

focus

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How to keep business ethics front and center

After the high-profile instances of business wrongdoing over the past decade — Enron, WorldCom and Tyco International, to name a few — you may wonder if ethics still has a role in the business world.

The question is even more relevant today, given the languishing economy. After all, it doesn't require much resolve to do the right things, such as paying suppliers on time and adhering to top-notch quality, when times are booming. But, if you're short on cash, it can be easy to extend payables past their due date or skimp on quality. It's in such times that you should embrace business ethics.

Defining business ethics

Merriam-Webster defines ethics as "the principles of conduct governing an individual or group." And while acting in a less-than-honorable fashion may be expedient at times, it can backfire. Not only can it expose your business to possible criminal charges, but it can encourage employees and business partners to also act either illegally, or with only their own interests in mind. Fostering an ethical workplace requires management to value honesty and integrity, and hire employees whose values match the company's.



Setting the tone at the top

The phrase "tone at the top" is often used to describe both the attitude and actions of a business's owners and executive management. If top managers emphasize the need to act with integrity, but don't follow through with their actions, employees will notice. For instance, a company president who stresses honesty, yet asks an employee to backdate a check so it doesn't clear right away, conveys the message that doing the right thing is less important than achieving a particular result.

A fundamental element of strong internal controls is to segregate duties within financial operations and reporting.

Such actions can, in turn, prompt employees to act unethically. Consider this: The Ethics Resource Center's 2009 *National Business Ethics Survey*[®] asked participants if they'd observed at least one form of a specific misconduct in the previous year. When it came

to falsifying time or expense reports, 4% of respondents working in organizations with strong ethical cultures reported such an incident, compared with 19% in companies with weak ethical cultures.

Examining candidates' values

To maintain a culture that values ethics, hire employees who also place a premium on an ethical work environment. A job candidate who values moving up at any cost may come across as an ambitious go-getter. However, if a worker starts

cutting corners and fudging results — say, by recording sales before they're actually completed — he or she will undermine your efforts to foster an ethical corporate culture.

Implementing formal policies

A company's owners and managers should regularly discuss workplace ethics with both employees and business partners. The business should also draft a written policy that outlines its approach to doing business. Putting the policy in black-and-white and making it easily available can help prevent misunderstandings, and emphasize the point that integrity comes first. An ethics policy might include provisions that state the company's expectations for employees regarding the proper use of the business's assets and their duty to avoid situations that would constitute a conflict of interest, such as hiring a family member.

Harnessing strong internal controls

Internal controls are processes designed to provide a reasonable assurance that your financial statements are credible and accurate, that your company complies with applicable laws, and that its operations are efficient.

A strong system of internal controls might seem most applicable in larger businesses, but it's critical to smaller companies, which often are less able to withstand a fraudulent or criminal act. Internal controls help safeguard the company's assets and ensure that decisions made by management, lenders and investors are based on accurate information.

A fundamental element of strong internal controls is to segregate duties within financial operations and reporting. While this won't eliminate the possibility of fraud, having two people involved in an operation makes it more difficult to pull off. An employee who issues checks or payments, for example, shouldn't also be responsible for recording those transactions. When checks arrive via mail, one employee should log them and another deposit them.

Fraud is more prevalent than you might think

According to the Association of Certified Fraud Examiners' *2010 Report to the Nations on Occupational Fraud and Abuse*, businesses lose on average about 5% of their annual revenue to fraud. The median loss suffered by U.S. businesses with less than 1,000 employees was \$150,000. The median loss at companies with between 1,000 and 9,999 employees was \$60,000.

The report, which is available at acfe.com, notes that smaller businesses are particularly vulnerable to fraud because they lack the internal controls typically in place at larger firms. To remedy this, small business owners and managers should focus on policies and mechanisms that are likely to be most cost-effective, such as setting a tone of integrity (see main article).



It's also critical that management take a keen interest in the business's financials. Employees should know that management regularly — and, ideally, randomly — looks in financial reports for transactions that raise a red flag, such as an unexplained spike in expenses.

Sustaining an ethical workplace

A tone at the top that stresses integrity, a written ethics policy, a commitment to hiring employees who take ethics seriously and a system of strong internal controls will help you develop and sustain an ethical workplace environment. Work with a business consultant and CPA to ensure that your ethics policies and internal controls are operating as intended. ♦

Avoid the “second class citizen” syndrome: Embrace collaboration

If yours is a family business, be aware that, at one point or another, some or all of your nonfamily employees may feel like second-class citizens. Suppose they see your family members huddled together, for example, laughing over a family joke. Nonfamily employees might feel left out — or even think that the joke the family is sharing is at the expense of nonfamily employees!

The stakes get even higher when nonfamily workers feel left out of key management decisions. To make sure everyone feels like part of the team, you may want to create a collaborative management environment.

Make collaboration the goal

A collaborative management environment can help create an “all for one, one for all” attitude among *all* of your employees. This benefit can ultimately translate into higher productivity and profits. Plus, it can be felt in all areas of your company — from the management level, where the objective may be to cut operational costs or improve employee retention, to the project level, where the goal may be to develop or enhance a product or service.

To motivate employees to adopt a team-oriented attitude, establish a performance measurement system that emphasizes and rewards teamwork.

In addition to providing employees a better understanding of their importance in the company, a collaborative environment can improve operational and work efficiencies,



provide an appreciation for different ways of thinking and support for decisions, and spur innovative solutions.

Follow the leader

To successfully implement a collaborative management environment, it's essential to have a strong leader who can clearly communicate the company vision and rally team members to fulfill organizational goals. Whether the team leader is a family member or nonfamily member (it will depend on who has the strongest leadership skills), he or she should also be able to provide direction around obstacles and mediate conflicts that may arise among team members.

Your team leader must establish policies and procedures for the team. Otherwise, infighting may erupt when problems arise. Rules to consider include requiring punctuality, preparedness and adherence to deadlines.

In addition, to motivate employees to adopt a team-oriented attitude, establish a performance measurement system that emphasizes and rewards teamwork. For instance, evaluate members of your product development team on their individual performance and collaborative efforts in achieving the team's goal of a successful product launch. Metrics could include actual total cost for development and production and total time to market.

Remember that you're not alone

In addition to encouraging collaboration internally, opportunities exist beyond the walls of your business. For starters, you can tap the expertise of outside professional advisors, such as your accountant, lawyer or family business coach.

Another great opportunity is to network with other family businesses to discuss common challenges, share insights and work together on solutions. A family-owned manufacturer, for instance, may consult with family-owned manufacturers of noncompeting products. The business owners can trade experiences, learn from each other's mistakes, and take comfort that they're not alone in the challenges they face.

To find other family businesses to network with, check out industry and business associations, including chambers of commerce.

Social media sites such as LinkedIn and Facebook also can be useful. Or you could even organize your own networking program, inviting other family businesses to participate in roundtable discussions or deliver presentations on topics unique to family businesses.

Budget permitting, you might offer to sponsor the first networking event and then charge companies that wish to sign up and continue with the program for successive events. The initial investment can pay off with a continuous flow of invaluable insights.

Aim for solidarity

With the economy continuing to limp along, it's crucial that your family business be in top running condition. This requires that each and every employee feel like a valued part of the team. Only then can your company achieve its goals. ♦

Act now to protect your loved ones

Drafting these essential estate planning documents is key

A 2011 survey by EZLaw indicates that only 44% of Americans have prepared a will or other estate planning documents. What the other 56% may not realize is that neglecting to prepare these documents can cause serious problems for their loved ones.

Better safe than sorry

To avoid an undesirable outcome, prepare these documents:

Will. This legal document arranges for the distribution of your property after you die and allows you to designate a guardian for minor children or other dependents. The will should name the personal representative who'll be responsible for overseeing your estate as it goes through probate. (Probate is the court-supervised process of paying any debts and

taxes and distributing your property after you die.) To be valid, a will must meet the legal requirements in your state.



If you die without a will (that is, “intestate”), the state will appoint an administrator to determine, based on the laws in your state, how to distribute your property. The administrator also will decide who will assume guardianship of any minor children or other dependents, if applicable. Bottom line? Your assets may be distributed — and your dependents provided for — in ways that differ from what you would have wanted.

Living trust. Probate can be time-consuming, expensive and public. So you may prefer to avoid it. A living trust can help. It’s a legal entity to which you, as the grantor, transfer title to your property. During your life, you can act as the trustee, maintaining control over the property in the trust. On your death, a person (such as a family member or trusted advisor) or institution (such as a bank or trust company) you’ve named as the successor trustee distributes the trust assets to the beneficiaries you’ve named. Assets held in a living trust avoid probate.

Review beneficiary designation forms on insurance policies, as well as your 401(k) plans and IRAs, to be certain that the money will go where you want it to go.

Having a living trust doesn’t eliminate the need for a will, however. For example, you can’t name a guardian for minor children or other dependents in a trust. And a “pour over” will is a good idea. It directs that assets you own outside the living trust be transferred to it on your death.

Another benefit of a living trust is that the successor trustee can also take over management



of the trust assets should you become incapacitated.

Letter of instruction. This can complement, but not replace, your will and living trust. It should provide vital information that your loved ones will need soon after your death. For example, you can include your desires for your memorial service, as well as the contact information for your employer, accountant, and any other important advisors. The letter isn’t a legal document.

Durable power of attorney for property. This allows you to appoint someone to act on your behalf on financial matters should you become incapacitated.

Durable power of attorney for health care. Also called a “health care proxy,” this covers medical decisions and takes effect if you become incapacitated. The person to whom you’ve transferred this power — your health care agent — can make medical decisions on your behalf.

Living will or medical directive. This document outlines the conditions under which you’d want life support equipment removed or other specified life-prolonging medical treatments *not* to be given. It generally goes into effect only if you’re incapacitated *and* you’ve been certified by two physicians to be permanently unconscious or terminally ill.

Also remember to review the beneficiary designation forms on any insurance policies, as well as your 401(k) plans and IRAs, to be certain that the money will go where you want it to go.

Professional advice

Estate planning issues are complicated. To help ensure your estate planning documents

will achieve your goals, consult your tax and financial advisors as well as a lawyer. The former can help you assess the tax and financial implications of your decisions. And, while you're not required to use a lawyer to draw up your estate planning documents, a legal professional can make sure all documents are properly drafted. ♦

Wedding bells require special tax planning

If you get married in 2011 — even as late as Dec. 31 — for income-tax purposes you're married the entire year. For better or for worse, this may have a major impact on your tax liability that you should consider before year end.

If both you and your new spouse work, marriage can bring a "penalty." Because the middle and top tax brackets for married couples aren't twice as big as those for singles, you might be pushed into a higher tax bracket than if you were able to file as singles. Consider taking additional tax-saving steps before year end — such as making charitable donations — to help avoid being pushed into the next bracket.

But if one spouse isn't working, you may be able to save taxes as a married couple. If the unemployed spouse expects to be working next year, you may benefit by accelerating income into 2011 and deferring deductible expenses to 2012.

You'll also have a decision to make at tax return filing time: joint or separate? Filing separately isn't the same as filing as singles; the middle and top brackets for separate filers are smaller than those for singles. But if one spouse earns significantly more than the other, filing separately may provide more tax savings compared to filing jointly — especially if the spouse earning less also has significant medical or miscellaneous expenses, which are subject to an income-based "floor."

Also be sure to inform the following entities of any name or address changes:

- ♦ The Social Security Administration — so your (or your spouse's) name and Social Security number match when you file your tax return, and
- ♦ Your employer — so you'll receive your W-2 in a timely manner.

It's also a good idea to directly inform the IRS by sending Form 8822, "Change of Address," which you can download from IRS.gov.



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