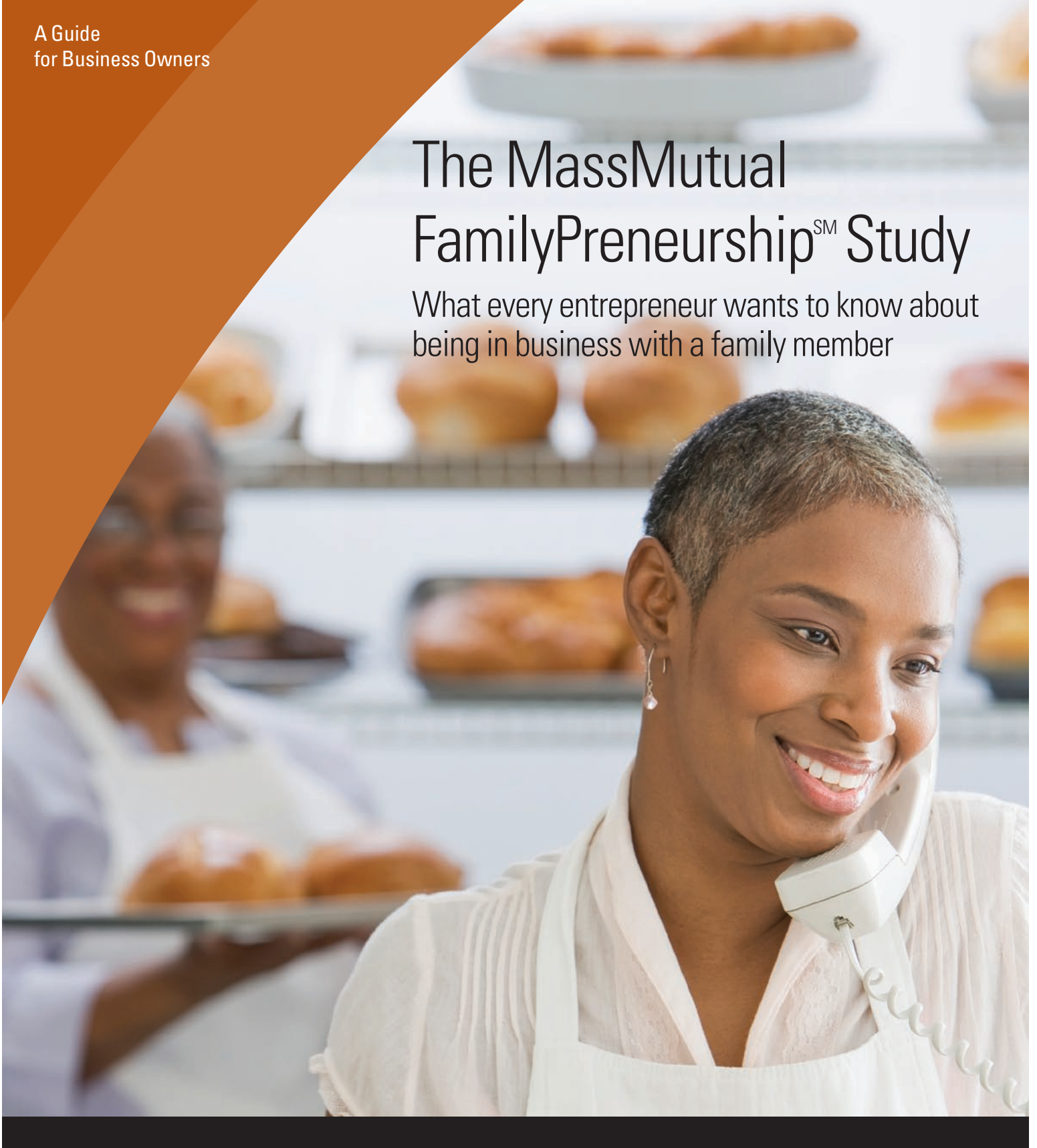


A Guide
for Business Owners

The MassMutual FamilyPreneurshipSM Study

What every entrepreneur wants to know about
being in business with a family member



We'll help you get there.®



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“ *The greatest threat to the long-term survival and success of any family business has less to do with what’s going on outside with customers, competitors and technology, than it does with what’s going on inside with relationships among the key players, especially among family members.* ”

***Getting Along in Family Business:
The Relationship Intelligence Handbook,
Dr. Edwin Hoover***

The information provided is not written or intended as specific tax or legal advice and may not be relied on for purposes of avoiding any Federal tax penalties. MassMutual, its employees and representatives are not authorized to give tax or legal advice. Individuals are encouraged to seek advice from their own tax or legal counsel.



We'll help you get there.®

March 2010

Dear Colleague,

The family business has been the cornerstone of the United States economy since the days of our founding fathers. Many corporations that started as family businesses, in fact, are household names: these include Walmart, Motorola, Ford Motor Co. and Tyson Foods, to name just a few.

Family businesses come in all shapes and sizes. Although approximately one-third of today's Fortune 500 companies are family-owned enterprises,* not all of these businesses are large corporations – many are small or medium-sized firms, perhaps like yours. Still, the important contributions that family businesses make to our economy cannot be understated, since these companies account for approximately 78 percent of the jobs created in the United States today.*

Massachusetts Mutual Life Insurance Company (MassMutual) and its agencies, financial professionals, and Certified Family Business Specialists** recognize the important role that family businesses play in our communities. That's why we continually strive to provide the products, services and resources to help them continue to grow and prosper.

To better understand the dynamics of today's family businesses, MassMutual commissioned a research study called *FamilyPreneurshipSM: What every entrepreneur wants to know about being in business with a family member*. This study, conducted by Harris Interactive®, one of the world's leading market research and consulting firms, enabled MassMutual to learn more about the rewards and challenges facing family-owned businesses today – and the factors that contribute to their success. The study identified four common success factors for family-owned businesses (i.e., communication, work/life balance, trust and planning). In this report, we are pleased to share practical insights and best practices learned from this study with those who are working, surviving and thriving in a family business environment.

Our goal is for the insights in this report to provide you with an opportunity to reflect upon the successes and challenges in your business so that you can face the future, both in your professional and family lives, with greater confidence.

Sincerely,

A handwritten signature in black ink, appearing to read 'John Chandler', written in a cursive style.

John Chandler
Senior Vice President and
Chief Marketing Officer
MassMutual

* Source: Jane Hilburt-Davis and Judy Green, Providence Business News, "Family businesses have traits to survive," February 23, 2009 (<http://www.pbn.com/detail/40521.html>)

** The Certified Family Business Specialist program is offered by the American College in Bryn Mawr, PA., exclusively for MassMutual financial professionals.

What it takes to be successful in a family business

Regardless of the type of family business, our findings indicated that there are four main components that are key to the success of any family-owned business:

- Communication
- Trust
- Work/Life Balance
- Planning

Communication is key in all aspects of business

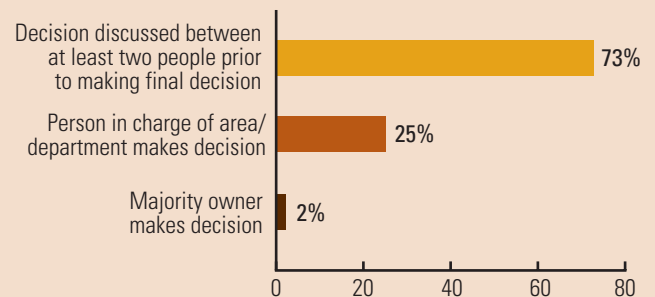
Perhaps one of the most important success factors in family-owned businesses is communication. It is the thread that runs through virtually all aspects of the business. With effective communication, a business has great potential to thrive and grow; without it, a business may flounder.

According to our research, communication is the most common factor cited as being necessary for maintaining good relationships with family – both inside and outside of work. It's an even more common factor than keeping work and personal lives separate.

Think about the operations of your business and the issues that you face each and every day when your family members are your co-workers, subordinates or business partners. Think about your business' decision making process, methods for resolving conflict and the way in which you define roles and responsibilities within the organization. Without effective communication, would anything get done?

1. It's a democracy not a dictatorship

The family businesses in our study that claim to have an effective decision making process say it's because they are good communicators. In fact, our study found that a large majority of family-owned businesses discuss their issues among multiple stakeholders prior to making a final decision.



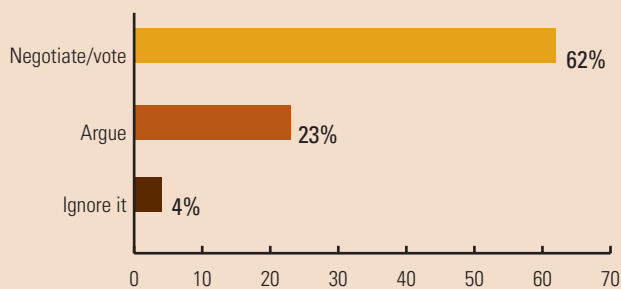
Base = 469

“ [Decision making] is more of a hashing-out type of deal. We get together. We all express each other's view points. If we're passionate enough about a certain subject we'll let that person go on and do it or explore it. ”

**Husband and Wife,
Retail**

2. Be civil when resolving conflict

When conflict arises, communication is extremely important – as long as it's a healthy form of communication. Our study participants indicated that, when disagreements surface, they...



Base = 518

“There’s going to be friction in every family business and sometimes I play referee.”

**Brother and Sister,
Manufacturing**

3. Know your role

Our survey results underscored the importance of communicating clearly defined roles and responsibilities among family business owners.

The majority of our respondents indicated that having separate roles is important to the successful operation of their business. Our survey participants reported that roles are most often defined based on:

- Unique strengths
- Complementary personalities
- A formal ownership structure

“Basically, you have to do what you’re better at. He’s better at sales. I’m more customer service-oriented, and also marketing.”

**Husband and Wife,
Wholesale**

Tips for maintaining good family relationships

Below are the most common ways family members in business together maintain good relationships both inside and outside of work:

1. Communicate
2. Keep work and personal life separate
3. Build in time for fun outside of work
4. Respect each other
5. Take emotions out of the equation

Our study revealed that it's more likely for work to be always or often discussed at home (particularly among spouses) than it is for family life to be discussed at work; but few find it to be a problem either way.



Put some balance in your life

Work/life balance is another factor that's critical to a family-owned business' success. Whereas communication is the common thread that winds its way through nearly every aspect of a business' operations, work/life balance is the foundation for the personal and professional components of each business owner's life. And in a society that is placing more and more demands on individuals in business today, work/life balance has become increasingly important.

Naturally, in family-owned businesses, work/life balance can be, at times, elusive. That's because, when working with family, the line between an individual's work and home lives is often blurred. If you feel that the balance between your work life and family life needs improvement, you are not alone. When asked the question, "Are you trying to improve the work/life balance with the family members you work with?" 56% of our study respondents answered, "Yes."

Rely on those you trust

Trust is the foundation on which any business relationship is built. Whether the relationship in question is with another owner in the business, or a business advisor, without trust, the business may not be as strong as it could or should be.

When our study participants were asked whom they trusted most as their business advisor(s), their answers were not surprising. In fact, the same trusted advisors continually rise to the top of the list each time family business owners are asked this question.

Most trusted business advisors

2007 American Family Business Survey

1. Spouse
2. Accountant
3. Business peer
4. Parent
5. Lawyer
6. Financial advisor

2009 FamilyPreneurship Study

1. Spouse
2. Accountant
3. Lawyer
4. Parent
5. Business peer
6. Financial advisor

When trust is there...

“*We get along so well. I trust her and she trusts me and we respect each other. I think that, overall, our employees see that.*”

**Sisters,
Service**

When trust is lacking...

“*There are many repercussions... because now I have an 'I can't trust you [feeling].'*”

**Brother and Sister,
Manufacturing**



MassMutual suggests the following ways to create a divorce-proof plan for your business:

- *Buy-sell agreements that can be triggered by certain events, such as a divorce*
- *Pre-nuptial agreements*
- *Post-nuptial agreements*
- *Trusts*

Plan for the unexpected

It's been said that if you fail to plan then you plan to fail. Think about how an unforeseen, unplanned-for event could threaten the viability of your family business. How would your business weather a divorce, a disability to a key employee or the death of an owner? Would it survive?

Planning for the unexpected is one of the most important components of a business' long-term success. Unfortunately, it's also the most commonly overlooked. *Why?* Because most family business owners spend the majority of their time working *in* their business and not *on* their business.

Divorce-proof your business

No married couple likes to think about the possibility of a divorce, but from a business perspective, it's wise to have contingency plans in place should it happen. After all, according to a 2008 Centers for Disease Control and Prevention report, the divorce rate in America for first marriages is 41%.

When divorce touches a family-owned business, most of the issues stem from dividing the couple's largest asset – the business. It's estimated that only 2% of divorced couples remain business partners.¹

In our study, only about one-third of our respondents had given the possibility of divorce any thought.

Only 15% of the family businesses we surveyed reported experiencing a divorce. Among those, 44% reported that it had a negative effect on the business.

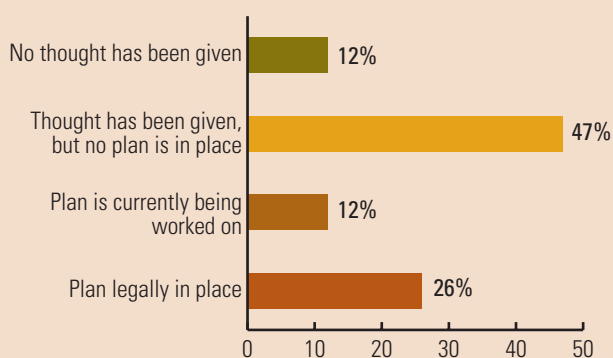
¹ Bernard Kliska, an associate at the Family Business Consulting Group in a November 20, 2009, CNNMoney.com article: "The CEO and the owner broke up. Now what?"

Don't let a disability catch you off guard

Almost one-third of Americans entering the work force today (3 in 10) will become disabled before they retire.² Yet family business owners often overlook the need to put a succession plan in place that protects the business in the event an owner or key employee becomes disabled.

We asked our study participants, “Which of the following best describes the level of thought that has been given to putting a plan in place for your family-run business in the event of temporary disability of any key workers?” Not surprisingly, nearly half of the respondents had thought about it but done nothing, while only slightly more than one-third had actually implemented or are currently implementing a legal plan.

Have you thought about contingency plans for disability of key employees?



Base = 518

A Buy-Sell Agreement can help protect your business if an owner dies or becomes disabled

A Buy-Sell Agreement is a legal document that, when properly executed and funded, can help business owners to ensure the continuity of the business in the event of the death or disability (i.e., the “triggering event”) of one of the business owners.

This legal document ordinarily stipulates how much one business owner must pay the other’s estate or heirs for their share in the business should the triggering event (identified in the Agreement) take place – or the method whereby the business valuation will be determined at the time that the event occurs. It may also include other relevant details, such as the source of funding for any buyout that may take place (often life insurance or other financial products are used for this purpose) and who is eligible for payment under the Buy-Sell Agreement.

Without a Buy-Sell Agreement, upon the death or disability of one of the business owners, the business may need to be sold in order to pay: 1) surviving owners for their share of the business; 2) estate taxes; and/or 3) business operating expenses.

² Source: Social Security Administration, Fact Sheet January 31, 2007



Finding success with your successor

The death of one of the owners is one of the greatest threats that a family-owned business could face. Not only can it severely impact the day-to-day operation of the business, but it can raise all sorts of business succession and estate tax problems – if the proper succession planning has not been done.

Think about what would happen if one of the principal owners in your business were to die unexpectedly. Who would take over that person’s interest in the business? Another family member? A key employee? A non-related buyer?

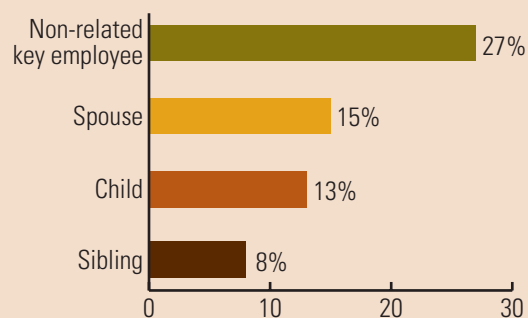
Even if a business succession plan is considered (the majority of our respondents indicated either having a plan or wanting a plan), the question of *who* will take over the business can be problematic for those we studied. When asked what intangible factors contributed most to the success of the business, the most cited answer was “being passionate for the business.” Over two-thirds of business owners believe their successors have as much or more passion for the business as they do.

Interestingly, according to our survey respondents, it's more often a non-related key employee who shares the owner's passion for the business. This underscores the importance of having meaningful discussions with any family members you intend to name as successors of your business. Be sure they share your passion and have a genuine desire to keep it running successfully.

“*But the one bad thing is that he has gotten himself so into the business that when he dies, literally the business is going to die. We have no succession plan. He’s so far into the business, it’s like he can’t see the forest through the trees.*”

**Father and Daughter,
Service**

Who typically shares a passion for the business?



Base = 470

Don't lose it all to Uncle Sam

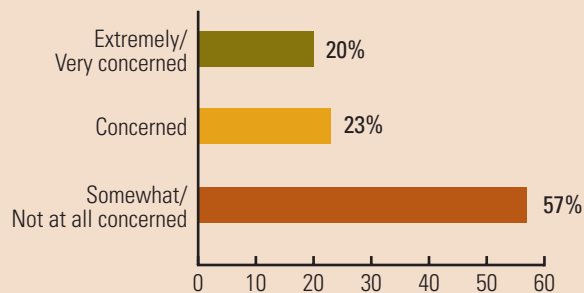
Estate taxes are another important planning consideration for business owners. The question often arises about how those taxes will be paid. The problem is that the value of many businesses is tied up in property or equipment and the only way heirs can pay the taxes is to sell those assets, potentially impacting the company's ability to conduct business. With the proper estate planning, business owners can help their families reduce the amount of estate taxes that will be due at death.

In our study group, the majority of respondents indicated they have a plan to deal with estate taxes – although 43% do not have a plan or don't know if they have a plan. Among those respondents who do not have a plan, their level of concern is surprisingly low.

Keep in mind that it can take many years to design and implement an effective estate plan. It's never too soon to start this type of planning if you wish to have your business continue on in the manner in which you choose.



How concerned are you with developing a plan to deal with estate taxes?



Base = 223

Family businesses with \$3 million or more in annual revenue are significantly more likely to have a plan for estate taxes.

“ We don't believe the end is near, so we haven't really prepared for it. ”

**Husband and Wife,
Wholesale**

Summary

Family business ownership offers numerous rewards and challenges. Our hope is that by examining what has made other family-owned businesses successful, you can put this valuable information to work for *your* business.

Business planning is not something that's done overnight. But our hope is that this research will provide you with ideas about the steps you can begin to take right now to set your business on the road to a more financially secure future.

To get you started, you will find a self-assessment and action plan on the next page. This exercise is designed to help you take the temperature of your business' family dynamics and gauge how well you are doing against the success factors discussed throughout this study. Answer honestly, discuss the outcome, and hold your business accountable in the areas in which improvement is needed.

“*The best part is working with family. The worst part is working with family. That's all I can say.*”

**Husband and Wife,
Retail**

MassMutual. We'll help you get there.®

As a mutual company, we are owned by our members and participating policyholders, so you can feel confident that your needs come first. For more than 158 years, MassMutual has helped entrepreneurs like you reach their financial goals. We recognize the challenges you face and are equipped to help you prepare for the future with more confidence.

Our goal is to help you stay focused on the task at hand – running your business – while together, in concert with your trusted advisors, helping you create a financial road map for the long term success of your business. In fact, we have financial professionals who are trained and certified to work specifically with family-business owners like you.

Put our qualities of strength, experience and stability to work for your business. To learn more about how MassMutual can help you protect what you've worked so hard to build, visit www.massmutual.com/familybusiness to find a MassMutual financial professional in your community.

Self-assessment & action plan

The following questions will help you to determine areas of family dynamics in need of improvement within your family business.

Communication

1. Do you feel that your business has a decision-making process that works well for *all* of the owners?
2. Are key business decisions usually discussed and agreed upon between at least two people?
3. Do all of the owners feel comfortable in openly discussing issues/conflicts that arise in the day-to-day operation of the business?
4. When conflict arises in the business is it addressed immediately and in a productive manner?
5. Do all of the owners have a clear understanding of their specific roles and responsibilities within the organization?

Give yourself 1 point for your 'Yes' answers and zero points for 'No' answers.

Yes No

Yes No

Yes No

Yes No

Yes No

Score: _____

Work/Balance

1. When at work, do you discuss home/family issues?
2. When at home, do you discuss work-related issues?
3. Do you feel that you need to improve the balance between your work and your home life?
4. Do you feel that you need to build in more time for fun with your family outside of work?
5. Do you find yourself having to work frequently "after hours" to keep your business running?

Give yourself 1 point for your 'No' answers and zero points for 'Yes' answers.

Yes No

Yes No

Yes No

Yes No

Yes No

Score: _____

Trust

1. Do you have trust issues with any family members involved in your business?
2. Is a non-family member your most trusted business advisor?
3. Do you think your employees question whether your family trusts and respects one another?

Give yourself 1 point for your 'No' answers and zero points for 'Yes' answers.

Yes No

Yes No

Yes No

Score: _____

Self-assessment & action plan

Succession Planning

- | | | |
|--|------------------------------|-----------------------------|
| 1. Have you identified your successor in the business? | <input type="checkbox"/> Yes | <input type="checkbox"/> No |
| 2. Do you feel that your successor has at least as much passion for your business as you do? | <input type="checkbox"/> Yes | <input type="checkbox"/> No |
| 3. Do you have a properly drafted and funded Buy-Sell Agreement in place to ensure the continuity of your business in the event of the death or disability of one of the owners? | <input type="checkbox"/> Yes | <input type="checkbox"/> No |
| 4. Have you taken any steps to protect your business in the event that you or one of the other owners should divorce? | <input type="checkbox"/> Yes | <input type="checkbox"/> No |
| 5. Have you worked with your attorney and a financial professional to create an estate plan? | <input type="checkbox"/> Yes | <input type="checkbox"/> No |

Give yourself 1 point for your 'Yes' answers and zero points for 'No' answers.

Score: _____

Add up all of your scores from the four sections for your total score:

How did you do?

15-18 Your family is meant to be in business together.

10-14 Things may not always be perfect, but you should feel confident in your family's ability to run a business together.

0-9 Think about ways in which you can improve the family dynamics in your business.

Based on your answers to the questions above and the information detailed in this guide, think of five ways you can have a positive influence on the family dynamics in your business right now. Consider these as action steps you can take immediately for a more successful family business.

1. _____

2. _____

3. _____

4. _____

5. _____

Appendix

Methodology

The *FamilyPreneurship: What every entrepreneur wants to know about being in business with a family member* was a two-part study of focus groups among small business partners and an online survey. Six focus groups were conducted by Harris Interactive on January 29, 2009, among six separate pairs of family business owners. Participants met the following criteria:

- all own a business with a spouse, sibling, or immediate family member,
- have between 1 and 500 employees,
- have been in business for at least five years, and
- earn a total annual revenue of \$500,000 or more.

The online survey was conducted within the United States by Harris Interactive on behalf of MassMutual between March 6 - 20, 2009, among 518 business owners, among which 330 are involved in a spousal business relationship and 250 are involved in a business relationship with a family member other than a spouse. Respondents met the following criteria:

- all U.S. residents, age 18 or older,
- have between 1 and 500 employees,
- have owned their business for at least five years, and
- have annual revenue of \$500,000 or more.

Results were not weighted. No estimates of theoretical sampling error can be calculated; a full methodology is available.

Company characteristics

The companies that participated in this study represented a broad range of industries – including those in professional services, retail, construction and manufacturing, to name just a few. Eighty-eight percent (88%) of those surveyed employed between 2 and 49 employees, and most (80%) had been in business for 10 years or more, with revenues of between \$500,000 and \$3 million (76%). Most of these were first-generation businesses (79%); while some were second-generation companies (15%), with a much smaller number (6%) being run by the third or a later generation of the founding family. Companies participating equally represented all four regions of the United States: the East (27%), Midwest (21%), South (29%) and West (23%).

About Harris Interactive®

Harris Interactive is a global leader in custom market research. With a long and rich history in multimodal research that is powered by our science and technology, we assist clients in achieving business results. Harris Interactive serves clients globally through our North American, European and Asian offices and a network of independent market research firms. For more information, please visit www.harrisinteractive.com.

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