

FAMILY BUSINESS

newsletter

Kalb Industries: Passing the Torch

by **Kathleen Foley**

The Kalb family started out in the construction business in Southern Nevada in 1963 when George Kalb and his wife, Mae, founded George F. Kalb Construction. More than 50 years later, the family business is still growing and evolving, led today by George Kalb's son, Steve, and Steve's son, Justin, who manage Kalb Industries together.

Steve and his brother, George, both worked for the family business as soon as they were old enough, eventually becoming full partners; however, they wanted to own their own business, so in 1980, they formed Kalb Construction as a way to bring the family business into the next generation. The family also launched a small company called Kalb Industries to do insurance repairs for commercial and residential properties. George F. Kalb Construction was dissolved in 1997, effectively passing the torch to the younger generation and to the two remaining family companies.

Kalb Construction quickly became a major player in the Southern Nevada economy, building some of the largest commercial projects in the community, as well as scores of franchise restaurants and more than 200 convenience stores. Although the two brothers worked well together, they had different visions of what they wanted the company to be. George preferred

the large ground-up projects, while Steve liked smaller construction jobs because they offered the chance to do something different every day.

Adapting to Change

In 2001, Steve's son, Justin, started working at Kalb Industries after earning a degree in Construction Engineering. Justin and his father helped the company branch out from insurance work into tenant improvements and commercial construction. This laid the groundwork for an amicable split between Steve and his brother in 2005, with Steve taking over Kalb Industries and George heading up Kalb Construction. "This gave me a chance to work with Justin, to concentrate on the type of projects I liked best, and also to devote some time to other business interests," Steve explained.

Being willing and able to adapt to changing conditions is an important factor in long-term success, and Kalb Industries has succeeded by changing its business model as the market

evolved. When the economy slowed in 2008, Kalb Construction — which had specialized in large new-construction projects — was negatively impacted, while Kalb Industries continued to grow. The company still counts on insurance work for between 20 and 30 percent of its revenue, but by diversifying into many other areas, it was able to grow and be profitable even during the worst of the recession.

With a staff of 30, Kalb Industries' projects today include design-build for new construction; tenant improvements; commercial, professional and industrial projects; insurance work (residential and commercial); residential remodels; and retail, restaurant and convenience stores.



Planning, preparation and flexibility have allowed the Kalb family business to successfully transition from its founders to the second and third generations. Justin Kalb, his son Hudson, and father Steve are part of a family legacy that began more than 50 years ago.

Mentoring the Next Generation

Justin is now president of Kalb Industries, while Steve retains the title of CEO. Steve explained, "I know so many family owned businesses that didn't make it because of conflicts within the family. If 'Dad won't let go,' it can turn into a disaster. I see my current role not as a decision-maker, but as a mentor to help Justin and his team make decisions instead of telling them what to do."

Justin remarked, "Dad has done an excellent job in allowing me to go out on my own and make mistakes so I could learn from them." Steve added, "That came directly from my father, who did the same thing with me. He let me go out and handle projects my way. If I made mistakes, we'd go over them, he'd chew me out, we'd make corrections and I'd keep on going. He taught me how to treat Justin because of the way he treated me."

Steve and Justin are working together to make ownership of Kalb Industries more equitable and to set their affairs in order for the day Steve decides to retire. They know there's a lot to be done before he passes the torch. "It takes a while to learn all the aspects of running a business outside of the actual construction work, such as pensions and profit-sharing, insurance, accounting, workers' compensation, employee management," Steve explained. "Then there are the relationships we've developed over the years with clients and subcontractors, some of them going back to my dad's time. Ninety percent of our business is with repeat clients who know and trust us." Justin added, "I need to develop my own relationships with those people and their companies, and also start forging relationships of my own."

Estate Planning

Steve and Justin also want to make sure estate plans are in order for the business and the family. The importance of estate planning recently hit home when Steve's

brother, George, died in October 2013. Although Steve was no longer involved in George's construction company, the brothers were partners in a number of other business ventures, including small development projects and joint ownership of buildings and shopping centers. Steve is helping George's widow deal with the complexities of his estate.

"What I've learned from that experience is that my wife needs to be more engaged in our estate planning," Steve said. "You don't realize how complicated it is until you've been through it. I had gone through all the meetings with attorneys and accountants when my parents died,

so it was a little easier for me to understand."

Generation Four?

Justin hopes to eventually bring his 8-year-old son, Hudson, into the business, which would make the fourth generation of Kalbs helping to build Southern Nevada. Justin said, "I never felt that I had to go into the family business or that it was my destiny. Dad allowed me to do whatever I wanted to do. Instead of pushing me away from the business, that actually pushed me toward it. I'm going to do the same thing with Hudson. He needs to find what he loves and then go out and do it." ■

Parting Ways: Let My People Go

by **Ross W. Nager**

Buy/sell agreements are among family businesses' most important documents. Many business owners won't discuss buy/sells for fear of the consequences. As a result, they miss an important opportunity that goes far beyond the document's legalistic purposes.

One group will be all ears (and vocal cords) if you raise the buy/sell subject to those who might want to split one day. If you think that someone might want to sell one day, you probably won't raise the subject. Or, you'll start the discussion and get bogged down on the pricing.

Sure, you can argue for a low price that prevents them from selling. That's the stick approach. How about offering the carrot instead? Perhaps it would be better to find ways to motivate people to want to keep their shares. But offering the carrot requires you to find out what might motivate them to sell and, more importantly, to stay.

So, the key to the buy/sell agreement is that you must talk in-depth about it first before negotiating about price. Rather, use the potential price impasse to explore a series of important questions and issues:

- If you think a higher price is appropriate, why? Conversely, if you think a lower price is appropriate, why?
- What are each family member's feelings behind why they favor those who might choose to stay or leave and, therefore, benefit or suffer from the pricing preference?
- Then, discuss the possible consequences to the departing and remaining shareholders and to the company.
- Then, don't try to change others' views on buy/sell pricing. Instead, ask, "What can we do to resolve the underlying issues raised as a result of these discussions?"

I have found that the existence of a fairly priced buy/sell agreement actually reduces family stress.

Yes, these discussions might let the proverbial genie out of the bottle, unleashing pent up anger and frustration. Moses' words to Pharaoh come to mind: Let my people go. In a family business, you can get away with holding family members as shareholder-hostages for a while. But, the result can be built up tension that culminates in problems far greater than the cost of letting them leave gracefully and on fair terms. Wouldn't it be better to discuss their concerns now, rather than waiting until they decide to hire a lawyer to facilitate their departure?

Don't Bail Too Fast

For those whose desire for a high price underlies a personal desire to sell, I have a few thoughts. When I was growing up, I had a piggybank. I put coins in whenever I could. I rarely took money out, although I could. After all, it was my piggybank. It was my money.

My premise has always been that unwilling shareholders should not be held hostage. If they really want out, let them sell if at all possible. But, you should consider the consequences of selling.

Think twice before you decide to buy that new house by redeeming some shares. Unlike cashing in some Intel stock, you probably can't replace the family business shares you sell. You will be permanently affecting your and your descendants' future rights and involvement in the business. It can create resentment and alter voting relationships within the family.

Selling your stock can have a serious impact on business operations. It's not just your

piggybank. The livelihoods of your employees, customers and others can be affected if your demands are too high.

Understand that family members who will remain shareholders want a viable, ongoing business. There is a limit on how much the company can afford to pay to buy back its shares. Is it fair to expect your family members to risk the business and their future livelihoods for you to be able to cash in your stock on a whim or for an excessive price?

Raiding the piggybank was no big deal when you were a kid. The stakes are much higher when you consider a raid on the family business. Approach the issue with care, good advice and a very long-term perspective. Make sure that you truly understand the real reasons you want to sell shares. Work with your family to explore alternatives to dealing with the issues that might motivate you to sell. If you must, you must. But, trading your heritage for short-term benefits may not be the right decision.

Fair Agreement

I have found that the existence of a fairly priced buy/sell agreement actually reduces family stress. Once people know that they can sell, and

get a fair price, their desire to do so often dissipates. Perhaps they finally face the finality of the consequences of selling, and back down.

Hopefully, your buy/sell agreement will stay in the desk drawer. But, if ever someone wants or has to leave, they should be allowed to do so with grace, dignity, compassion and a sense of fairness. If you can't stay in business together, a fair agreement at least will help to ensure a continued healthy family relationship.

Approach the buy/sell discussions in this spirit, and you will dramatically improve the odds of having a shareholder agreement, not just a draft. And, you'll decrease the chances that anyone will ever trigger it! ■

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The Shadow Effect of the Founding Generation on the Sibling Partnership

by Stephanie Brun de Pontet and Kent Rhodes

The sibling partnership stage is widely regarded as the most challenging and intense of the family business generations. While there are business reasons for some difficulties seen at this stage, most challenges siblings encounter are related to emotional issues, which are typically harder to confront or address than simple business struggles. In fact, some of these issues may not be changeable or fixable, but appreciating that some of these dynamics may be playing a role in your business can at least help siblings recognize they are “normal” and perhaps develop better empathy for one another.

While we are loathe to blame the parents for the less-than-perfect behavior of their children, it cannot be denied that the way we are raised as siblings will have a profound effect on

how we relate to one another. In addition, while siblings are raised in a similar environment, it is worth remembering that there are distinct personality differences that further complicate sibling relationships. Siblings tend to differentiate from one another to find their own place in the family system. This adds to the diversity of styles and interests that can make getting to consensus and working as a team more challenging. In fact, there are many ways sibling upbringing or differences get manifested in a family business, some of the more challenging ones we see include:

COMPETITION

We have seen many clients where parents pit their children against each other by constantly comparing one to the other (“Johnny, why can’t you be a better student like your sister

Suzie?”) or intentionally having them compete and then belittling the “loser” (“Mark, your sales numbers this quarter are so lame it made me think you’d been trained by the competition; why don’t you talk to your brother Patrick, so he can show you how a true professional works.”). These same parents then wonder why their kids are always at each other’s throat.

Advice to parents: If you are the parents of young children, please celebrate the varied skills and interests of your children and avoid the temptation to compare one to the other. Appreciate each child’s unique gifts without comparing them to their sibling. While it can feel harmless and natural to describe one child as the “funny one” and the other as the “smart one,” be mindful that your children hang on your every word and you can label and limit them from a pretty young age. In addition, while you should certainly give constructive feedback and acknowledge when your children are not measuring up, never mock or belittle your children either when small, or as adults.

Advice to adult siblings: If you were raised in a very competitive household, think about how this may be affecting your relationship to your siblings today and what steps you can take to develop a more collaborative working relationship. It can be hard to collaborate with a person with whom you have always been competing. It may be worthwhile to talk with your siblings about how each remembers these facets of your



upbringing. Do not be surprised if each remembers the stories a little differently. Memory is imperfect, and the point is to build mutual understanding, not determine the “facts” or to bash Mom and Dad. You want to build empathy and understanding between siblings, and work together to acknowledge how this history may sometimes get in your way today.

CONTROLLING BEHAVIOR

Often, business founders have a strong need for control. This is part of what makes them successful in launching a business, but can be a challenge on the path to transitioning management and ownership of this business to their children. When parents are very controlling they may limit the autonomy of their kids in the business, which can affect the frequency with which the siblings learn to work together to solve problems. When parents make all the decisions and hold onto the power as long as possible, their children may never learn to work together on anything of consequence as all decisions are run through the senior generation.

Advice to parents of young children: Encourage your children to solve their own problems and even work together on projects from as early an age as possible. When children are young and arguing, unless bodily harm is involved or imminent, resist the urge to get involved. When your child runs to you to complain about their sibling, offer them empathy for their distress, but send them back to resolve the

issue with their sibling, without your involvement in any way. The sooner siblings get used to relating to one another without the interference of parents, the stronger will be their bond.

Advice to adult siblings:

While some parents may be very controlling of the business and not ready to give up a lot of authority, find ways to work with your siblings on special projects and on planning for the future. Work with your siblings to plan a family vacation or retreat or make a proposal to your parents about philanthropic pursuits for the family. While your parents may not be ready to turn over the business decision-making reins to you anytime soon, as a sibling team you can work on things like determining the “code of conduct” you will use to govern your relationships. You can determine your decision-making process, and even set a shared vision for the future of the business. If there are some siblings who work in the business and others who do not, it is particularly important (and impressive) if you can do some of this team building and decision-making with all.

ENTITLEMENT

When parents have raised their children with an attitude of entitlement, all bets are off. This attitude is among the most destructive in business,

whether you are in partnership with siblings or not. Sometimes parents who had to sacrifice so much to found and build the business will be tempted to buy their children things to replace the attention they have been unable to offer. Sometimes these parents may try to buy their children’s affection with endless praise for the smallest of accomplishments. The result is often children who may have a puffed-up sense of their importance, think things are owed to them and who do not have a good work ethic.

Advice to parents of children:

While you do not want to burden your children with your work stress and worries, do make sure they understand how much work goes into building a business. It is critically important



‘I warned them years ago...start retiring earlier or invest in a bigger sign.’

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It is worth remembering that your siblings are the people with whom you will have longest relationship in your life.

that they realize that it takes a whole team to makes things happen not just the owners. Speak regularly of the amazing contributions of your key employees, the importance of teamwork and the fragile nature of reputation. While you want to celebrate your child's successes, also recognize when they are not meeting expectations, tell them that as members of the owning family they must seek to exceed the standard, not slide under the radar. A business is actually an excellent platform for imbuing children with many valuable life lessons that will serve them well in their journey to be a positive and contributing member of society, whether they have an active role in the business in the future or not. Do not shelter your children from hard work or hard choices; you will not be doing them any favors.

Advice to adult siblings: Take honest stock of your work ethic and your willingness to make some sacrifices for the common good. Whereas your parents had the luxury of making decisions on their own, siblings have to be able to compromise or engage in give-and-take. If one or all of you are not able to make some sacrifices for the good of the whole, ongoing joint ownership and/or management of a business will not be successful.

Acknowledge when you need help and go out of your way to recognize the efforts and contributions of others (your siblings and other key players in the business). If you are spoiled, you need to take responsibility for the hard choices of grown-up life, or recognize that you cannot hope to be a successful shared owner of a business.

POWERFUL VISION

Paradoxically, when the founding generation is much beloved by all and a visionary leader, it can be hard for the sibling generation to emerge from this powerful shadow. The more the founders are revered, the harder it is to fill their shoes. In addition, the harder it may be for the sibling generation to find its own voice and purpose, as the parents' vision may be on such a high pedestal that any deviation from this approach is seen almost as blasphemy.

Advice to parents: While we all appreciate getting recognition for our hard work, having the humility to acknowledge the role of luck and the possibility that there may be other paths to success can be important to freeing up your children to think outside the box. Be open to change and the new ideas of the younger generation. Do not interpret the appetite for new approaches as a rejection of all you have accomplished. Rather, see it as a natural evolution and a sign that you enabled your children to think strategically and take risks for the future, just as you did when you were their age.

Advice to siblings: While it is wonderful to hold your parents in high esteem, you must remember that each generation needs to take the time to examine the business, its future and the shared purpose you have for it going forward. Though your parents may well have been extraordinary visionaries, all visions have a shelf life, and it is important



that the sibling team develop their own dream and vision to unite them and provide a viable model going forward for the company. Through this process, it is important to remember that not all siblings will be comfortable with change at the same pace. While some will feel change is too slow, others may resist any change as too fast and unsettling. Remember that the different points of view that you all bring to the table will enable you to create better solutions as long as you respect one another and listen to each other's wisdom. The process for arriving at agreement on the nature and pace of any change to the business is an important part of gelling as a cohesive sibling partnership.

Any parent who has more than one child learns very quickly the power of nature and nurture. Our children come into this world with distinct personalities, and though raised in the same house, will experience even their shared history quite differently one from the other. Having said that, the context of their upbringing and shared history especially around the business will leave a lasting impression on how they perceive the business, one another and their willingness to work together as a family. As siblings, it is worth remembering that your siblings are the people with whom you will have longest relationship in your life. Normatively, we outlive our parents by a number of decades, and we typically only meet our spouse in our 20s or 30s,

so the people with whom we really share life's journey are our brothers and sisters.

This underscores that while working to build a strong and effective sibling team can be a challenge, in our experience, it is very worthwhile. We have seen many sibling groups thrive while working together, and find real joy in deepening their bonds with one another through the challenge and excitement of shared business management and/or oversight. If you have the opportunity and responsibility

to deepen your bond to your siblings, or to set the stage for strong sibling relations between your children, make the effort to do it right! ■

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for our next
Family Business Webcast:

PERFORMANCE EXPECTATIONS, EVALUATION AND COMPENSATION

June 12, 2014
9 a.m.

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