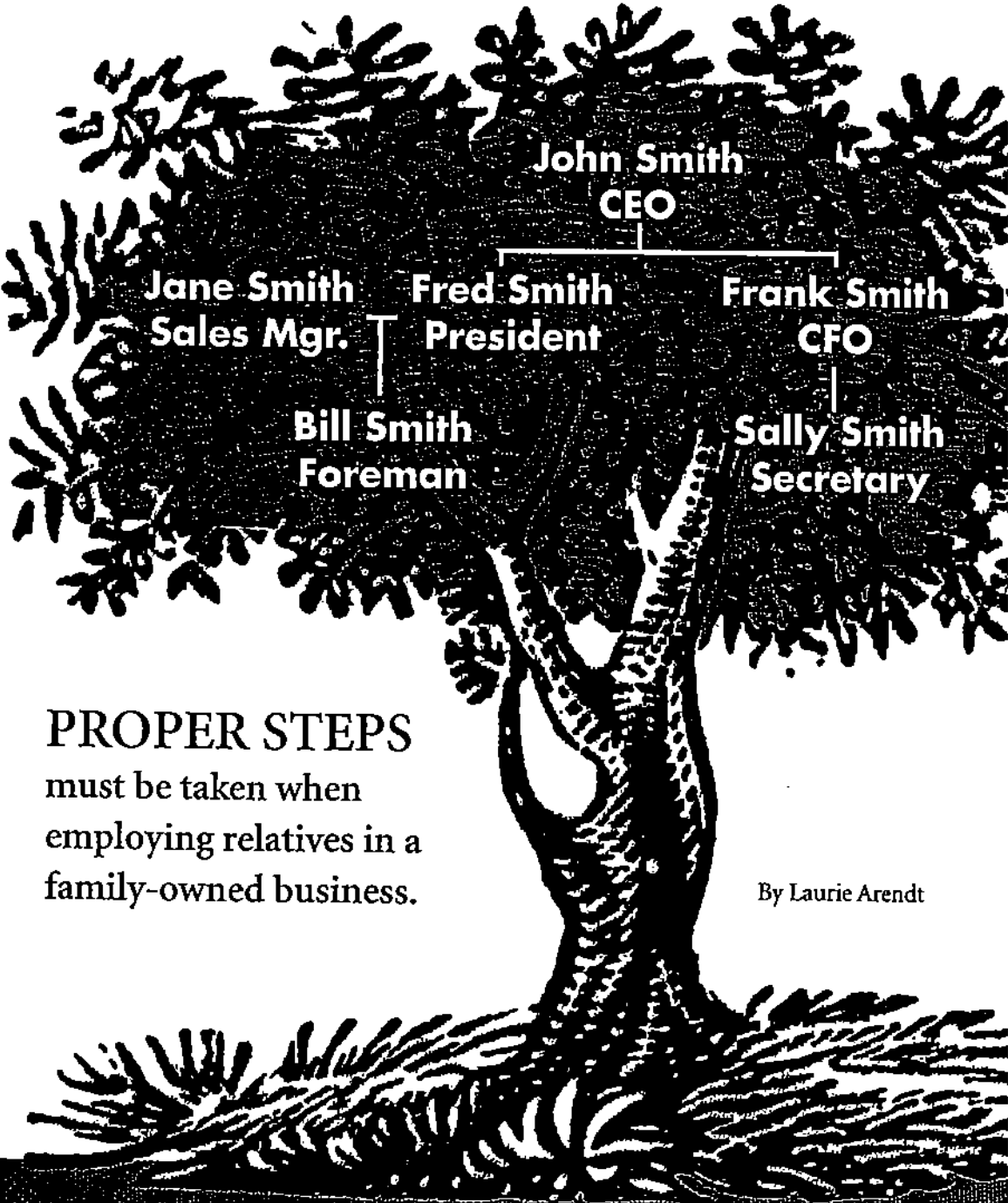


The FAMILY Plan

FYI



PROPER STEPS
must be taken when
employing relatives in a
family-owned business.

By Laurie Arendt

If you're an armchair genealogist, you can find everyone's proper spot on the family tree. It's an easy task, given the correct knowledge. But let's say a family owns its own business. Names may slide easily into their proper branches on the family tree, but trying to find the right fit within the business can be a lesson in futility if the company doesn't have a plan in place for the employment of family members.

"Family hiring policies are an important part of doing business," says Ann Kinkade, director of the Family Business Center at the University of Wisconsin-Madison School of Business. "I view it as a form of risk management to help the family avoid issues before they start."

That isn't to say that creating a policy should be a priority for Dad when he's sweating his way through the first few years of getting the business up and running. But a little advance planning can prevent the company from being torn apart by squabbling branches of the family or diluted by ineffective and inexperienced family managers bequeathed roles by sheer virtue of their bloodlines.

It should be a natural process in the evolution of a business. Such is the case for the family members of Cress Funeral and Cremation Service in Madison. "We started talking about the creation of a hiring policy three or four years ago," says vice president and part owner Dan Fose. "Before I became part of our company, I worked as a CPA and dealt with small family businesses. I saw situations occur that I knew I didn't want to see happen with us."

Cress Funeral and Cremation Service was founded in 1869, and the Cress-Fose family is actually the second family to own the business. Currently run by the second generation, members of the third generation are starting to work their way through college. Dan Fose recognized

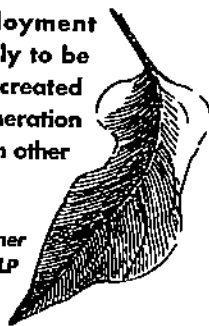
this and brought up the topic of employment with the other two second-generation family members in the business.

"I saw that we could be employing the third generation not too far down the road," he says. "We wanted to set some parameters, to create the rules of the game so to speak. We're all members of the baby boom generation, and we like to plan. We also wanted to start thinking about what was expected of our children before our emotions became involved in the process. We don't currently employ them in the business."

Consensus among the three family members occurred fairly easily. "We agreed that we wouldn't offer employment to our children unless they obtained the necessary

"A family employment policy is not likely to be successful if it is created by the senior generation without input from other generations."

*Scott Braucht, partner
Smith & Gesteland LLP*



education and worked for someone else for a minimum of five years," says Fose, who also adds that specialized education is required to be a funeral director in the state.

The Cress-Fose family is on the right track, according to Kinkade. "The creation of a family hiring policy is a good exercise for the business," she says. "It requires members of the current generation to set aside their individual interests and work out what is best for the company and its future."

Family employment policies begin with a definition of why the policy is being created. "Typically it is to ensure that nepotism and favoritism don't occur," Kinkade says. "I also recommend that the structure

is in place — who approves it, how often it will be reviewed — prior to the policy being created."

She encourages companies to require representation from all branches of the family as well as the current leaders of the business. "It's often very helpful to do a little homework and research to see what has worked for other family businesses," she says. "The across-the-board participation also creates buy-in and ownership."

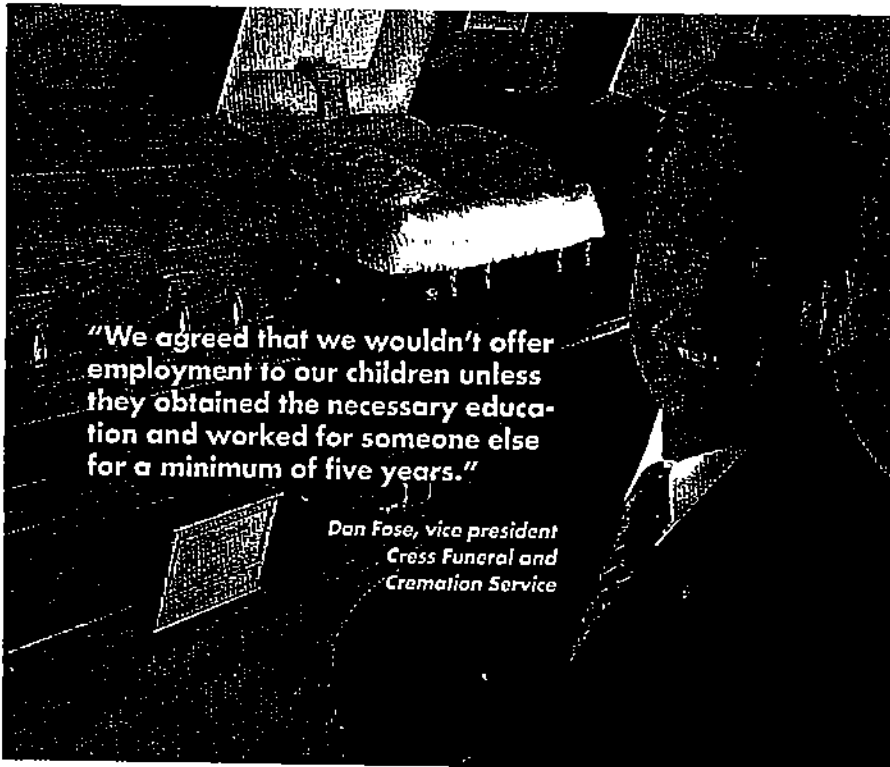
"A family employment policy is not likely to be successful if it is created by the senior generation without input from other generations," says Scott Braucht, partner at Smith & Gesteland LLP in Madison. "It needs to be built through consensus or it won't work."

The hiring policy can be as specific as needed for the business, and separate policies can be created for specific tracks within the business. For example, there may be a professional track and an hourly track, or a specific policy for family members in high school or college who work part time during the summers.

However, the policy should apply across the board to every family member seeking employment. "There definitely could be different requirements as it relates to different jobs, but the requirements should not be based on the individual family member," says Braucht. "Then if a family member is interested in a particular position, he or she must possess the required criteria to be considered."

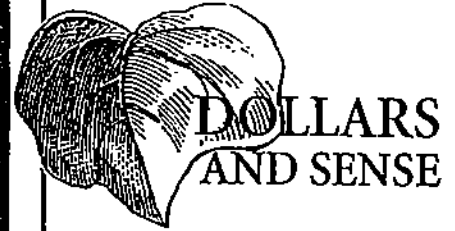
Though there are always exceptions, family hiring policies typically include:

- A definition of who is family: Does the policy only apply to family descendants or are in-laws included?
- Education requirements: What degree level must be obtained and in what field of study? Do years of experience in the company equate to a formal degree?



"We agreed that we wouldn't offer employment to our children unless they obtained the necessary education and worked for someone else for a minimum of five years."

*Dan Fose, vice president
Criss Funeral and
Cremation Service*



The employment of additional family members does more than set the stage for transition into future generations. It can impact the overall bottom line, particularly in our current era of skyrocketing health care costs.

"From a financial standpoint, there is a definite cost savings if spouses are employed and the company offers health insurance," says Jeanie Farmer, a CPA and partner at Smith & Gesteland.

For example, if your company employs a husband and wife, there is no need to duplicate health care coverage. "Additionally, that spouse is also potentially taking the place of an outside employee who could require a family health care policy," she says. "If there are a number of family members employed and you are a small business, that could add up to a significant savings." Employed spouses are also paying Social Security tax on their earnings, which qualifies them for benefits at retirement. Finally, with employment, spouses may qualify for your company's retirement program.

Some tax benefits also apply to family businesses. Children younger than 18 working for a sole proprietor or partnership owned by their parents are not subject to SSI or Medicare tax on their earned wages. Children can also qualify for an exemption on the payment of federal unemployment taxes.

Children of family business owners can also establish and contribute a limited amount of funds to a Roth IRA if they have earned income. These contributions can increase a child's tax-free wages, though contributions to a Roth IRA are not deductible. The benefit in establishing a Roth IRA for children is the same for adults: The contributions will grow into tax-free distributions.

- **Outside work experience requirements:** How many years are required and for how many employers?
- **Age requirements:** Must family members be a certain age before they will be considered for employment?
- **Application requirements:** Do family members go through a formal application process or express interest to a senior family member instead?
- **Departure and re-entry rules:** Is there a time frame in which re-employment can occur? What positions would the family member be eligible for and what would happen with his or her salary?
- **Compensation policy:** Is compensation based on the position held and the fair market value of that position?
- **Required work experience within the company:** Must time be banked in different areas of the business before promotion will occur?

"Each element is important," Kinkade says. "For example, requiring the next generation to seek employment outside of the business isn't really so much about skill building as it is about developing confidence. It gives them the opportunity to make mistakes and learn as individuals without being intimidated by senior family members."

She says that one area that companies often fail to anticipate is employment of

"former" family members. "Divorce can be a problem," she admits. "I encourage family businesses to think about what would happen with an employed in-law after a divorce. Would he or she be required to seek new employment? Having a policy that addresses this issue can be very helpful."

Jeanie Farmer, a CPA and partner at Smith & Gesteland, also suggests deciding in advance who family members will report to upon joining the business. "Nonfamily employees can act as a coach or mentor," she says. "Mom and Dad are not always a good choice because they tend to be critical. A nonfamily manager can act as a bridge as long as his or her role is clearly defined."

Once the policy is in draft form, she recommends having it reviewed by an advisory board to check for gaps and consistency issues. Once finished, it should be accessible to all family members and shared with non-family employees.

"Some families initially prefer to keep the information close to their chests, but they are really missing an important opportunity," she says. "By sharing it with non-family members, you are creating a sense of accountability for your employees. When they know of the policy, they can relax with the knowledge that family employees are being held to certain standards and requirements and not just receiving their positions by virtue of being in the family."

Photo: Postus Studio

Corporate Report Wisconsin

VISIT OUR WEB SITE
 Web site: www.crwmag.com
 E-mail: johnh@wistrails.com

- Don't miss upcoming events. Visit our Web site to conveniently view:
- Business calendar
 - Business Resource Guide
 - Media kit
 - Subscription information and renewal

Trails Custom Publishing

PUBLISHING SERVICES
 Web Site:
www.trailscustompublishing.com
 Email: bpeck@wistrails.com

Let the publishers of *Wisconsin Trails* magazine and *Corporate Report Wisconsin* create your custom book or magazine. The perfect way to celebrate a corporate anniversary, communicate with customers or position your business within the marketplace.

Virchow-Krause & Company, LLP

ACCOUNTING AND CONSULTING
 Web site: www.virchowkrause.com
 E-mail: cpa@virchowkrause.com

Specialty practice areas include: technology management, business process improvement, business advisory services, mergers and acquisitions, private investment banking, wealth preservation and investment advisory services, employee benefit and insurance planning, and financial staffing.

**Finally.
 Lawyers who speak
 your language.**



Looking for straight talk on how to deal with your business issues? Our Business and Corporate Law Team is fluent in many business dialects, no matter what stage of development you're in. For legal advice that's practical and to-the-point, call Thomas J. Kammerait at 414-287-1413. ■ Securities ■ Compensation & Benefits ■ Capital Formation ■ Financing ■ Emerging Business ■ International Transactions ■ Business Succession Planning ■ Corporate Planning ■ Governmental Relations ■ Labor & Personnel Matters ■ Tax Minimization ■ Technology ■ Mergers & Acquisitions



contemporary counsel.

www.vonbriesen.com

Braucht adds that the structure of a hiring policy creates an equal playing field for all members of the family. "If someone meets all the requirements and is eligible to apply, he or she should apply," he says. "It makes it an objective process."

And that is a crucial distinction, agrees Farmer. "Sometimes members of the succeeding generation expect a role in the business because they are part of the family, not because they possess the qualifications that can help the business prosper," she says. "I see that more often than I'd like to with some of the businesses we work with at Smith & Gesteland. By meeting established employment criteria, family members earn their place in the business."

Some family businesses intentionally eschew formal family employment policies, but that isn't to say that family members aren't required to meet certain expectations. At New Berlin's C.S.E. Inc., a merchandiser of promotional products and workwear, two nonrelated families own the business and no family-specific employment policy is in place.

"We simply don't feel a need for it," says president and CEO Tom Savio, a second-generation member of the company. "I've seen too many family businesses where 'Johnny' gets his job simply because he's Johnny. When that happens, it does more than hurt the company and weaken the management team. The person it hurts most is Johnny because he never earns the respect of the rest of the company."

C.S.E.'s approach isn't that radical when Savio explains that all employees are held accountable. "We treat family members just like any other employee," he says. "It's based strictly on performance. You earn your way no matter what your last name is."

That's a crucial clarification, says Braucht. "We recommend a family employment policy as best practice for our clients," he says. "With that said, there is a wide spectrum of what constitutes employment policies."

He says that family businesses can succeed without a formal policy if they are able to communicate expectations clearly to family members. "But not all companies are able to do that, particularly if they have grown into businesses that employ multiple branches of the family," he says.

"A family employment policy is one way to ensure that everyone understands the responsibility and requirements involved in sustaining the business for future generations," he concludes. ■