

ENJOYING THE RIDE

A LOVING LEGACY

BY BENJAMIN SPIKER

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As a business owner, the thought of leaving my personal legacy to my family via my business is always near to my heart. As we celebrate Valentine's Day and the tradition of sharing our hearts with those we love, I'd like to share some thoughts for others who may be involved with a family business.

Transitioning your family business to your heirs may sound simple enough but doing it successfully can prove difficult. To help improve your transition's chances for success, consider family business governance, a system of correlated tools and actions that support the next generation with controlling, owning, and operating the business. The framework establishes business protocols, describes how future ownership changes occur, and establishes a precedent for making business decisions.

The following are several tools that can be utilized as part of a family business governance system, including:

A **buy-sell agreement** is a legally binding contract stipulating how an owner's share of a business may be reassigned if triggering events occur, the price that will be paid, and the payment structure.

A **family employment policy** document can be kept within the family for private use or incorporated into the business's human resource documentation. It sets expectations for heirs, spouses, and extended family members about such issues as how they can obtain employment in the business, the requirements to attain key positions, the compensation standards to be used, and incentive language for family members.

A **distribution or dividend policy** is key in setting expectations with family members regarding what distributions they should expect to receive from the business. Business owners must balance the need for cash to maintain or grow the business with the desire to receive distributions.

A **professional board of directors** is a governing body that helps oversee the business and makes major decisions. A board generally comprises three, five, or seven professionals from various industries that have the subject matter expertise to assist the company strategically.

A **family board or council** is a group within the family — or may include the entire family — that comes together to make decisions about the business on the family's behalf.

A **company mission statement** can be valuable to your employees and your family as it addresses

the business's purpose and vision and can help guide future company leaders.

Your **estate plan** can address ownership, control, distributions, and several other factors.

The business's governing documents should be reviewed at the same time the family business governance system and tools are put in place. Revisions to these documents or corporate resolutions stored in the corporate minutes may be needed to align these documents with the company's governance system.

Transitioning the family business to the next generation is much more than transitioning shares. A well-thought-out and documented plan that addresses ownership, control, and operations helps build a strong governance system for your business. This system, combined with communication with the next generation, can be key to your transition's success and will help allow you and your family to Enjoy the Ride!

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