, so you might have some persuading to do. Start by explaining that it is just a prudent precautionary measure, like writing a will. Explain as well that they may one day be faced with the job of running the business, and they can choose whether to be prepared or not. Still, some spouses will refuse. In this case, it is necessary to involve an adult child or advisor. Here's how to proceed from there.

Five Steps to a Contingency Plan

Step 1: Operations, Activities and Personnel. Begin by providing a good overview of the business and its organizational chart. Explain what the business does; and the various functions and activities within the business. Who does what? How is it done? What do you sell? Whom do you serve? Who are your competitors? What are the critical performance factors? What are the significant risks? What are the vital assets and capabilities?

Then, have your designate attend important meetings – board, shareholder, finance, budget, marketing and product development.

Step 2: Financials and Financial Performance. Your company balance sheet and income statements paint the dollars and cents picture of your firm. Your designate must develop a basic understanding of your financials and how they are constructed; what they mean; what is "good" and what is "bad"; what are the trends; what has occurred in the past; what is now occurring; and what needs to occur in the future. Include in this review the taxes due and the tax returns.

Step 3: Contracts, Documents and Agreements. This review includes the major documents of your firm such as articles of organization, operating agreement, shareholder agreement, buy-

sell agreement, bank loans, employment contracts, benefits plans, life insurance policies, investments, supply agreements, customer agreements, etc. Make sure your designate sees a copy of each, understands what they mean and knows where to find them.

Step 4: Succession/Continuity. This topic covers business succession and interim management. In the event that you become incapacitated, who will run the company? How will this person be compensated? Who else will play vital roles? Who will assist in decision-making? Who should be trusted?

Typically, the spouse will not want to run or continue to own the company. So, who will buy the company? At what price and terms? Consider compiling a list of five or more potential buyers and outlining who will handle the negotiations.

Step 5: Estate and Estate Tax Plan. With your designate, get answers to the following: Are the wills and trust agreements up to date? Who are the owners and beneficiaries of personal and business life insurance policies? Do they need to be changed? How much retirement money do you have and are the beneficiary designations correct? Is legal title of your property correct? Is there sufficient cash and liquidity, including life insurance proceeds, to support your spouse and children and pay for funeral expenses and estate taxes? Is there a buy-sell agreement in effect to purchase your ownership position in the business? Is it funded by life insurance so your family is assured of receiving cash?

Too often, business owners leave those who depend on them exposed to unpleasant but inevitable eventualities such as their own disability or death. Clearly, we all resist facing our own mortality. But to sleep better and extend yet another sign of your love and commitment to those who depend on you, start today to plan for the orderly transition of your business.