

MIKE HENNING'S

“ALL IN THE FAMILY” COLUMN

DOES MONEY BUY HAPPINESS?



Many folks seem to think so. For example, millions of people gamble on the local lottery systems sponsored by our State governments, others flock to the “boats” moored along our rivers and others travel to Reno or Vegas. All seem to be searching for that illusive pot of gold so they can pay their long overdue bills, buy fancy cars, huge houses, second and third homes/condos, and more things they always thought would make them happy. But it just doesn't work! With all the things come responsibilities that demand one's time. Sales people come from the four corners of the earth trying to sell you more things, and other people work on your soft side to get donations. Of course, what money you have is never enough because you are still not happy, so you want more money.

A case in point is the third and fourth generation members of the William Randolph Hearst family. As reported in Forbes, this successful journalist and media businessman was worth nearly \$1.8 billion when he died in 1951. Today the 50 heirs are in court fighting over the new annual dividend payout policy for this year, which has increased from \$150,000 to \$93 million. Only a few of the heirs seem to have “real” jobs, while the others sadly don't have a clue how to manage the wealth they are handed each year because they are members of the lucky (unlucky) sperm club.

As so many financially successful and wealthy businessmen do in this country and other countries as well, they struggle to ensure financial security for members of the next generation, but fail to deliver what is really needed, which is a sense of purpose and self-esteem. It is called earning your own way in life based upon your talents, drive for success in a particular career or your own business. Anything short of that is likely to produce a family generation of unhappy incompetents who will manage to destroy or lose the family's wealth. It appears the Hearst heirs have been sentenced to a life of dependency upon the trust provisions dictated by William Randolph some 86 years ago.

Don't you wonder if other extremely successful businessmen today such as Jack Welch, Bill Gates, Warren Buffet or the successfully/unsuccessful CEOs and Presidents of Enron, Worldcom, Global Crossing, Adelphia, and others who have legally, but without integrity or morality, sucked huge amounts of cash out of their companies for personal use, learned any lessons from those who have gone before them? Or in an effort to pad the lives of their heirs financially, will they sentence them to lives of incompetency, total unhappiness and despair.

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The Owner's Nightmare – Piercing the Corporate Veil

Over the past thirty years of reading and researching private business practices, it has been well documented how owners seem to get confused (conveniently) about which assets support and are part of the company, and which ones are identified with the family. Plainly stated, more often than not, when reviewing the liabilities of a company, one discovers such distortions as semi-personal expenditures involving automobiles, vacation homes, boats, airplanes, season tickets to professional sporting teams and relatives on the payroll who don't work in the company only to mention a few.

Evidence collected from the U. S. Court System in a study conducted by Deborah & Edward Murphy of Spring City, Tennessee, indicates this confusion between a business entity and a family system as the primary reason for the court to pierce the corporate veil. Examples would be commingling funds, under-capitalization, not keeping corporate records, fraud or engage in injurious acts.

Of the nearly 1000 cases tried each of the past four years in our court system, 25 percent will have their corporate veil pierced and must face the consequences.

Corporate veil piercing has been on the increase since 1997, and in view of recent serious problems with major corporations in the U. S., it is not likely to decrease. In light of this information, what steps should a business owner take to avoid court action that will strip away the protection offered by a corporate shield? Basically, it would be the same steps recommended by all consultants and family business advisors, and the same advice we have given to company owners on many engagements.

- ◆ Professionalize your business by establishing management systems, budgets, job descriptions, performance reviews, policies, procedures, etc.
- ◆ Conduct regular board of directors meetings with agendas and minutes.
- ◆ File a business tax return separate from your personal return.
- ◆ Maintain adequate working capital in the company.
- ◆ Differentiate between distribution/dividends and salary paid to family members.
- ◆ Operate your business as if the procedure would appear the next day in your local newspaper. Clean up the balance sheet and profit & loss statements by removing those assets that do not support the company.
- ◆ Maintain a clear and separate identity between the owner and the corporation.

By following these rules, you may end up paying another ½ percent in taxes, but you should easily make up the difference in the added efficiency of your business operations, plus you will have a better night's sleep.