

## Budgeting for Family in the Family Business

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One of the hallmarks of highly functioning ownership groups is their ability to maintain strong family relationships even as the family grow larger and more dispersed. To help strengthen family bonds, many successful business-owning families conduct shareholder meetings, family retreats, family council work and development of active communication channels. Often, initial family governance activities are undertaken without much thought to an overall budget. As the activities expand, questions are raised among the family: How much can the family afford? What activities are most important? Who will pay and for whom?

We find that implementing a formal budgeting process for family work is valuable, regardless of whether these questions have been raised. Creating a budget engages the family, shareholders and management in a conversation that aligns them around its goals and priorities for the family and the business. It also makes explicit the investment is being made in family unity and shareholder development.

### Where do we start?

Development of a budget is often prompted by management or the board of the family enterprise, as they are the ones funding the family activities. In this case, the family council will submit a budget to management or board for approval as part of the business budget

cycle. Often, budgets don't vary significantly from year to year, so the council may put in a request to match funding from prior years.

When the budgeting process is the responsibility of the family council, many are faced with the challenge of determining the "right" amount to spend on family activities. While it would be useful to have a rule of thumb to determine a family budget, the factors that drive the expenses are too complex to define a simple metric such as a percentage of profits. When setting a budget, a family must take into consideration its culture, climate and objectives.

For instance, how does your family feel about spending money on nice trips? Do you value investment in education? Should service to the family (such as family council members) be volunteer or paid positions? Answers to questions like these can help you determine your family's culture.

Similarly, climate affects financial allocations. If the economy is suffering or your business is facing a downturn, it may be a time to rein in expenses. Even if money is available to pay for a nice family trip in a slow economy, the signal sent to employees who are facing layoffs, hiring freezes or suspension of raises may be inappropriate.

Ultimately, the primary driver of budget should be the family's goals, which may include:

- Next-generation leadership development
- Investment in family relationships
- Development of family policies or governance structures
- Definition of ownership vision and financial objectives
- Improvement in communication infrastructure (e.g., website, newsletter)
- Family education family about the roles and responsibilities of ownership

Goals should to be filtered through the lenses of culture and climate to determine an appropriate budget. Goals can be achieved in different ways such as inexpensive webinars vs. contracting speakers for a family event or holding a family meeting at corporate headquarters vs. a high-end resort. Whatever the approach, maximum attendance is necessary to accomplish the goals listed here. Most families find that an attractive location and interesting activities increase attendance.

## What are the cost categories?

As families get larger, family meetings are the primary driver of the budget. We find that families who meet twice a year are more cohesive than those who meet less often. Ideally, one shareholder meeting is held at headquarters with presentations by management and the other meeting focuses on building family relationships. Some families hold their annual family-focused meeting at a resort location while others save up for a destination trip every few years. Beyond location, cost is driven by the geographic dispersion of family members, extracurricular activities, on-site child care and whether the family pays for family travel to meetings.

In addition to family meetings, budget categories can include:

- Communication (newsletter, website)
- Seminars/education (family business conferences, paid webinar series)
- Consulting resources (meeting facilitation, assistance in developing family policy/governance)

- Compensation for service (family council participation, administrative support)

After defining your goals and cost categories, draft a budget then evaluate based on affordability and adjust accordingly.

## Who pays: the business or the family?

The final step requires consideration of the various sources of funding. Most families pay for family meetings out of business profits, but you should consult with your accountant about allocating family expenses to the business. Typically these expenses can come under the heading of shareholder relations. Some allocate a percentage of dividends to pay for family expenses — the downside being that these expenses are paid after taxes. Some families establish trusts earmarked for family activities while others contribute to a family pool to fund family engagement.

The benefits to the company when using corporate money to pay for family activities:

- It is an investment in shareholders (similar to a shareholder relations expense in a public company) and can be deducted prior to taxes with careful planning.
- The company demonstrates its support and commitment to the shareholder base and creates an ongoing commitment to the business.
- The company receives the benefits of ensuring it has a strong, cohesive, educated shareholder group, which is a strong determinant of family business success.
- Shareholders who spend time together tend to have a greater connection to each other and to the business.

There are also benefits to having shareholders fund at least part of the family activity cost. It ensures the money is spent on the priorities that really matter to shareholders. It also sends a clear message to the company that owners are truly invested and care about the future of the business. And, no matter which budget category is assigned to these expenses, it ultimately comes out of the shareholders' pockets.

## How do we stick to the budget?

Regardless of who funds the activities, the budgeting process helps families be good stewards of their resources. Beyond setting the budget, ensuring accountability for sticking to the plan is important as well. We recommend capturing the budgeting process in a formal policy which could include:

- a timeline for submitting the budget;
- who is responsible for approving the budget categories that will be covered;
- who is responsible for paying expenses;
- how expenses will be tracked;
- how individuals will be reimbursed for expenses they pay individually;

- and, who will review the budget to ensure it is being followed.

This policy should be agreed upon by the family and business board if they are funding some or all activities.

Regardless of your culture, climate and goals, developing a budget forces the family to reflect on its goals and appreciate the investment made in the family. Similarly, it encourages management to reflect on the importance of maintaining a strong shareholder base and the expenditures required to achieve cohesion. Investing in the family not only validates that the business is committed to its owners, but that the owners are just as committed to their business.



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