

Come Together

Advisors must convince the owners of closely held family businesses to conduct formal meetings—regularly.

By **Pat Soldano**, *president, Cymric Family Office Services, Costa Mesa, Calif.*

It is unusual for family businesses, especially the small to medium-sized, to conduct regular board meetings. By law they have to meet annually, but often they fulfill the requirements through paperwork instead. They certainly don't have quarterly board meetings, and advisors may not think to counsel them to do so. Important family business matters get discussed informally.

This is a mistake. It allows misunderstandings, alienation and problems to develop. To maintain harmony and ensure the success of the family business, it is essential to hold formal board meetings at which the company's operations and financial condition are fully discussed.

Let clients know that attendance by all family members is critical. Board meetings are especially useful to those who do not work in the business. Family members who are not directors, as well as the directors' spouses, should be able to observe as guests. It is dangerous when some only know the business secondhand, hearing tidbits and others' opinions.

For family members who are on the board, but not active in the business, meetings provide an opportunity to hear how the business is doing and to influence its future direction. A formal meeting is a forum in which sound company policies and procedures can be

developed. Sometimes discussing an issue with family members during the day-to-day operation of the business can be awkward or untimely; spot decisions may exclude input from appropriate family members. It is easier to implement a change in policy if family members have had a chance to voice an opinion.

Formal meetings also allow the company's professional managers to

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demonstrate their expertise to those who do not work in the business day to day. In turn, family members can assess the daily managers.

How to Meet

Much of the success of a family depends upon the effectiveness of these meetings. So there should be a set agenda. The chair should run the show, but ensure that all relevant parties participate. At each meeting, the chief financial officer should review the financial operations, profit and loss as well as working capital and any change from the last meeting. The president, chief operating officer or appropriate department head should present a review of opera-

tions. Any new marketing or production plans should be discussed and agreed upon by the directors.

Regular meetings help hold management accountable. Strategies are presented with time horizons and management's responsibilities discussed. At each meeting, open issues should be reviewed along with new business objectives. Minutes should be taken and read, not only to satisfy the legal requirements, but also to provide benchmarks by which to judge progress. This also provides continuity for those who do not work in the business every day.

The board should not be a rubber stamp for the decisions of one or two family members. All family members should vote as they feel appropriate. This is necessary to ensure that any proposal has been reviewed from all sides. It also encourages independent thinking and develops business judgment in all board members, especially the younger members. This will make for a much smoother transition, from one generation to the next.

It is also important for family members who don't work in the business to avoid micromanaging the business. They should set strategy, approve major transactions and retain professional management. But they should not second-guess the full-time managers. ♦