

# Exposure to accounting decisions is a key part of leadership training

BY KAREN SNODGRASS

**A**s a family business owner, you are pleased when you walk by a marketing team meeting and see your son suggesting ideas for the new website. You are impressed when you observe your daughter working with the operations team to reorganize warehouse layout. You have built a strong, successful business, and you are proud to be able to pass it down to your children someday. While running your company, you are also preparing your next generation to take over. Early exposure to all facets of your business, including accounting decisions, is vital for the development of strong, wise leaders.

Why is it so important to involve your next generation in accounting conversations? Typically, the financials are the most intimidating aspect of the business, as well as the most fraught with family dynamics. Here are seven ways your business will benefit from including your next generation in accounting meetings.

## Transparency

Clear explanations about ownership transfer plans and timing help avoid conflict between and within generations. Imagine a family business in which three daughters are involved. The oldest daughter is clearly the leader. The middle daughter works for the business, but in a specific operational role. The youngest, a schoolteacher, wants to be involved as an owner. How is ownership determined? For an S corporation, ownership distributions must be pro-rata to ownership. A plan to financially recognize the additional time and investment of the older daughters must be made clear in order to avoid conflict among the sisters.

Open conversations about how and when ownership transfer will take place, and why, puts all family members on the same page. Your children are dedicating their



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careers to your business and working hard, and they may wonder why you are holding off on giving them ownership of the company. Explaining certain tax benefits of delaying ownership transfer can avoid a great deal of conflict caused by unasked questions.

*How:* Being transparent sounds simple, but managing the emotions involved in these conversations can be stressful for a family. How best can you balance the family dynamics involved while still being direct and transparent? First, set up a special meeting to discuss just this one topic. Avoid allowing the subject to come up naturally at a family event and instead plan a time to meet in the office. Second, involve a professional like your trusted accountant, financial planner or family attorney to help keep the meeting on topic and focused on the business, not the family dynamics. And finally, remain professional at all times, continually recognizing the contributions of all of the family members involved.

## Education

Educating the next generation about accounting early on provides several benefits. Your children can ask questions in a safe environment before they assume a leadership role; as leaders, they might feel they should already know the answers.

Questions from the younger generation may help you see the accounting area of your business from a new perspective, perhaps drawing attention to changes that need to be made. They may ask why a particular bonus formula is used when a new compensation structure might make more sense, given changes in your business.

The next generation will gain exposure to areas they may not be involved with on a daily basis. For example, they will gain an understanding of the movement of accounts receivable, learning about the timing of the collection process and its impact on cash flow. They may even come up with ways to speed up cash collection.

*How:* Invite your children to meetings with accountants, financial planners, management and your board. Encourage future leaders to observe various departments within the organization. Help them see the interconnections of the different roles and departments, and how decisions cascade throughout the business. For instance, how does inventory represented on a balance sheet correlate to the inventory in the warehouse, and how would a change to process for either affect the other?

### Consistency

Accounting involves a great deal of long-term planning, and those long-term plans may very well still be in place when leadership transitions. Ensuring that your children understand and buy into these strategies early on increases the likelihood that your goals will be achieved. Consider a son who decides upon taking over that he can get a better deal with the banker down the street than he can with the banker his father built a relationship with over the last 25 years. The decision may seem sound in the short term—perhaps because it results in lower fees. However, Dad stuck with this banker because the banker knew him. When Dad had a down year, the banker knew it was just a blip and trusted that business would soon return to normal. The guy down the street may not be as understanding because the relationship is not as strong. Understanding the long-term plan helps your younger generation appreciate the nuances of the decisions you've made over the years.

*How:* Provide access to long-term planning documents and ask your future leaders their opinions on your long-term plans. Once again, encourage the younger generation's involvement in meetings with your accountant, attorney, financial planner and other professionals.

### Relationship building

Working with advisers early on helps your younger generation build strong relationships with professionals who can help them. They will learn not only when to seek advice and what kinds of questions to ask, but also that the willingness to seek input is a hallmark of a strong leader. They will observe you and other business leaders asking your advisers how decisions will affect long-term plans, bouncing ideas off one another and tapping into the minds of objective third parties. For example, if a competitor approaches you with an offer to sell you their business, your children will observe you asking your advisers to offer perspective and conduct due diligence before simply jumping on the idea.

*How:* Include your next-generation team in meetings with your professionals. Also include your future leaders in networking and social events that involve these trusted professionals to build relationships outside of the conference room.

### Leadership

Future owners learn how to lead by observing how you and other executives act, what kinds of questions you ask, how you weigh options and what the various roles involve. A next-generation leader learns a lot by watching the mannerisms, tone and approach you use when talking to key team members about accounting data. By observing and interacting with a wide range of team members, they learn how to create and manage

professional relationships.

*How:* Following meetings or other important interactions, debrief with your future leaders. Ask them what they learned from the meeting, how they would have responded to the situation and what additional questions might have been asked. Encourage them to ask questions and offer constructive feedback. Continually increase the next generation's leadership responsibility. Encourage leadership activities not only within the company but also in professional associations and non-profit organizations.

### Synthesis

Accounting and tax decisions are just one piece of running a business, but they have a serious impact on every other aspect of the company. As future business owners learn about the various aspects of running a business, being a part of accounting decision making helps them recognize how these decisions affect every other part of your business, including operations, marketing and human resources. When an inventory audit is conducted, the accounting story could uncover issues in accuracy and throughput. Your next generation might observe that the warehouse is disorganized and inventory numbers are growing because inventory is not going out the door. An examination of the issue begins, and your future leader learns about assessing purchasing, warehouse operations, sales and more.

*How:* Encourage your next generation to spend time in all areas of the company. When reviewing financial statements or making accounting decisions, ask a future leader to do some sleuthing by visiting an affected department. If the issue at hand is depreciation of machinery, for example, consider a tour of the machines or even, if appropriate, provide training in how to use the machines. Understanding the items on the accounting reports makes them come to life.

### Culture

As young leaders learn about and become a part of the company culture, understanding how accounting decisions support that culture can help guide them in the future. A future business leader will need to understand if the company belief system supports maximizing profits for the owners or if an employee profit-sharing plan is a better fit with your core values.

*How:* Encourage the younger generation to get to know team members in all areas of the company. Future leaders should participate in team-building activities: team lunches, summer outings, company-sponsored charitable activities, etc. They should get to know as many team members as possible and become a part of the company culture. After all, some day they will be the ones who guide the company and develop the culture. FB