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Purdue Institute for Family Business

Quarterly Newsletter

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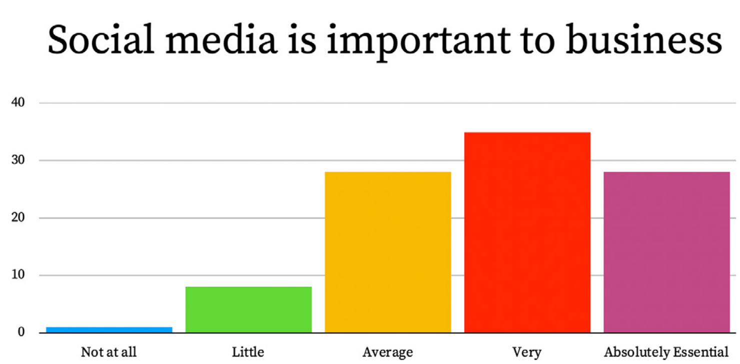
Articles in this Newsletter:

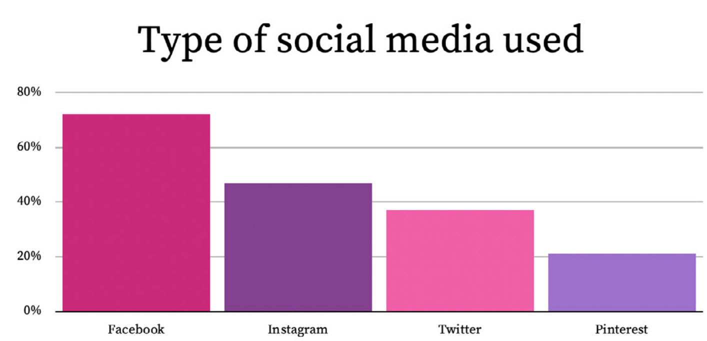
To Post or Not to Post: The Need and Use of Social Media Policies

Maria I. Marshall

Social media and having an online presence are important to most businesses. In our 2019 survey of small businesses, 99% of businesses used some type of social media. Sixty-three percent of business owners stated that having an online presence was very important or absolutely essential to their success.



Most small business owners used Facebook (72%), followed by Instagram (47%), Twitter (37%) and other social media outlets. Yet only 49% had a social media policy and followed it.



So, why would you need a social media policy and what does it entail? A social media policy is an opportunity to align your family's values, and not just to the business' image. It is also an opportunity to communicate how the family business presents itself online. A social media policy can protect the family's and the business' reputation. It can also steer the family business away from controversy.

A social media policy can help protect the physical and digital safety of family members and the business. It is important for family members and employees to understand which types of posts are appropriate and which ones can leave the family and/or business open to harassment or harm.

Some things to think about when setting a social media policy are:

1. Is it simple and clearly understood by family members and employees?

2. Who is in charge of responding to social media and responding to negative posts?

3. Is everyone aware of what is personal and what is business, especially when it comes to posting online?

4. Is everyone aware that any given post can suddenly go viral? If it does, are the consequences good or bad?

For example, Best Buy has the following social media policy: *Protect the brand. Protect yourself.* Ford has the following social medial policy guidelines: *Honesty about who you are; clarity that your opinions are your own; respect and humility in all communication; good judgement in sharing only public information—including financial data; and awareness that what you say is permanent.* Many companies have a very simple rule: *When in doubt, don't post.*

Social media should be used to enhance your business' strategic goals. It should be thought of as a promotion tool. In other words, it is a way to communicate with your business's stakeholders (customers, suppliers, community members, etc.). A post is not just "a post". It should be an intentional communication to a targeted audience.

Succession Planning: Can Communication be a Competitive Advantage?

Renee Wiatt

Succession planning starts with a discussion. A lawyer will gladly facilitate that discussion and charge an hourly fee or you can start the discussion as a family and a business. There is an infinite amount of questions that can help form a succession plan for your business. There are questions that need to be asked and answered by both the incumbent generation (exiting generation) along with the successor generation (entering generation). Questions such as:

- Are there individuals in the family (or not in the family) interested in joining the operation? If so, who?
- What can those individuals bring to the business?
- What are some weaknesses for the business that can be filled by the next generation entering?
- When will the business start transitioning to the next generation?
- Will the incumbent generation stay on in a consultant capacity or will that generation exit completely?
- What does someone need to do to join the business?
- What funds are needed to facilitate succession?
- Does the incumbent generation need funds from the business to retire?
- Who starts the succession discussion, the incumbent generation or the successor generation?

A question to consider: does it give you a better feeling to be invited to an event with friends or to invite yourself? Succession could be a "party" in which some feel they need to be invited to attend (or even start the conversation). A survey of Midwestern farm and family businesses (Marshall et al., 2012) found that roughly 53% of incumbent generations had actively engaged in discussing possible transfer plan options with heirs or successors, leaving roughly 47% of businesses not discussing these options. Not shockingly, less than 30% of farms have identified a successor for their business; less than 28% of all family businesses have identified a successor (FBSS, Marshall et al., 2012).

When it comes to who should "start the conversations" pertaining to succession, there is not a clear-cut right or wrong answer. However, it is often a better scenario for those in a position of power to bring up the topic of succession. Resentment can quickly develop among successor generations. For instance, an individual who has been working for their family's business for 20 years with no actual steps towards transitioning ownership or management could feel hopeless and even seek employment elsewhere. It could be compared to an employee at a large corporation, pouring their heart and soul into their job without any promotion or talk of promotion up the ladder.

A competitive advantage can be defined as a factor or characteristic of a business that sets them above their competitors. The difficult discussions and potential conflict-inducing conversations that can stem from succession planning may seem onerous, but transparent and frequent communication are key to successful businesses. Why not use communication as your competitive advantage? Communication is a vital component of marriage; family businesses are a marriage of the family and the business.

Allowing both generations to share their wants and needs in the succession process can set up a stronger business for both the present and the future. By implementing communication as your competitive advantage, your business can be more unified in what the owners and future owners want and need from and for the business. In farm and family businesses, it is not just the business – the wants and needs of the business members as well as family members must be considered. Keeping communication open and transparent in the family will spill over into the business. When values of both generations are unified and a succession plan is in place, everyone will know where they are going and what they can expect for the future of their business.

Why Are Small Business Relations with Community Banks Important?

Zuzana Bednarikova

Rural small businesses play a key role in the rural economy, making up a vast majority of all businesses and employing about half of the private sector workforce. The financial health of rural small businesses represents a significant part of rural economic and social wellbeing. Like large companies, they need to borrow funds to start up, maintain, or grow their businesses, including purchasing properties, adding working capital and inventory, and financing their obligations. Capital constraints limit business activities and make rural enterprises more vulnerable.

Community banks are an important source of funding for small businesses, especially in areas where employment is concentrated in small establishments dependent on community banks' financing. Community banks provide their local communities with various products and services, and small business lending constitutes a large share of the overall lending portfolio for these banks.

What is a community bank?

Federal Deposit Insurance Corporation defines community banks as those with limited size and geographic scope, focusing on providing traditional banking services to their local communities. In general, these banks make most of their loans to local businesses and receive most of their essential deposits locally. Moreover, "community banks tend to focus on loans as relationships, originating loans that require local knowledge, greater personal touch, individual analysis, and continues administration rather than loans that can be made according to a formula" (FDIC, 2020, p. 4-1).

Why is relationship lending necessary?

One of the principal banker's tasks is to reduce information asymmetry between the bank and its potential borrowers. This problem is particularly serious among new, small, and rural businesses. These business types are difficult for lenders to assess because there is little information about the risk profile of the evaluated projects. A track record of new businesses used by banks to evaluate their performance is little or does not exist. Small businesses are less likely to generate a comprehensive financial report. Finally, rural businesses usually do not have enough projects to be compared as a benchmark for performance. Also, rural establishments are more vulnerable because they rely heavily on a local bank structure and bank lending as bank loans represent their primary source of external financing. As a consequence of the lack of available information, new, small, and rural businesses may appear particularly risky, decreasing the probability of getting a loan.

Relationship lending, which is characteristic of community banks, overcomes this information asymmetry. When borrowers and lenders know each other personally, lenders have easier access to soft information about the borrower and business performance.

The extant research suggests that small businesses benefit from relationships in terms of credit availability, credit terms (for example, reduced cost of bank credit or lower collateral requirements), and firm performance. Furthermore, firms with close ties to their community bank can invest more when they are financially distressed. Thus, banking relationships help overcome tensions limiting the flow of credit. An essential aspect of a bank relationship is its duration. Obviously, the longer a borrower has been providing its loans, the more likely the enterprise is viable and the owner trustworthy.

How does relationship lending work during a crisis?

The strong firm-bank relationship has become an even more critical issue during the COVID-19 pandemic. Businesses have been facing an unprecedented economic disruption due to the COVID-19 outbreak, and many small businesses have sought financial relief through the Coronavirus Aid, Relief, and Economic Security (CARES) Act's Paycheck Protection Program (PPP). However, the PPP requires a relationship with a banking institution eligible to provide the Small Business Administration (SBA) loans. Center for Responsible Lending informed that not only small businesses had to have a relationship with SBA loan banks, but they may have found the payroll expenditure difficult to calculate for their financial institutions who, based on the PPP program fee structure, had little incentive to help them. Nevertheless, most local community banks were able to expedite small business loans at faster rates than large national banks such as Bank of America or Chase.

What's next?

Many factors affect the firm-bank relationship and need to be taken into account. Relationships can be built through interaction over multiple products. Lending practices vary significantly between metropolitan and rural markets. Small businesses identify different types of banks serving as the main relationship bank, e.g., small versus large, single-market versus multimarket, and local versus non-local banks. The strength of these main relationships can be examined by the probability of having an exclusive relationship versus multiple banking relationships. The gender of a business owner and bank manager may influence a business owner's perceptions about a banking connection. Other aspects influencing the lending relationship include firm and principle owner characteristics and local banking market conditions.

Exploring rural business personal relationships with community bank representatives as a factor influencing business resilience is crucial not only to small businesses affected by the COVID-19 pandemic and seeking financial relief but also for credit flow availability when needed.

References

FDIC. 2020. Community Banking Study. Federal Deposit Insurance Corporation. FDIC-014-2020.

Work and Life Harmony

Heather Strohm

One of the most famous country songs is by Dolly Parton, "Working 9 – 5." The reality is that many employees, management, leaders and company policies have evolved to create more of a work and life balance and the "traditional" work day for many is no longer a set of fixed hours. Although this isn't the case for every company, many companies have discovered that by providing employees' flexibility, especially considering Covid times,n and the opportunity to balance personal obligation into the work environment has increased employee satisfaction and most of all, employee productivity.

Before I dive into components of work-life balance, let's answer the question of what exactly work-life balance is. Work-life balance is the ability to have a sense of control and to stay productive as well as competitive at work while maintaining a happy, healthy home/personal life. It is the ability to attain focus and awareness while multiple needs are pulling simultaneously pulling at your time.

In order to create a balance or harmony, there are six components to implement for the increased success.

1. <u>Self-management</u> – This is the ability to recognize that effective use of space in our lives is vital and that available resources, time and life are finite. You must manage your time effectively as no one else will.

2. <u>Time management</u> – This is making optimal use of your time and supporting resources that and be summoned. You keep pace when your resources match your challenges. One technique to assist with effective time management is prioritizing a daily, weekly and monthly "to-do" list.

3. <u>Stress management</u> – By nature, societies tend to become more complex over time. In the face of increasing complexity, stress on the individual is inevitable. More people, distractions, and noise require each of us to become adept at maintaining tranquility and working ourselves out of pressure-filled situations. Most forms of multi-tasking ultimately increase our stress, versus focusing on one thing at a time.

4. <u>Change management</u> – This is recognizing that our fast-paced world, change is virtually the only constant. Continually adopting new methods and re-adapting others is vital to a successful career and a happy home life. Effective change management involves making periodic and concerted efforts to ensure that the volume and rate of change at work and at home does not overwhelm or defeat you.

5. <u>Technology management</u> – Technology is definitely crucial to an effective balance as many of us do not "unplug" and it may easily overwhelm many. Effectively managing technology means ensuring that technology serves you, rather than abuses you. Technology has always been with us, since the first walking stick, flint, spear, and wheel. Now, the rate of change is accelerating, brought on by vendors seeking expanding market share. Often there is no choice but to keep up with the technological Joneses, but you must rule technology, not vice versa.

6. <u>Leisure management</u> - How do we relax? The most overlooked of the work-life balance supporting disciplines, leisure management acknowledges the importance of rest and relaxation- that one can't short-change leisure, and that "time off" is a vital component of the human experience. Curiously, too much of the same leisure activity, however enjoyable, can lead to monotony. Thus, effective leisure management requires varying one's activities.

As you recruit and invest in your company as well as employees, consider how to support their personal goals in addition to your company goals and you will most likely see an increase in productivity, loyalty, and motivation.

The PIFB team of Maria Marshall and Renee Wiatt have filmed videos to kick off the *Family Business Video Series.* The videos in the series are linked below. Continue to stay engaged with our Institute and our YouTube Channel as we release more videos.

- What is a Family Business?
- Social Structure of the Family
- Fairness and the Family Business
- Dealing with Conflict
- Measuring & Evaluating Family Functioning

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