

MANAGEMENT CHECKLIST FOR A FAMILY BUSINESS

Questions to assist C.E.O.s' of in reviewing management of family-owned businesses

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By Benjamin M. Becker Antonow and Fink, Attorneys Chicago, Illinois By Fred Tillman Assistant Professor, Georgia State University Atlanta, Georgia

Summary

No small business is easy to manage, and this is especially true in a small family business. It is subject to all the problems that beset small companies plus those that can, and often do, arise when relatives try to work together.

The family member who is charged with managing the company has to work at initiating and maintaining sound management practices. By describing what is to be done and under what circumstances, such practices help prevent some of the confusion and conflicts that may be perpetuated by self-centered family members. Such relatives sometimes regard the company as existing primarily to satisfy their desires.

The questions in this checklist are designed to help chief executive officers to review the management practices of their small family companies. The comments that follow each question are intended to stimulate thought rather than to include the many and various aspects suggested by the question.

Please answer the following questions Yes or No.

Is executive time used on high priority tasks?

The time of the owner-manager is one of the most valuable assets of a small business. It should not be dribbled away in routine tasks that can be done as well, if not better, by other employees. Never lose sight of the fact that you as owner-manager, have to make the judgments that will determine the success of your business. You may want to run a check on how your time is used. You can do so by keeping a log for the next several weeks. On a calendar memorandum pad jot down what you do in half-hour or hour blocks. Then review your notes against the questions: Was my time spent on management

tasks such as reviewing last week's sales figures and noting areas for improvement? Or did I let it dribble away on routine tasks such as opening the mail and sorting bills of lading? You may want to ask your key personnel to run the same sort of check on their time.

Do you set goals and objectives?

Goals and objectives help a small company to keep headed toward profit. Goals and objectives should be specific and realistic. In addition they should be measurable, time phased, and written. List your goals and objectives by writing them out for your present successful operations. Objectives that are written out in straightforward language provide a basis for actions by your key personnel. For example, state that you will sell a certain number of units this year rather than saying you will increase sales.

Do you have written policies?

Flag this question and return to it later. Working through this checklist should suggest changes that may be needed if you have written policies. By the same token, your business will provide input for writing out policies if there are none in writing.

Is planning done to achieve these goals and objectives?

In a sense, planning is forecasting. An objective, for example, for next year might be to increase your net profit after taxes. To plan for it you need to forecast sales volume, production of finished goods inventory, raw materials requirements, and all the other elements connected with producing your forecasts, you will want to make provision for watching costs, including selling expenses. If there are key employees who can provide input into the planning, ask them to become involved in that process.

Do you test or check the reality of your goals and plans with others?

Outside advisors may spot "bugs" that you and your people did not catch in the press of working through the details of goal setting and planning.

Are operations reviewed on a regular basis with the objective of reducing costs?

Costs must be kept in line for a profitable operation. Review operations periodically such as weekly or monthly, to insure that overtime is not excessive, for example. And what about quality product acceptance by customers? Costs may be excessive because of obsolete methods or machinery that has seen its best days. And what about plant layout or materials flow? Can changes be made that will save time and materials? Determine the frequency of your reviews for the various types of operations and place a ticker on your calendar to remind you of these review dates.

Are products reviewed regularly with the objective of improving them?

Products that your customers benefit from are the keys to repeat sales. A regular review of your products helps to keep them up to the expectation of customers. Feedback from customers can be useful here. To reduce costs sometimes a product can be modified without sacrificing use and quality. If product obsolescence is a hazard, what plans are being made to substitute new products as existing ones become obsolete?

Do you ask outside advisors for their opinion and suggestions on products and operation procedures?

Outside persons, such as friends in non-competing lines of business and management personnel from local colleges and universities can help you see the facts about your products and operating procedures. They can provide a fresh viewpoint – the viewpoint of persons who are not so involved in the products and operations as you and your key personnel. The suggestions and counsel from a local management consultant may provide benefits far in excess of his or her cost. In this area some small companies set up a board of directors to satisfy the law concerning small corporations. But that is the end of it. Members of the board are not used for their knowledge and skill in business. They can make valuable contributions and the owner manager should use all possible opportunities for getting such concerned opinions about the various phases of the company.

Are marketing and distribution policies and procedures reviewed periodically?

The best-made product in the world can run into trouble if marketing and distribution policies and procedures are not right for it. Periodical checks can help you to be aware of changes that may be taking place in the channels through which you distribute. One approach is to check your competition; does it seem to be changing channels and policies? Can you still meet the requirements of your customers by using your traditional channels of distribution?

Are there periodic reviews of profit and loss statements and other financial reports?

In these reviews you can compare your operating ratios to those for your industry. It is also helpful to review your cash flow projections to see what, if any, changes are needed in your financial planning.

Do you have an organization chart?

You may need only a simple organization chart to show accountability and to establish a chain of command. In a family business, accountability and chain of command should be spelled out so that the one who is the chief executive of the company has the "mandate" he or she needs for managing.

Do you use job descriptions for your key personnel?

When you and your key personnel write descriptions for their jobs, you and they have a clear understanding of what is to be done and by whom. Such an understanding is

essential in any small business but especially critical when relatives are involved. Spelling out duties may not prevent conflicts between you and an

in-law, but such detail can help you resolve misunderstandings, if and when, they occur. In addition, when, and if, a key person leaves, the job description is a helpful tool in recruiting and training a replacement.

Do you periodically compare performance of key personnel with their job descriptions?

Periodical comparison of performance helps your key personnel to be efficient. It also helps to pinpoint weak spots for you and them to work on for improvement.

Do you provide opportunities for key personnel to grow?

Your aim should be to help key personnel stay alert to new and more efficient ways to do things. Conferences, seminars, and workshops which trade associations and agencies, such as the Small Business Administration, sponsor can help key personnel to grow in their management skills and outlook. Rotating job assignments is a way to make key personnel aware of the problems that their counterparts face. Include in your budget an amount that can be spent during the year for personnel training and education.

Do you face the issue when key personnel stop growing?

Some owner-managers try to avoid the unpleasant task of facing the fact that a key person has stopped growing. It may be the result of not matching personnel and the job. Or in some family businesses, the cousin or brother-in-law never was interested in personal growth or any aspects of management. If there is little or nothing you can do about such a mismatch, face it and don't waste time trying to do the impossible. On the other hand outside problems may be crowding in on the key person. Once you know why he or she stopped growing, you can determine what needs to be done. In some cases, additional training is the answer. In other cases, the motivation that results from broadened job responsibilities resolves the problem.

Are there policies and plans for motivating employees?

Working through others is but no means an easy task. First of all, people are not puppets that can be moved by strings. Life may be a stage, as the poet said, but most people in small business are reluctant to submit to directors. Look for ways – good communications, respect for their viewpoint, incentive pay, and so on – to encourage people to want to do what you need them to do as employees in your company.

Do you have adequate employee benefit plans?

This includes life and health insurance, major medical, and pension. Benefit plans often are necessary to meet competition for skilled employees. Substantial plans can help to hold non-family key individuals in a family-owned business.

Do you have key personnel insurance on yourself and is your family protected against your untimely passing?

If these precautions are not taken, your death could result in the rapid dissolution of the business.

Is there lack of communication among key personnel?

The routine passing of information among you and your key personnel may be all that you want it to be. But what about disagreement? Do key personnel refrain from expressing disagreement with you? Good communications should provide a forum for exchanging ideas and for airing differences of opinion. Possibly an early morning meeting once a week among you and your key personnel would provide a forum for exchanging ideas.

Does your record-keeping system present a realistic picture of your business? Is this the same type of record-keeping system that other companies in your industry commonly use?

Appropriate records should give the owner/manager answers to questions such as: Is there sufficient cash to operate the business? To pay back the bank? To pay taxes? Is too much capital tied up in inventory? Are accounts receivable being collected promptly? Bankers and other lenders need a realistic picture. Corporate records, if your company is a corporation, should be up-to-date including corporate minutes and record books. In checking out your record-keeping, keep in mind that a poor system can result in excessive and meaningless information.

Do you seek legal and financial advice on major transactions?

The fine print in contracts causes trouble for some small business owners. They did not realize until it was too late what they had agreed to do. Legal and financial advice at the appropriate time can help the owner-manager to comprehend the full scope of your company's contractual obligations and allow you to make decisions based on facts rather than assumptions. Whenever possible use your standardized contract in making contractual obligations.

Do you document informal agreements with customers, suppliers and others?

"He's as good as his word," is a fine attitude to have about customers, suppliers, and others with whom you work on a daily basis. But think for a moment; in being as "good as your word," how often do you forget? Memory slips. A note to yourself, or to a supplier to confirm a telephone conversation, for example, helps both of you to recall what you agreed, or did not agree, upon and prevents misunderstanding and hard feeling. Keep dated copies of all correspondence you send out. At some later period these copies could be invaluable.

Do you plan your major financial decisions with the help of your accountant, lawyer, and other tax advisors?

An owner-manager cannot ignore the impact of Federal and State income taxes, as well as other taxes, on your business. You should plan major financial decisions with the help of an accountant, lawyer, and other tax advisers.

Do your plans include self-development projects for yourself?

Sometimes an owner-manager sets up training for everyone in the company except him or herself. Because conditions change so rapidly you should set aside some time for activities that will help you to keep abreast of your industry and the economic world in which your company operates. Your trade association should be a source about meetings, conferences and seminars which you can use in such a program for yourself.

Are there plans for succession in the event of the untimely death of the family member who manages the company?

The successor may not be the same person who substitutes when the chief executive officer is sick or on vacation. Whether the successor is a family member or a non-family employee, the business should make the transition smoother when the family agrees upon a successor ahead of time. Such agreement is necessary if the business is to bear the expense of grooming the successor.

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Author: Benjamin M. Becker and Fred Tillman

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