Summer 2012

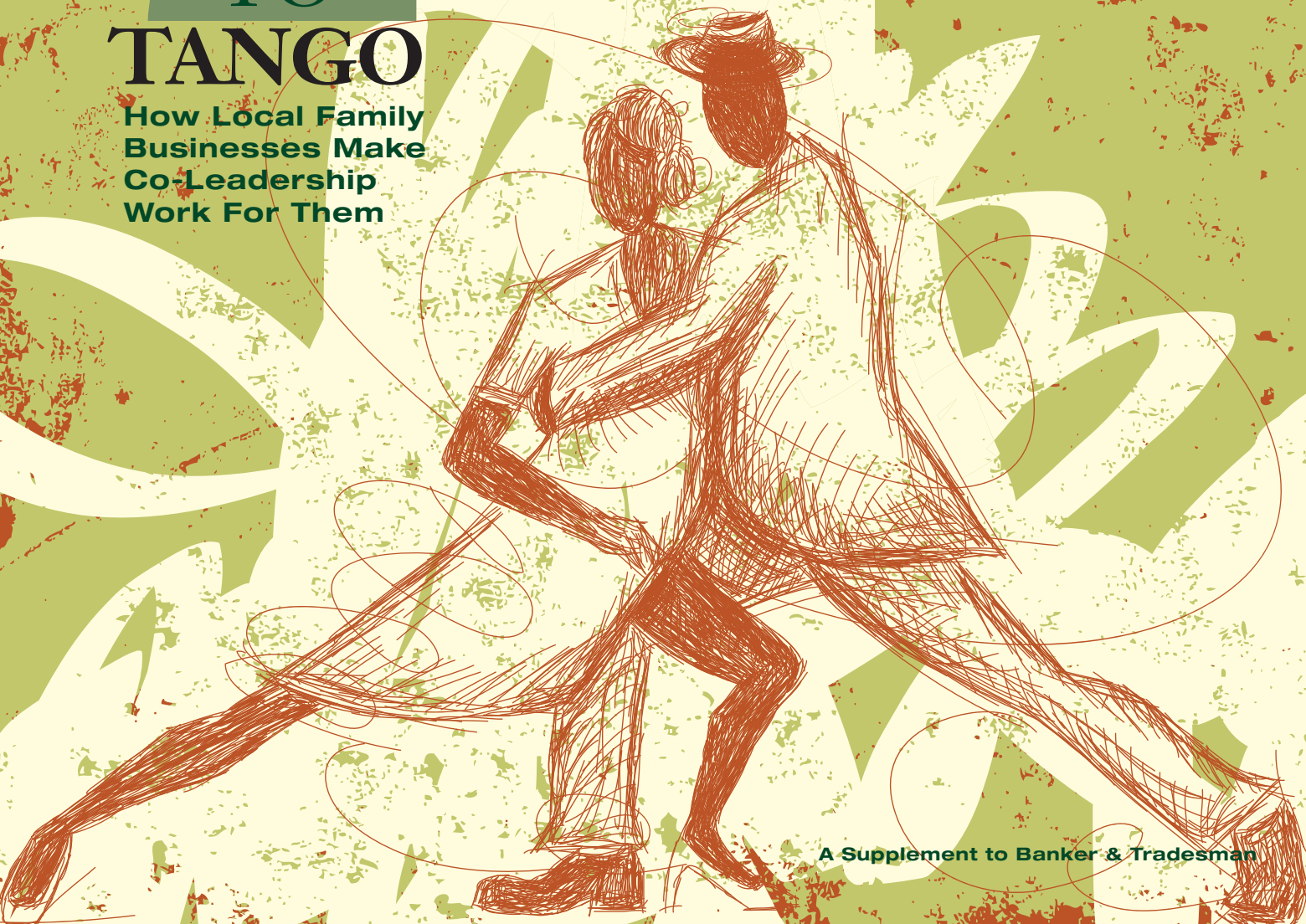
Massachusetts FAMILY BUSINESS

Official magazine of the FBA
FAMILY BUSINESS ASSOCIATION

IT TAKES 2 TO TANGO

How Local Family Businesses Make Co-Leadership Work For Them

Plus:
Special Section on Fine-Tuning Your Financial Operations



A Supplement to Banker & Tradesman

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Every once in a while an opportunity arises that allows us all to take a step back and marvel at the accomplishments of others. Here at Banker & Tradesman, we recognize the growing impact that women are having on the Finance, Insurance and Real Estate (FIRE) sector and have pulled together a program that will shine a light on the many trailblazers who are leading the way for others in this once male-dominated area. In order to do this, we need you to tell us: who is making a significant contribution to your industry?

We are seeking nominations from every field in the FIRE sector to help us in our search for the best of the best - those women who are making a difference through innovation, hard work, team-building, philanthropy, mentoring or leadership. Through a very selective process we will choose the B&T Women of FIRE, who will be honored with a special supplement on July 23 and again at a special awards luncheon scheduled for August 6 - with guest speaker Lisa M. Lynch, dean of the Heller School for Social Policy and Management and Brandeis University, and former chief economist for the U.S. Department of Labor.

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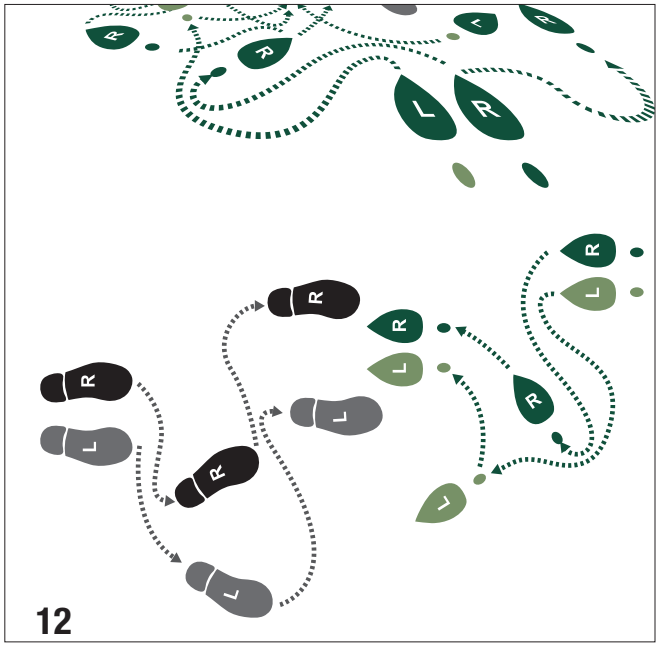
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Will You Be Ready When It's Time To Transition?

By Jessica S. Bettencourt

Family businesses are an enormous force in our economy, yet only 12 percent make it through the third generation. Anyone who has ever been intimately involved with a family business on a day to day basis is aware of the unique issues that we face. All businesses have their challenges, but the family business is different because of the unique issues that come from family members working together. Our businesses, no matter their size, must overcome these additional challenges in order for us to achieve profitability, market stamina and eventual succession.

JESSICA S. BETTENCOURT

My family's business, Klem's, was founded by my grandfather, John Klem, in 1949. It is currently transitioning to me, the third generation, and it is our expectation to beat the odds. The statistics are not in my favor. I know that I have the passion and dedication to take it to the next generation, but will the next generation want it? Can I encourage the next generation to take it with the same passion and dedication that I have? There are family businesses that have already successfully faced this challenge. Their experiences are invaluable to me and to other family businesses.

The FBA has given me an avenue to explore topics related to family business that I hadn't even considered. The transition from my father to me is easy, as I am an only child. However, I have two children. I had never even considered what would happen when it came time to transition the business to them. Do they split the business? What if one doesn't want it, or doesn't have the passion to pursue it? So many family businesses fail because the family begins to argue over financial control. How do I set up parameters that are clearly defined and can be communicated to the fourth generation?

As a member of the FBA Advisory Council, I have the honor of working with other family business members to highlight these issues and to bring them to the forefront of the FBA. We are a very diverse group including retail, wholesale, manufacturing and services industries. Although we are very different, we have found many common threads.

The FBA Advisory Council has been working on identifying the crucial issues that all family businesses face. Our last meeting covered several topics including the pros and cons of "married-ins" becoming involved in the family business (see story, page 6). That topic raised more questions than answers, but clearly illustrated that it is a question many family businesses face.

We also discussed the best way to prepare the next generation for involvement in the family business. Should they work outside the business? Personally, I took the route of working in the business since I was a child. I worked for a year or two in almost every position in the store, from cashier and shipping/receiving to buyer and office manager. I don't know if that avenue will be available, or appropriate, for my children. How can I best prepare them to manage the business with the skills that I have gained through experience?

One of the most exciting opportunities we are working on is the early planning of a 2013 family business conference. We hope that we are able to aid the FBA in developing a conference that will be valuable to family businesses of all sizes. Our goal is to highlight issues that family businesses face and help them to prepare for the future. Many times when a family business fails it is due to internal struggle. How many of those businesses could have been saved if they had better planned for future generations?

Family businesses are a powerhouse of our economy and we need to cultivate and grow them. I know that my involvement in the FBA and with the FBA Advisory Council has already better prepared me to look to the future of my own family business. I can only imagine where the fourth generation will take it. ■

JESSICA S. BETTENCOURT IS A MEMBER OF THE FBA ADVISORY COUNCIL AND PRESIDENT AT KLEM'S DEPARTMENT STORE IN SPENCER, MASS.

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Marrying into the Family Business

Creating Personal and Professional Relationships

By Phyllis Hanlon

When Mark Horton married Cheryl Yennaco in 1998 and joined her family business, he never expected to find himself – an electrical engineer – sewing and installing awnings. But his background and skills proved to be a perfect match.

In 1962, Doug Yennaco acquired Melrose-based Atlantic Awning and his daughter Cheryl became involved in the company at an early age. After graduating from Southern University of New Hampshire, she joined the business full-time, assuming several different roles in the ensuing years. You could say the awning business was in her blood. Not so for her husband though.

Fourteen years ago, when Horton married into the family, he accepted the opportunity to climb aboard. As a newcomer, he had no experience or knowledge of the awning industry and started at the bottom. Yennaco says of her husband, "He began driving a truck and installing awnings." She points out that the transition was pretty dramatic. Shifting from a 20-year career as an electrical engineer to a business owner in an unrelated industry required a different mindset. But Horton proved to be a quick study and soon began to master all aspects of the awning business.

Working his way up, Horton put his personal philosophy into practice – "You can't run a business unless you know the business." Yennaco says, "After four and a half years, he doesn't need to depend on anyone. He's learned the business."

As part of the learning process, Horton questioned some of the practices the

Cindy Rice and Richard Andrea, founders of Eastern Food Safety.

PHYLLIS HANLON IS A FREELANCE WRITER.

business had employed for years. "He asked questions and didn't always accept the answer. After a while, he found different ways to do things, which turned out to be an improvement," says Yennaco. "Some of the employees who had been here for 26 years found it hard to change at first, but he helped everyone learn."

The company has grown in the last three years and is ready to take on more challenging projects because of Horton's quality control system. "Our lead time is down, product and quality has improved and the closing rate is up," Yennaco says. "Mark came from the outside and brought in a fresh look."

While Yennaco and Horton came from two vastly different backgrounds, Cindy Rice, Certified ServSafe® instructor and Richard Andrea, executive chef and culinary educator, already shared similar interests and had complementary skills within the same industry when they teamed up.

Before founding Eastern Food Safety, a food safety and public health training and education company located in Braintree in 2002, Rice had owned a catering business, corporate cafés and a brownie manufacturing company. She was conducting a food safety class in 2004 when the couple met and hit it off. Two years later, Andrea joined the company and in 2007 the couple wed.

With a shared interest in food, they merged their strengths and broadened the business' portfolio of services. "We have gone into schools to do a pizza workshop with kindergarteners," says Rice, adding that Andrea's expertise in working with youth enhances the school programs.

When the duo visits a restaurant for a safety session or a school for a demonstration, they form the perfect "show and tell" team. Rice begins the session with a talk and a PowerPoint presentation on safe ways to handle food. "Then Rich comes in and demonstrates the procedures, using color-coded cutting boards. It's a great visual presentation," Rice says.

Rice says, "We have crossover skills. I come from a science background, and culinary presentation is his strength. I am concerned about bacteria and safe food preparation, which overlaps with his technique for making food look good."

Bumps in the Road

While the couple embraces similar philosophies when it comes to food, they have strong, independent personalities and had to face a few challenges. "I've owned my own business for years and knew the science behind things," she says. "I had to be patient and listen to his point of view. We had to find better way of communicating. We both had lessons to learn. The first couple of years were eye-opening."

Andrea credits Rice for running a smooth and profitable operation, but pointed out how hard it was for her to ask for help. "Cindy was trying to handle a lot of things – promotions, marketing, advertising. She was doing all of it," he says. "Now she'll stop and listen. She takes advice better now. I don't just jump in, but wait for the right moment. That's been a major hurdle."

Both Rice and Andrea agree that the minor bumps in the road have not dampened their enthusiasm for working together. "It has been an exponential gain having Rich involved in the business," says Rice.

Marrying into a family business can be exciting and fun, but may also bring some hidden challenges. According to Ira Bryck, director of theUMass Family Business Center, the family dynamic can make or break the relationship. "You might be part of a family that has a strong and positive value system. They may be used to influencing society and the economy through their family business," he says. In a best-case scenario, the "in-law" family might handle conflict well, and the chance to work in the family business might be a fast track for the outsider to use any special talents. "Or none of this could be true, if the family is plagued by conflict or unprofessionalism," he adds.

Resentment toward an outsider, particularly when it comes to promotions, may cause some friction. To avoid potential problems, Bryck suggests adopting an "affirmative action for family" policy that bestows a position on a family member if two finalists are equal. "Be clear with all employees how they can advance in the company, and give your honest view of what advantage a relative has, as it's a family business," he says.

Also, should the marriage break up, consider what happens to the business re-

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FAST 5

Tips to Make Your Employee Benefits Run Smoothly

BY ANTHONY C. CARIDEO JR., CPA

1. Mark the 15th Business Day Following the End of Each Month

As an employer, you are required to segregate and remit employee contributions to the plan from its general assets no later than the 15th business day following the end of each month in which amounts are contributed by the employee or withheld from their wages. It's best to work this into your policies as is practical with your current procedures. The stated 15th-business day is not a safe harbor. In recent enforcement, the Department of Labor (DOL) has referenced the date on which the employer is able to segregate and deposit payroll tax withholdings when judgmentally determining the date on which the assets can reasonably be segregated. Accordingly, we recommend that you remit employee deferrals to the plan on the day that you make your payroll tax deposits. Further, when an employer is delinquent in forwarding participant contributions and holds them commingled with its general assets, the employer is deemed to have engaged in a nonexempt prohibited transaction as a loan to the plan sponsor for the use of employee funds.

ANTHONY C. CARIDEO JR.

The DOL administers a Voluntary Fiduciary Correction Program (VFCP) which allows plan sponsors to self-report instances of non-compliance without penalty provided that projected lost earnings associated with late remittances are remitted to the plan and all other provisions of the VFCP are met.

2. Make Sure Deferrals are in Accordance

Your plan document specifies whether compensation subject to deferral includes bonuses paid during the plan year. Accordingly, employee deferrals from bonus dollars may not be made on an ad hoc or discretionary basis but instead are required to follow the provisions outlined in the plan document. If deferrals are not in accordance with elections and compensation definitions specified in the plan document, the Department of Labor will require your organization to recalculate and then credit the accounts for any lost contributions. Additionally, you may face a penalty.

3. Protect Yourself Against Fraud with a Fidelity Bond and Fiduciary Insurance

A fidelity bond is required for a plan by ERISA Section 412. The primary purposed of the fidelity bond is to protect the plan against fraud or dishonesty, such as embezzlement from the plan; therefore the plan, not the plan sponsor, must be the named insured. Usually employee dishonesty policies meet the bonding requirement; however, the plan must be the named insured either in addition to or in lieu of the plan sponsor.

The amount of the bond must be at least 10 percent of the plan assets at the beginning of the year, but not less than $1,000, nor more than $500,000. For purposes of fixing the amount of the bond, the amount of funds handled is determined by the funds handled by the person, group, or class to be covered by the bond, during the preceding reporting year. The bond must insure from the first dollar of loss up to the requisite bond amount. No deductible is allowed which, in effect, shifts a portion of the risk to the insured.

The purpose of fiduciary insurance is to protect the plan fiduciaries from liability; for example, in the event of lawsuits against the fiduciaries for "breach of fiduciary duty" from either the participants or the government. Fiduciary insurance is not required, but many ERISA consultants recommend that the insurance be purchased to protect the decision makers of the plan.

It is possible that fiduciary insurance can qualify as fidelity bonding, but that depends on how the insurance contract is written. In most cases, it is expected that a separate fidelity bond is needed. Accordingly, you should consult with your insurance agent to make sure your insurance coverage specifically meets the bonding requirements of ERISA.

4. Maintain Voluntary Non-Participation Documents

It's a prudent practice to maintain evidence of an eligible participant's election not to participate in the plan to clearly document their decision so they cannot assert in a later year that they had chosen to participate and that the plan sponsor incorrectly excluded them from the plan.

5. Develop an Investment Policy Statement

Since a primary role of a plan trustee is to protect the assets on behalf of the plan participants, it is a prudent practice to develop an investment policy statement. This policy statement should document the due diligence process in place to monitor the appropriateness of the investments offered in the plan. Failure to do so could result a breach of your fiduciary duties. ■

ANTHONY C. CARIDEO JR. IS DIRECTOR OF NONPROFIT SERVICES AT WOLF & COMPANY.

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lationship. "In a divorce, you lose the in-law, but do you also need to lose the good employee? I've seen situations where the ex-in-law retains their job, based on their expertise and good relationship with the ex-family, even the ex-spouse," Bryck says.

Competition, Risk and Opportunity

The size and type of the business make a difference as well, according to James Mattie, national client leader for PricewaterhouseCoopers' new Private Company services. Larger companies tend to have a more diverse mix of family and non-family employees, with higher staff numbers, so opportunities for advancement are more limited and competitive. "There might be multiple people vying for a particular slot. With little attrition, this can cause a lot of pressure," he says.

Smaller businesses tend to react more emotionally when an "outsider" joins the company. Mattie points out that the owner has to face two hurdles: adjusting to his son or daughter's new spouse and then getting accustomed to the in-law's role in the business. However, if the newcomer has had a long-term relationship, his or her entry into the family business will be easier to accept. "The exposure to family serves as a trial period. Getting to know the person reduces the risk [for the business]," he says.

Additionally, the position the outsider accepts matters. For instance, if a 24-year-old marries into the family and joins the business at a lower level, the risk is minimal for both the individual and the company; the individual may also have a real opportunity to gain experience and hone skills and talents. "I would advise the individual to evaluate all options. A younger person should not let a family business be his first job," says Mattie.

Overall, both the "outsider" and the "insider" should completely commit to the venture and keep communication lines open. Jeffrey R. McIntyre, a marriage and family therapist, founder and president of business coaching and consulting company Enlignment, Inc. and author of *The Seven Intelligences of Leadership*, says commitment to both the business and the personal relationship will help to override any challenges that may arise. "There is an element of intimacy in communication and conflict management [in a family business] that is different from the cold [and] indifferent structure of a large business," he says.

Flexibility applies not only to business situations, but also to home life, according to McIntyre. "There is a level of gender flexibility necessary. You need to do what's necessary for the business and relationship to succeed," he says. "You should have a plan with clear expectations, but within the capability for responsiveness to immediate situations, such as last minute changes, crises, etc."

"Marrying into a family business can be exciting and fun, but may also bring some hidden challenges. The family dynamic can make or break the relationship."

Miriam Hawley, CEO of Enlignment, Inc., co-author of *The Seven Intelligences of Leadership*, and founder of the Boston Women's Health Book Collective, says, "The power of the business is related to the different skills each member brings."

The couple, who are partners in business and in life, co-wrote a soon-to-be published book titled *You and Your Partner Inc.: Entrepreneurial Couples Succeeding in Business, Life and Love*, for which they interviewed 52 couples. Based on these interviews, they have found that successful couples that work together typically share and complement each other's strengths, values and core principles.

Hawley poses a few key questions for those preparing to join a family business to consider. "How strong is the desire, the motivation? What are your communication practices? How well do you work out conflict? How do you take care of yourselves and one another?" she says. "You should explore these things that need to be in place for business and an intimate relationship. Desire and passion are the keys to success to the challenges of having a couple-owned business. The two together can be incredibly rich and very exciting."

A Perfect Match

In some instances, a marriage turns out to be the ideal coupling, for the family business as well as for the bride and groom. Phyliss Godwin had succeeded her father as CEO of Granite City Electric in 1970 and hoped to pass the business on to one of her daughters. However, neither aspired to run the business. But when Sarah (Gigi) Godwin met and married Leo Meehan 24 years ago, the stars were shining both on Granite City and on the couple. As CEO of W.B. Mason and involved with the company since 1976, Meehan had a tremendous amount of business acumen and experience. Phyliss Godwin recognized his strengths and realized the two businesses shared many commonalities. "We were both running a distribution company. Although the products were different, we had the same concerns," she says. "We were good resources for each other."

Meehan's amazing success with W.B. Mason impressed Godwin and she felt Granite City would be in good hands with him on the board of directors. "Leo is a great marketer. He has great vision and brings much to the board," she says.

One of the most notable suggestions from Meehan led to greater visibility and growth for Granite City. "In 2004, he encouraged us to talk to the Red Sox," she says. "So we lit the park and that year they won the World Series. That has been the best move. Our association with the Red Sox has changed us."

According to Godwin, Meehan's expertise in marketing and growing a business has benefited Granite City significantly. "He is very good at managing growth. Sometimes it's difficult. There are hurdles to climb. But he's already been there."

While Meehan will never own Granite City – after all, he has his own business – he now chairs the board and has been one of the company's biggest strengths.

"What we have with Leo is unique. Usually someone comes into the family business and has to start at the bottom and work their way up," says Godwin. "But this is a different set of circumstances. I'm grateful to Leo. He keeps everything together. Legacy and core values are very important to us. Sometimes non-family employees lose sight of this."

In addition to his experience and expertise, Meehan brings caring to the company. And you can't ask for more than that in any union. ■

Planning for Disputes When Things are Going Well

By Edward D. Tarlow

There is always the risk of conflict in business, but when family is involved, the risk of dispute is even greater. Family business disputes generally center around governance, business management, ownership and succession (transition) and can be exacerbated by the personal dynamics and history among family members. The business may be profitable and running smoothly today, but under the surface, conflict lurks.

EDWARD D. TARLOW

Generally a dispute is preceded by a triggering event, like the death of a founder or a change in circumstances of a family member or the business. A dispute will erupt when the family, the business or both have a history of poor communication and have not planned for conflict. How family members handle the tensions between family and business and whether they have anticipated conflict and armed themselves with tools to deal with a dispute can determine the extent of the ultimate damage. Anticipating and planning for a potential dispute when the goals and objectives of the business and the family are aligned, combined with good communication between and among the business and the family, is the best way to avoid potentially damaging conflict when a triggering event occurs.

Governance: Good family governance, good business governance, and good family business governance are elusive concepts with many facets. Best practices of business governance recommend the establishment of a board of directors with as many independent qualifying directors as a controlling ownership will permit, or alternatively, a qualified board of advisors to handle specific strategic issues of the business. Best practices for family governance recommend regular family meetings to discuss issues that affect the family.

The intersection of these two governing

systems, business governance and family governance, is family business governance. Best practices of family business governance recommend the creation of a formal family council to discuss issues that affect the business as well as the family, such as employment of family members, salaries, distributions, ownership and succession. This structure will allow the business to identify and address the concerns of the family and the family to become aware of the concerns of the business and recognize and deal with its challenges.

It is at this intersection of family and business where the possibility for a dispute is greatest. It is also at this intersection where the business and the family have the best chance of aligning their interests to avoid future conflict.

Business management: There is no more volatile business management issue than the allocation of capital. Family members in control of the business make decisions regarding the running of the business, including the allocation or reinvestment of capital and payment of executive compensation and fringe benefits. All of these affect the risk associated with running the business and the monies available for distribution to active and inactive family members.

When there are family members both inside the business (with the benefits of employment and control), and outside the business (with none of the benefits of employment and control), there is the greatest potential for a dispute. Good communication between active and inactive family members and between the family and the business can help avoid a dispute.

Ownership and succession: Founders stock often passes down the line of lineal descendants without much thought about whether those descendants have the interest or the aptitude to successfully operate the business. This lack of thought is part of the reason why so few family businesses survive to the fifth, fourth, or even third generation. This lack of thought also plants the seed for explosive family conflict.

Planning ahead for the succession of the business is paramount for the success of the business and the family. When planning for transfer of the business to a younger generation, it is often beneficial to hire independent advisors to counsel the family regarding the impact of succession decisions. Experienced lawyers, accountants and thoughtful family advisors can play an important role in this process. There is never a perfect solution to complicated succession issues, but an attempt to thread the needle in a way that is fair can often avoid a future dispute.

Shareholders' agreements can also reduce the potential for dispute by addressing the disposition of an owner's interest on death, including restricting transfers of business interests among and outside the family. A shareholder's agreement can also delineate the rights of the president, treasurer, and other officers, dictate the composition of the board of directors, deal with family employment issues and provide for resolution of conflict in a nonpublic setting.

Private resolution of conflict becomes more important in the family business setting because, when a dispute erupts and becomes public, vendors, employees, bankers, customers, friends and associates become aware of the conflict which can dramatically affect the reputation of the business and of individual family members. Having a well-drafted shareholder's agreement can prevent bad publicity and provide tools for a successful resolution of an ownership or succession dispute.

By keeping the lines of communication open and understanding that there is always the potential for dispute, family business owners can arm themselves with tools they need to avoid and address future conflicts. ■

EDWARD D. TARLOW IS A FOUNDER AND THE PRESIDENT OF THE FAMILY BUSINESS ASSOCIATION AND IS A FOUNDING MEMBER AND PRESIDENT OF THE LAW FIRM OF TARLOW, BREED, HART, AND RODGERS, PC.

Local Businesses Share Best Practices For Family Success

By Kristin Cantu

Family businesses are a unique endeavor. While they're similar to other operations in that goals include success and profitability, their paths for getting there are remarkably different.

In a continuing series of educational programs, the Family Business Association, along with Suffolk University Sawyer Business School, hosted a panel discussion about best practices for family businesses.

The panel, moderated by Brian Nagle, vice president, BNY Mellon Wealth Management, included: Carol Bulman, CEO and vice chairman, Jack Conway & Co. Inc.; Peter Mikedis, founder, Sidekim Foods; Gary Sheehan, president and CEO, Cape Medical Supply Inc.; and Nancy Sheehan, co-founder, Cape Medical Supply Inc. Professor Alberto Zanzi, of Suffolk University, also sat on the panel.

Family businesses "are the life blood our economy … cornerstones of communities," Nagle said. "What we're hoping to do today is … create a roadmap of best practices."

Work-Life Balance

Each panelist's family business structure has distinct differences, but one thing all agreed on was the importance of putting family first.

Mikedis sat down with his family, making sure everyone was on board with the business plan from the get-go. Everything was structured, including how he and his wife interacted both inside and outside of work.

"When we left [work], it was as husband and wife," he said. "But going into the office … it was business as normal. It's all about boundaries."

Mission Statements

Mission statements are commonly forgotten in family businesses, Nagle said, adding that they're essential for connection to a strategic plan outlining what the family business is about.

Neither Nancy Sheehan or her husband had business experience when they began and "weren't thinking of a mission statement," she said. Problems came later, when the business expanded. Cape Medical Supply eventually doubled in size and had to re-evaluate the mission of the company and redefine the roles everyone played.

"We wanted to retain all the things that made it a wonderful organization, but work on professionalizing an organization that could thrive," Gary Sheehan said.

Zanzi said it's common for a family business to start with an idea and just stick with that. However, they have to make strategic decisions on what's next, and a mission statement only helps keep family businesses alive.

Money, Money, Money

Keeping company financials accessible and being willing to take outside help is key. Bulman's accountant husband advised her to get intimate with every single number in the business. Doing this earned the trust of her father, Jack Conway, who had kept most of the company's numbers in his head for years.

Creating a formal budget was part of professionalizing the Sheehans' business. Nancy said she and her husband went along "kicking and screaming," but it was necessary in order for them to get their medical business accredited.

Mikedis, whose prices are locked in for one year, was able to create specific language in his contracts that allows for certain amendments. This has helped his family business tremendously with rising fuel costs.

What's In A Name?

Nagle pointed out that when moving into the second generation of a family business, having qualified future leaders becomes a question of whether the last name of an employee matters more than their ability, training or experience.

Bulman started answering phones and moved through different areas of her family's businesses over the years. "My father instilled in me a great lesson … you've gotta earn your keep," she said. "In a family business, you have to almost earn it more than anywhere because you're definitely under the microscope."

Gary Sheehan decided to attend business school in order to more effectively run his family business. "You are held to a higher standard, as you should be," he said. "Part of that drove me to formalize my education."

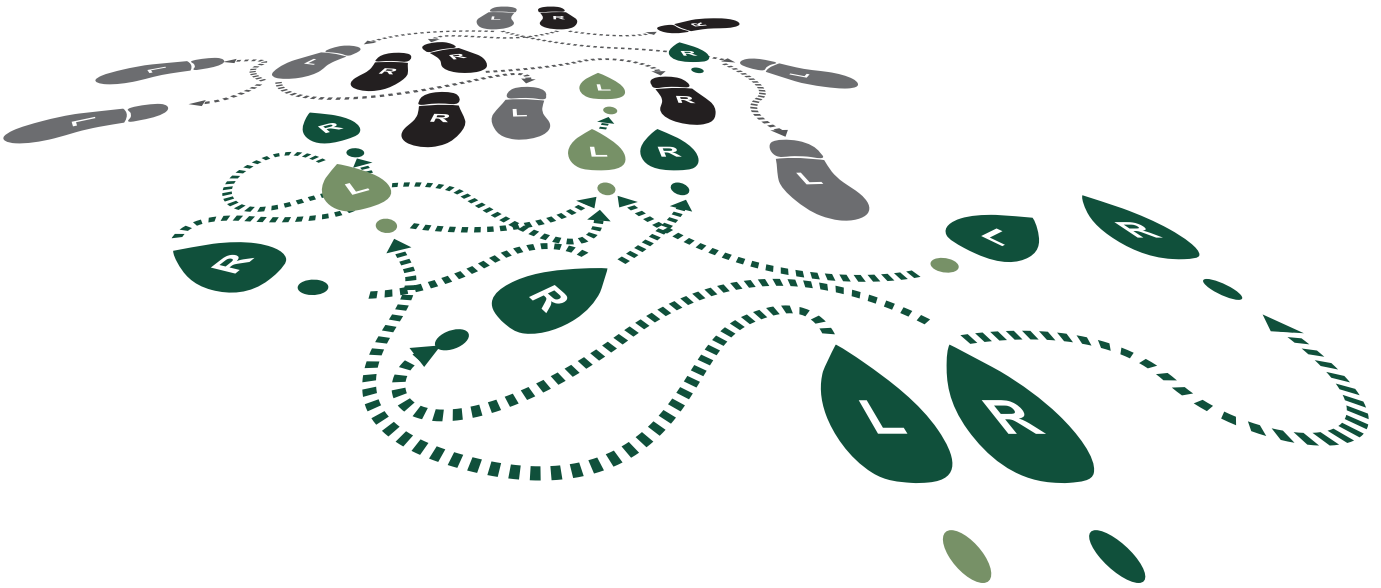
Succession

Planning for a business leader's exit or succession can be a hard task, but something that should never be ignored, Nagle said. Problems arise when a successor hasn't been properly trained and groom. Delegating responsibilities is key to a family business surviving through the generations.

Both Cape Medical Supply and Sidekim Foods encountered situations where family business founders faced life-threatening illnesses. Jack Conway & Co.'s founder, now in his 90s, is also ailing. All panel members agreed that in order for a company to keep prospering, exit or succession plans are essential.

Nagle ended the discussion by saying, "I think what's key for family businesses is that there be open communication, a strategy in place and a protocol where people can feel comfortable discussing different policies such as the performance of the business and strategies of a future success. Once these types of issues are communicated within the family and also with the employee group of non-family members, it puts the company on track for success." ■

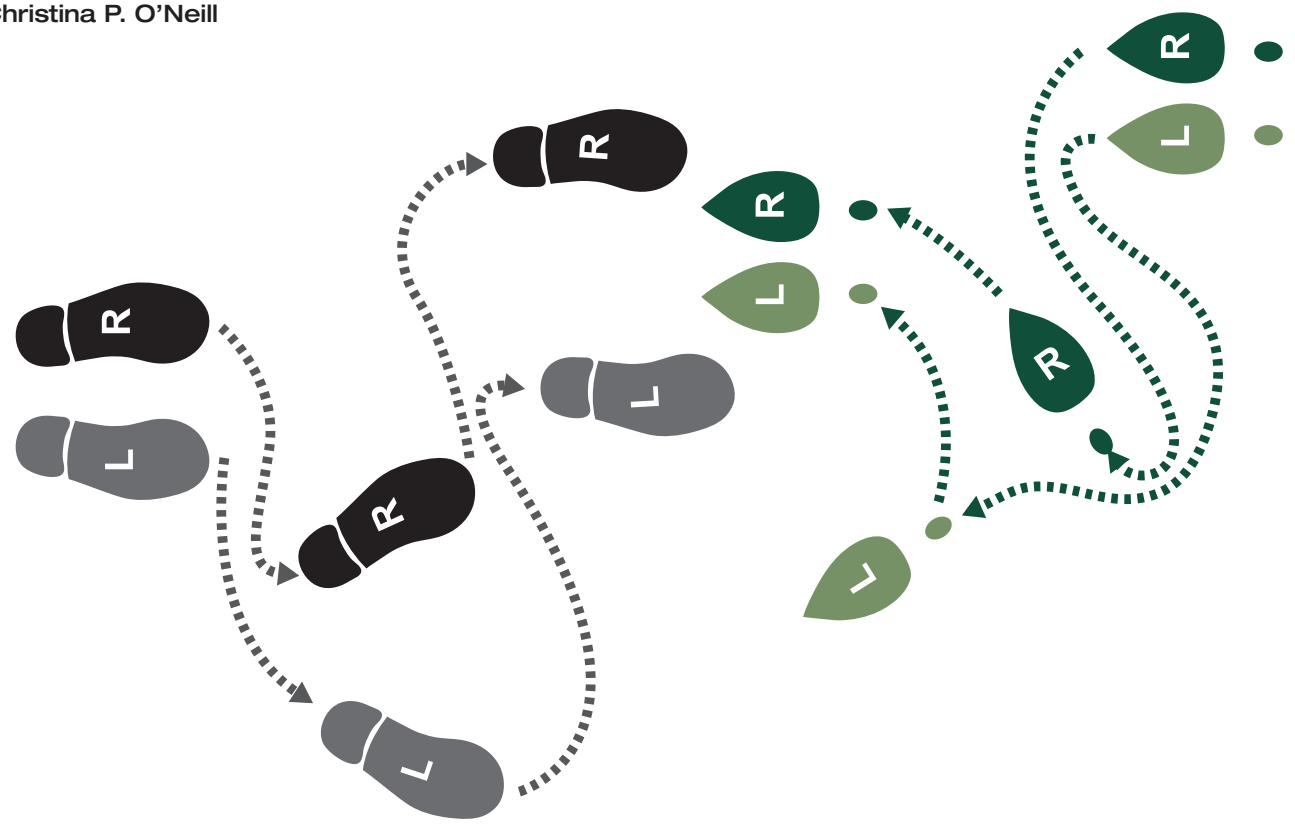
KRISTIN CANTU IS A FREELANCE WRITER.

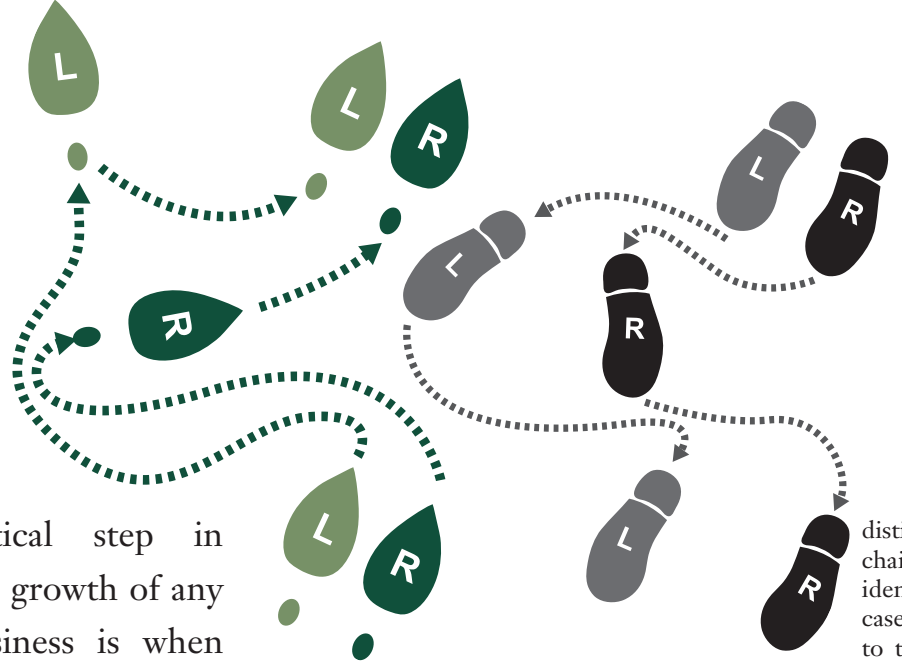


The **Dance** of **Equals**

Making Co-Leadership Work For Your Family Business

By Christina P. O'Neill





A critical step in the growth of any business is when the founders or principals realize they can't perform all business-essential tasks by themselves.


JEFFREY DAVIS

The solution isn't just an infusion of new capital to fund more hiring. It also requires a thoughtful approach to splitting of authority among key employees. Without a fair and equitable strategy to allocate authority, companies with even the most highly-qualified people are at risk for clashing protocols and procedural discord – leading to rancorous resignations and the high cost of replacing key employees.

In a family-owned business, add in a plausible rift between family members and non-family members, and it becomes clear that successful co-leadership isn't just a matter of all personnel sitting around the campfire and singing "Kumbaya."

We asked for input on this subject from Jeffrey S. Davis, chairman and founder of Mage, LLC, a consulting firm for emerging companies and family businesses (he is also a co-founder of the Massachusetts Family Business Association), and Frederic J. Marx of Hemenway & Barnes LLP, an estate and business attorney. Their professional backgrounds and disciplines are different, but their responses run in the same vein.

Co-leadership is most often the splitting up of different fields of power than it is two people in the same power fields. Can you give examples?

JSD: I always try to make sure there is minimal day-to-day overlap. Most frequently, I see the split between inside and outside roles. For example, operations and manufacturing and sales and marketing.

FJM: I have most often seen the split as between finance and operations on one side and strategic and product development on the other. I have also seen it divided between finance and operations on one side and sales, marketing and product development on the other.

What governance structures are best for co-leadership?

FJM: This is hugely based upon the individuals themselves. Titles vary depending upon the preferences. Few have "co-presidents." Frequently the titles are distinguished as executive chairman and CEO and president and COO. In almost all cases, both report directly to the board but have close working relationships.

JSD: I agree with Fred on this one. I think the key here is to divide the titles up in a way that protects each person's ego, but at the same time have that person answer to someone. That someone is a board.

Are there industry sectors where it works better than in others?

JSD: As a rule, I don't think there is a difference based on industry. I do think there can be a difference based on outside work experience and business education. People with outside business experience and a business education tend to lean more heavily on a formal business structure.

FJM: It is industry-agnostic – totally based upon the history of the company and the personalities of the individuals.

Under what circumstances does co-leadership succeed or fail?

FJM: When mutual respect and trust ends. This is a dance of equals and the moment one feels more empowered or superior the path to dissolution follows.

JSD: I totally agree. Ego and greed are dangerous and when they enter a family business, only problems can follow. Respect and trust must win out and that can only happen with a strong structure and a lot of hard work.

What about examples of co-leader teams in which one is a family member and the other is not?

FJM: That is most typically seen with the family member as the chair/strategic planner and the nonfamily member as president.

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Fine-Tuning Your Financial Operations:

What Your Financial Statements Tell You – And Why You Should Listen

By William F. Rucci Jr.

As businesses face yet another season of tepid market demand and tight credit, having access to accurate and timely information about your company's financial health will be more important than ever this year.


WILLIAM F. RUCCI JR.

Whether on a monthly, quarterly or annual basis, business owners can turn to a trio of financial measuring tools to stay on top of how the company is doing, where it's going, and whether there are any trouble spots that need to be addressed before any long-term damage occurs.

Taking a Broader, Deeper Perspective

So, what kind of information should you be getting, and how often? At a minimum, your end-of-the-year financial statements will give you a detailed picture of the financial health of your company over the past year. But it's important to dig deeper.

Run a comparison of your most recent year against how the company has done over the last three to five years to uncover broader trends. Then analyze how you are doing in comparison to others in the industry. These benchmarks will give you valuable insights into how your business is actually doing, and provide deeper context to your planning and decision-making.

Better yet, review your company's performance on a monthly or quarterly basis. More frequent information can give you more time to think about – and react to – worrisome trends that may need correcting.

Tip: A particularly helpful tool is a weekly flash report – a simple, one-page snapshot of cash on hand, receivables, payables, line of credit balance and cash flow needs for the next week. Your bookkeeper should be able to compile this fairly easily.

The idea is to collect and review information at a pace that makes for better decision-making. Armed with the right information and gathered in near real-time, you will have a more sensitive barometer with which to prepare for any storms that may be forming on the horizon.

"Remarkably, some owners don't know the amount of cash they need to collect every week in order to pay their bills."

Your Company's Three-Legged Stool

Most companies use three distinct reporting tools to measure and monitor their financial health – the profit and loss statement (P&L), the cash flow statement and the balance sheet.

Imagine your business as a three-legged stool. The seat represents all the working parts of your business. The relative health of your business is reflected by the three financial reporting mechanisms or the "legs." These legs support the business by performing at high levels.

Many turn to the P &L statement first, because it answers the question "Did I make money?" The statement of cash flow is usually the next most interesting to the owner, because it answers the question "How much cash did my company produce?"

But in determining the true financial health of your company, the most important of the three legs is the balance sheet. This is the tool that measures how well a company can weather a downturn in business. It is the information on which banks and other financial institutions make some of their important decisions about lending and bonding. And as such, the owner's attention needs to be focused on creating a strong, low leveraged, balance sheet.

Working Toward a Positive Bottom Line

This is not to say that the P&L is a trivial document. Obviously, companies need to grow revenue, and need to ensure that they are accurately determining the "cost of revenues" to produce a profit from their sales. Accounting software systems like Peachtree and QuickBooks can be possible solutions for this process.

If your company bids for work, it is especially important to correctly calculate direct costs in the bidding process in times like these when margins continue to be under pressure.

Tip: Always have a target range in mind for your overhead. This is where industry benchmarks play an important role. Your accountant should have access

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Qualified Sick Pay Plan Prevents IRS Headaches

By Jeanne Brutman, LUTCF, CFBS, CLTC, CFS

Many small businesses, law firms and family-owned corporations do not take advantage of a very important employee benefit called the "qualified sick pay plan."

JEANNE BRUTMAN

This is a plan that will allow an organization to deduct the wages paid to an employee who is too sick or injured to work. Without a formal written plan, the IRS does not allow your business a deduction for these expenses. Every $1 you pay out costs $1.65 ($1.81 for S-corporation owners, partners and sole proprietors) because the IRS views it as an "ad hoc" payment that is not tax deductible.

Funding a qualified plan is best accomplished through the use of disability income insurance. This not only allows you to expense the costs, but a "return of premium" provision can bring your net cost to almost nothing.

There are several Internal Revenue Codes that deal specifically with this issue. Internal Revenue Code, Section 105 describes an "accident sickness plan" as a program for paying employees who gets sick or is injured. Because they continue the salaries of employees forced out of work by accident or illness, sick pay plans are included in this definition. Benefits received under an employer-provided sick pay plan are taxable, and only a portion of the benefits provided by the employer are subject to federal income tax. These plans must be established solely for a firm's employees.

Internal Revenue Code, Section 106, explains that when a sick pay plan is backed by disability income insurance, premium payments made by the employer are considered contributions to an accident or health plan. These payments will not be included in an insured employee's gross income. Internal Revenue Code, Section 162, shows how an employer can deduct disability income insurance premiums paid to support a sick pay plan as an ordinary and necessary business expense. There are exceptions for S-corporation shareholders, partners and sole proprietors.

This actually sounds more complicated than it is, and any representative from a disability insurance company can show you how to set this up. There are really only two steps in creating a sick pay plan. The first step is to draft a formal, written plan document using a disability income proposal, and the second step is to let participating employees know the plan exists. It is almost that easy! If your firm has fewer than 100 employees, you might be exempt from ERISA reporting requirements.

Remember, proper implementation of employee benefits can save your business money on premiums, give you deductible expenses, and provide peace of mind. A qualified sick pay plan is a great way to improve employee loyalty and help you reward and retain key employees. ■

JEANNE BRUTMAN, LUTCF, CFBS, CLTC, CFS, IS A FINANCIAL PLANNER.

To Give Equity or Not to Give Equity; That is the Question

By Jim Moniz

Determining whether or not to share equity with employees can cause mixed and conflicting emotions for company leaders. While they don't want to give equity away, they have a genuine desire to recognize the value key personnel bring to their organization. And nowhere, perhaps, does this come into sharper focus than when the business is family-owned.

JIM MONIZ

The more important the key employee, the more likely the employee's desire to share in the equity becomes a driver for a company's overall success.

Here's a look at how various employee stock ownership plans (ESOP) work and how an equity plan can increase engagement and build an ownership mindset among key staff.

First, a few words about the regulations and types of ESOPs. In order to establish an ESOP, a company must have been in business and shown a profit for a minimum of three years. Business owners should be aware there are costs to establish and administer an ESOP; with additional fees should the company retain an outside administrator – and they probably should. The good news is that most of the plan costs are deductible.

Employers can choose between basic and leveraged ESOPs. In a basic ESOP, the employer contributes to the plan annually to allow the ESOP to purchase stock; these contributions are tax-deductible for the employer to 15 percent of payroll. Leveraged ESOPs are dependent on bank loans to purchase the company's stock; the business can repay the loans through contributions to the ESOP, which is tax-deductible to the employer to a limit of 25 percent of payroll.

Essentially, ESOPs and equity grant plans are intended to motivate employees to increase the overall value of the company. Equity grant plans may be outright shares of stock with accompanying ownership interest, or options that bestow the right to purchase actual company stock in the future at a price established on the grant date.

Customary design features of an equity grant plan include granting an individualized number of shares/options based on individual performance; rights to sell shares of exercise options typically vest to employees based on continued employment over a three- to five-year period; options may be granted as nonqualified or incentive stock options, each with different individual and company tax ramifications; equity grants may be accompanied by buy/sell agreements to restrict third-party stock sales.

Included among the more standard varieties of equity sharing are:

Phantom stock: Designed to provide a mid- to long-term incentive to key employees, phantom stock is so named because as it may be transferred to employees, there is no actual transfer of shares. In short, employees are granted a benefit that reflects some portion of the company's value. Phantom stock plans can be designed with a high degree of flexibility and customization. As examples, plan participants may be allotted a certain number of hypothetical shares in the company over a stated period of time; the number of shares an individual received may be based on his/her individual contribution to the company; the value of shares can be established formally or informally; a plan term can run based on the specific goals of the company. A phantom stock plan is a simple, flexible method to offer a meaningful financial incentive to key individuals and encourages employees to focus on growth and profitability goals.

Performance unit plans (PUPS): Commonly used to motivate a group of individuals towards an employer's specific goals, PUPS are intended to reward employees for their contributions in achieving an organization's goals. A PUP may be designed in a number of ways and could include several characteristics, including allotting a certain number of PUPs to selected employees; granting units based on an individual's job performance over the course of a year. Payment at the end of the plan term is based on the appreciation in the PUP over the term and typically, a participant will not receive a payment unless he/she remains with the firm for the entire term. A PUP is a simple, flexible means to motivate a broad group of employees toward the achievement of company goals. It is an effective way to develop a sense of mission and purpose while rewarding individual performance. ■

JIM MONIZ IS PRESIDENT OF NORTHEAST VISIONLINK, IN BRAINTREE, MA

Risk Sharing and Self-Funding Can Cut Your Health Care Costs

By Jim Edholm

Employers all across Massachusetts are struggling to control the cost of employee health insurance and looking for alternative ways to provide it.

In recent years, most brokers have moved clients to ever-"cheesier" plans. Higher co-pays have helped lower premiums. Deductibles, absent from the health-care scene in Massachusetts for almost a generation, have again reared their heads.

JIM EDHOLM

But this isn't cost control; this is cost transfer. Sure, the premium is lower, but the cost of being sick is higher. And eventually, it becomes an endgame.

Candidly, this is defensible. Low co-pays plus outrageous premiums are a wealth- redistribution scheme based on health status rather than economic status. In such plans the healthy subsidize the sick. That's less true with higher co-pays and deductibles: premiums are lower so all benefit initially. But then the healthy skate free while the sick pay a greater proportion of the costs.

But if you want to actually spend less on health insurance, then at some level you have to spend less on health care. Rather than simply penalizing the sick, it's somehow more rewarding to profit from good health. Risk sharing can allow you to do that.

How? Let's say that you have a plan with a $20 doctor copay and a $250 surgical/$500 hospital co-pay. That plan is a bit rich by today's standards, but it's a reasonable starting point.

If you switched to a plan with a $20 doctor visit and a $2,000 hospital/surgical deductible, the premiums would drop by about 30 percent. That's a meaningful chunk of change, and it's tempting. But remember that your employees would be eating that entire $1,500 to $1,750 increase in the risk incurred by moving from a $250/$500 copay to a $2,000 (single) deductible.

And that's where risk sharing comes in. By agreeing to absorb the increased risk via a Health Reimbursement Arrangement (HRA), the firm could pocket the premium savings, balancing it against whatever reimbursements end up getting paid out to the employees.

About 25 percent of our medium-size client firms (10 to 50 employees) use such a system. In almost all cases it's profitable for them.

A couple of carriers in Massachusetts go one step further and skirt the edges of true self-funding. Real self-funding is very common in firms with more than 100 employees, somewhat common between 50 to 100 employees, and virtually unknown below 50 lives. And that's both understandable and unfortunate, because self-funding can be a godsend to the right firm.

The most important thing to remember is that if you opt to consider self-funding, let me list three carrier names most of you won't be dealing with: Blue Cross, Harvard Pilgrim and Tufts. These large carriers do offer self-funding, but usually not until the employer has 150 lives or more.

Self-funding firms deal with carriers that aren't household names. If that's unacceptable given your employee base, then forget self-funding. But if your people are more interested in coverage at an affordable cost than they are the name on their health care card, then give it serious consideration. These carriers may not be well known, but they are often as large as the three regional carriers named above. Their coverage is national, so at the same size they are arguably more stable and less risky than a carrier with one line of coverage (health) in one state (Massachusetts).

Self-funding can shave percentage points off your premium increases. Our firm found an opportunity for an employer with more than 50 employees who is facing a premium increase of more than 24 percent. Self-funding could result in a four percent premium decrease. That's a serious difference. ■

JIM EDHOLM IS PRESIDENT OF BUSINESS BENEFITS INSURANCE (BBI), IN ANDOVER, MASS.

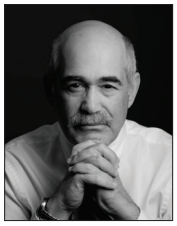
THE FAMILY MONEY

Borrowing from Family

By Barry S. Scheer

Massachusetts entrepreneurs have many things going for them, including groundbreaking ideas, meticulously prepared business plans and boundless enthusiasm, but few entrepreneurs have the financial resources to launch their enterprise unassisted.

Attempts to raise money through conventional financing channels for new and untested businesses, particularly in these trying economic times, are often exercises in futility. Traditional investors and banks alike will almost always regard a new business as "high risk," regardless of the originality and promise of the venture.



BARRY S. SCHEER

When conventional loans and equity capitalization prove unavailable, parents, aunts and uncles, and even the occasional sibling may be able to bridge the gap. The question is: should they?

Family financing, even when available, may not be the best option for everyone. The simple act of holding a meeting to pitch your new business idea to members of your family or to a close group of friends may test the limits of awkwardness for all involved. Despite the pitfalls, however, many successful businesses have been launched through a loan or capital contribution from a family member or close friend. One notable example is Facebook founder, Mark Zuckerberg, who borrowed money from his parents to fund his company.

Since family dynamics tend to complicate even the simplest initiatives, such as choosing a restaurant for a family gathering, it is essential to understand that if family financing is an available option, it deserves the same degree of careful planning and formality that one would reserve for total strangers.

Keys To Success

The three key elements to successful family financial transaction are disclosure, documentation and performance.

When it comes to building confidence among your family investors or lenders, nothing does more than full and accurate disclosure. Done properly, such disclosure will set the tone for almost everything that follows. If you are asking for a loan, provide as much detailed information about the new company as possible, including its operating needs, the anticipated "break-even point" and how you intend to ensure timely repayment. Make sure that you and your family members are clear as to the loan amount, the term of the loan, the rate of interest to be paid and the periodic repayment schedule.

If an equity transaction, such as a stock purchase is being considered (which I personally would not recommend for most new businesses), accurate, detailed disclosure is even more essential. In addition, it is crucial that all parties retain competent, independent legal counsel and that the stock purchaser understands that there will be little likelihood of dividends or distributions in the early years, if ever.

The stock purchaser must also be advised of the high risk nature of the purchase and that the entire investment might be lost. The investor should also be advised that minority shareholders typically have no control over operational matters.

Don't Make It Personal

Any loans must be negotiated at arm's length. The documentation must allow both borrower and lender to revisit the terms of their agreement at any time and know exactly what is expected of them. This objectivity is key to maintaining the trust upon which the opportunity to conduct business with family members was predicated.

The final, and perhaps most important key to successful family financing is performance. Remember that any family member who is willing to either loan you money or invest in your company is doing you a huge favor, and treat them exactly as you would treat the bank. Do not miss or delay loan payments because of your relationship. If anything, it is incumbent upon you to ensure, at all costs, that your relative never needs to approach you about a missed payment.

While often warned against, there is nothing inherently wrong about the prospect of raising money through one's family. In fact, in tough economic times, family is often the only available resource.

But be warned: few things can wreck a holiday dinner or family gathering more profoundly than a family deal gone sour. The three pillars of family financial transactions – disclosure, documentation and performance – will greatly increase the opportunity for a successful outcome. ■

BARRY S. SCHEER IS A PARTNER AND CO-FOUNDER OF PARKER SCHEER, AND DIRECTOR OF THE FIRM'S BUSINESS LITIGATION GROUP.

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JSD: What I have seen most is that the family member takes on the senior title and the non-family member takes on the next senior title available. Most often the outside person has more responsibility in the day to day operations. The key here is clear role definition and alignment on leadership, values, and strategy as well as constant daily communication. Surprises don't work at all.

Can you give examples of male-female co-leader teams?

FJM: Not yet, in my experience.

JSD: I have one example of this. Initially there was sensitivity to the situation, as one was named CEO and the other president. The key here again is clear role definition in which both are able to utilize their skills, with minimal day to day overlap while also fulfilling their ego needs.

What about the perception among employees that one co-leader is more essential to the enterprise than the other?

FJM: Always a major point. Requires both a formal communication strategy within the company (and externally) as well as acting in accordance with what you are saying. If left vague, things spiral the wrong way or employees try to manipulate the separation.

JSD: This is a potential area for conflict and undermines an organization's ability to succeed. I see it everywhere. The key here is the degree at which it is happening, how destructive it is, and how good the co-leaders are at identifying and dealing with this perceived dynamic.

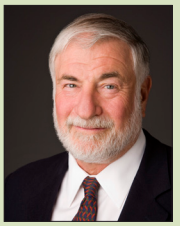
This is consistent with the data on family theory in which children tend to communicate with the parent they think will give them what they want or who will be the most lenient. This is called splitting. The most important piece is for the leaders to make their values clear around communication and the structure for dealing with issues as they arise. Leaders also need to understand how not to be baited into inappropriate discussions as a way of dealing with their own issues with the co-leader. ■

CHRISTINA P. O'NEILL IS EDITOR OF *MASSACHUSETTS FAMILY BUSINESS.*

Kaplan Construction: How One Family Does It

Ken and Cathy Kaplan founded Kaplan Construction in 1976. It's a construction services firm offering a complete range of building programs for its institutional, commercial, industrial and multi-family housing clients. Their respective roles have been clearly defined from the start: Ken handles sales and operations, and Cathy oversees finance and administration. Ken is the majority owner. Barry Markham, senior project manager, and Cathy are minority owners.

PHOTOS: COURTESY OF MATTHEW GUILLORY



KEN KAPLAN

CATHY KAPLAN

After some outside experience at other construction-related firms, the Kaplans' daughter, Jane, joined the company six years ago, beginning as an assistant project manager, then running a couple of small jobs before moving over to the financial/administrative side. She's in training to take over Cathy's job. At this time, she is responsible for all administrative and system functions. She is also involved in banking and bonding meetings. The administrative staff now report to her.

Governance Structures

Kaplan Construction's culture is not hierarchal. Ken believes that people, if left alone, will do the best work they can. Most of the firm's employees have spent their entire working lives at the company. They are invested in it, and do what's required to make it work.

Jane's style is more directed than Ken's. When it comes to managing systems, staffing and "keeping the trains running on time," Jane and Cathy set explicit standards based on work flows that have been cooperatively developed. Jane is seen as a leader among the office staff and as a complement to her parents by everyone else.

Ken maintains client relationships while Cathy maintains third-party relationships (such as with the bank and bonding company). Kaplan's office project management staff and field staff ultimately report to Ken. In practice, this is very "loose," according to Cathy, who notes that because the company works so closely together, it does not have formal lines of communication. But Ken and Cathy have shared goals.

The past few years though have been challenging, Cathy says. "All of us now wear many more hats than before. Jane, Ken and I are all actively involved in marketing and developing new client relationships. It is helpful that Jane is a different generation, and her contacts are younger and hopefully future decision makers."

Communication Styles

Ken's and Cathy's communication styles are very different. Cathy says she is much more of a "talk things through" person, and describes Ken as less so. "In his quiet way, he is more demanding," she says. "We both share high expectations. I see the differing styles as complementary, and feel it works well. We each play to each other's strengths. For example, Ken does not like formal meetings. I see a need for regular company meetings, and we have established a schedule that we both can live with."

Cathy says this does create communication "silos." But she adds that in practice, such silos make practical sense. For example, people go to Ken for issues about contracts, client preferences, project staffing and field issues. People go to Cathy with questions about anything financial related (such as problems with a job that have a financial impact), personal issues that might affect their job, training questions, and general "clearing the air."

"There is a sense that we are a work 'family,' and I am seen as the 'maternal' presence and Ken more traditionally 'paternal.'" Cathy says. "But I think everyone feels that we are all in this together." ■

Family Brand Competitiveness in the Post-Meltdown World

By Art Stewart

As the global economy shifts, family enterprises need to focus on their competitive durability and resiliency in response to the prolonged new normal of a transforming landscape.

In today's business context, whether you are a B-to-B or B-to-C player, customers or clients draw less of a distinction between a business' ownership orientation than they do for their credibility, reputation and the perceived delivery on values indicators in their products and services. A new responsibility paradigm is emerging in which companies face unprecedented scrutiny for matters of accountability, transparency, competency and integrity, as well as for authentic linkages between their business ambitions and public interest values.

ART STEWART

Welcome to the new foundation upon which smart competitiveness is built: family brands that don't just deliver value, but are constructed upon a holistic system of shared values!

The great news: family enterprises are uniquely oriented to deliver on these evolved expectations because their legacy characteristics address post-crisis expectations of business. NextGen family members assuming leadership roles can help guide their senior counterparts in realizing new models for responsible competitiveness, supported by more contemporary brand platforms.

A brand platform is the foundational system upon which all the touch points (direct encounters and experiences) with a brand are executed. Depending on the nature of the business, its industry and stakeholder universe, a family enterprise brand platform likely includes:

- The public identity (image components)
- Competitive positioning (business case)
- Product or service messaging (communications program)
- Brand anatomy (structural components of the product-service offering – such as point-of-purchase experience or packaging)
- Executive leadership behavior (intentional initiatives)
- Industry engagement strategy
- Mission statement and values credo (organization policies and their enforcement processes around culture, ethics)
- Technology implementation (process design and management support)

Such a brand platform must meld core family characteristics, values and competitive differentials along with the organization's sales proposition. While many family enterprises manage to successfully ingrain their values in their organization and its culture, they often fail to consistently apply values-based behavior across their business strategy – from new product or service innovation, alliance-collaboration building and human resources practices, to senior executive thought leadership, channel partnering, intellectual property management, technology transferring and outsourcing strategies.

When a family brand platform is built upon fundamental, sustained values-based behavior, it will have widespread impact – from reducing costs and improving productivity to creating internal community to support it publicly.

Good brand behavior will help ensure a more fluid execution of the business strategy and a strengthened culture of loyalty among both family and non-family employees. It will also support smoother organization transformation during periods of change.

A solid family brand platform also enables competitive encroachments to be more effectively combated, and fosters a culture of openness and truthful

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communication that instills integrity in management and business practices.

Here are some questions to help guide your strategic focus toward a contemporary family brand platform that aligns with the changed expectations for responsible business models:

Customer Empowerment and Retention

Do you adequately fund the resources needed for quality response to customer problems?

Do you advance a customer-centric business model by training and properly supervising frontline employees so that they may act as informative facilitators in meeting evolving customer needs?

Do you re-engage lapsed customers by seeking out their feedback on why they left, and do you have an active restitution process to restore their good will?

Strategic Competitiveness

Do you cut costs by using inferior components, or shortcut the manufacturing process, resulting in product obsolescence?

Do you assign resources to the continual tweaking of first-generation product releases to maintain mass appeal and short-term returns, or do you set aside adequate funds for R&D that evolve products responsive to customer aspirations long term?

Industry Leadership and Sustainability

Have you developed a "trust zone" for shared intelligence and non-threatening collaboration with competitors that benefits your industry and customers at large?

Do you comply with industry regulations in a reactionary mode, or do you proactively support new standards by setting your own example?

Community Re-Investment

Is your idea of community involvement to write a check, promote it, and forget it – or do you direct those funds into a flextime program to reward employee volunteerism, or partner with philanthropic organizations for training programs that empower employee activism?

Ethical Employee Recruitment and Retention

Do you enforce fair employment practices with pro-diversity and non-discrimination policies?

Do you "put people first" by offering day care for employee parents and flextime or telecommuting options for employees juggling the demands of family?

Responsible Business Practices

Are you targeting aspects of your business for energy conservation and resource utilization? If so, are you formally measuring them, adhering to the requirements of independent validation, and communicating the results publicly?

Do you know everything you should about your strategic partners and the facilities in which your products are produced?

Have you defined sustainability contracting/purchasing guidelines for your various business partners, such as your supply chain?

Do you pro-actively engage with your suppliers to resolve compliance issues and seek improvements? ■

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to benchmark data for your particular industry.

Cash Flow As A Measure Of Financial Strength

It's been said that plenty of profitable companies have gone bankrupt. Why? Because businesses don't pay their bills with profits – they pay their bills with cash.

It's important that owners read and understand the statement of cash flow, especially the section that reports cash flow provided by operating activities. That number indicates the true amount of cash profit the company is producing, and the resources it has on hand to pay the company's obligations – inventory, rent, payroll, benefits, unions, debt service and the like.

Do you know your break-even cash flow? Remarkably, some owners don't know the amount of cash they need to collect every week in order to pay their bills. The number of days of cash you have on hand is good start to determining how much cash you need at any given time during the year.

This number can also be compared to industry benchmarks. Depending on your industry, more than 20 days of cash is a good target. Anything below this number begins to put pressure on receivables collections, or may force you to begin selling inventory at lower prices. Both these scenarios will ultimately impact the company's ability to fund its day-to-day operations.

Tip: Having a working capital line of credit is one way to weather short-term disruptions in cash flow. It's usually best to set up this arrangement with your lender *before* you actually need the money. This added safety net will really come in handy if the company hits a rough patch.

A Strong Balance Sheet Can Weather the Storm

As important as these two documents are, it is the balance sheet that serves as the cornerstone of your financial statements. This is the instrument that answers the question, among other things, "How leveraged is my company?" The ratio of debt to equity is the key barometer that measures leverage.

A ratio of under two to one usually indicates that a company has enough resources to withstand a downturn in business. A higher ratio shows that the company is more highly leveraged, and that it may be operating under growing financial stress.

Even if a company shows a net loss on its P&L, or if it reports a negative cash flow on its year-end cash flow statement, it can still continue to operate provided it has a strong balance sheet. A weak balance sheet makes it more difficult to continue because there will likely be fewer resources available to fund operations, pay bills, and make the kind of investments necessary to return to profitability.

Generally, if your balance sheet is strong, your lender will be less likely to pull your line of credit or send you through the work-out process. In fact, it is one of the factors that has allowed healthier (i.e., less-leveraged) companies to absorb the downturn in business these past four years.

And as these same companies prepare themselves for improving market conditions, a strong balance sheet will be a key in securing the resources to fund their future growth. ■

WILLIAM F. RUCCI JR. IS A PARTNER WITH THE BOSTON-AREA ACCOUNTING AND BUSINESS ADVISORY FIRM RUCCI, BARDARO & BARRETT.

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