THE COMMERCE BANK OF OREGON

A division of the Commerce Bank of Washington, N.A.

Summer - 2015

FAMILY BUSINESS newsletter

Strong and Unbreakable: *a family business turns 100*

Peninsula Iron Works: left to right Dave Johnson, Janet Johnson, James Johnson

Turn back the clocks to 1915 — before world wars and a major stock market crash. From this environment grew Peninsula Iron Works, PIW, rising in the shadow of one of Portland's most historic bridges.

One hundred years ago, PIW was a combination foundry, a blacksmith and machine shop, serving the region's wood products industry. But it made a name for itself when it manufactured the world's first chainsaw.

The company produced tail shafts, rudders, stern tubes and steering gears for the British-cargo ships during World War I. The success, however, didn't sustain through the Great Depression. Like every American business, PIW was hit hard. George Johnson, a machinist, would sit on a bench outside the office each day — hoping for work to show up. On some days, work arrived; on others, it didn't. But PIW weathered the storm, proving their resiliency despite the tough economic times.

World War II brought new opportunities for PIW, as it joined other manufacturers operating around the clock to supply the war effort. During this period, PIW produced 2.5 million hand grenade casings to support the troops.

After the war, the machinist George Johnson became the company president. The position was handed next to his son, Stuart, then to Stuart's wife, Janet, then onto the current direction of Stuart's two sons, David and James, who together manage the company's daily operations. The consistency of a family legacy brought PIW into the 21st century, with each new generation bringing pride and integrity to everything it does.

While James grew up in the business sweeping floors and developing a passion for anything and everything PIW did, David ventured off developing a career outside PIW before returning to where many of the Johnson clan call home. The strategic blend of James' accounting background and David's engineering expertise has allowed PIW to become a thriving enterprise that's well known for its industry-leading products and services. Their instincts, passion and expertise are why many of PIW's clients have worked with them for decades — unable to receive the whole package from PIW's competitors.

Another constant is PIW's endless commitment to perseverance. Like many historic businesses, they've experienced highs and lows throughout the course of their 100-year-old operation. When James was 24, PIW hit a financial sandbar and was forced to scale back the operation to stay afloat. In the face of this significant challenge, PIW was determined to survive.

Out of its misfortune came hope and PIW not only recovered, but grew to become a smarter, stronger business than ever before. The two brothers turned their focus inward; PIW has equipment that's unlike any other machine shop. It took four machines and integrated them into a one-of-a-kind piece of equipment. This innovative equipment allows PIW to serve a variety of industries in a way that few companies, if any, can replicate.

Today, David and James steer the company in a confident direction that builds on PIW's history, while delivering unique innovations that continue to drive the business forward.

The 80/20 Rule: *Balancing Ownership and Management Responsibilities*

By Amy M. Schuman

Many business founders dream of the day that the next generation will join them in the business. While entry of the next generation can be a very exciting time, it also presents challenges. One of the many decisions the family must make at this point is how to treat these young people. Should they be treated just like everyone else, or given special consideration as family members and current or future owners?

Too much special treatment is not desirable, creating a sense of entitlement. However, it is unrealistic to expect a next generation family member to be "just like everyone else." He or she will likely be a future owner, and as such will require a different kind of exposure and knowledge of the business.

To prepare a strong group of next generation owners, they need extensive exposure and experience to the business they will own one day. Next generation, or NG, members who are treated like any other employee may lose valuable opportunities to build the skills they'll need as future owners.

One solution to this dilemma is a new application of the familiar 80/20 rule. Have the next generation owner spend 80% of their time in their job, and 20% of their time outside the normal responsibilities of their job. This 20% would be devoted to special projects and activities specifically geared to helping the next generation person prepare him/herself to be a knowledgeable, capable owner.

There are upsides and downsides to each approach:

No Special Treatment	
PROS	*CONS*
Learns the reality of the work world	Misses opportunities to gain ownership preparation
Gains empathy for employees	Misses opportunities to develop skills more quickly
Gains respect and credibility with others	May become demotivated

Special Consideration as a Future/Current Owner	
PROS	*CONS*
Take advantage of opportunities to learn and grow as an owner	Sense of entitlement
Prepare knowledgeable next-generation owners/ managers	Distance, antagonism from nonfamily employees
Reflects the reality of the situation	Unrealistic experience and expectations

Activities that fall into this 20% might include:

» Participating in a strategic planning session

» Visiting an important customer or supplier

» Observing a Board of Directors meeting

» Taking an ownership-related class or seminar

» Listening in on a parents' estate planning session

» Scheduling a regular (monthly/quarterly) lunch or coffee with top management relatives

» Identifying and regularly meeting with a mentor outside the family and business

The 80/20 solution has worked in many businesses of varying sizes and industries. It has many advantages. Probably the most significant advantage is that it recognizes the reality of the successor's situation. They are not, and will never be, "just another employee." Others will always be aware of their family/ ownership status, and they'll

It is unrealistic to expect a next generation family member to be "just like everyone else."

always be under the microscope to some extent. As much as they might want to blend in, not be noticed, and have an experience just like anyone else, that is not a realistic option. They have to learn to manage the dual role — of employee and owner — from the start.

We should note here that the 80/20 split is appropriate for NG members working in the business. For NG members who are not involved in the business operations, dedicating time to ownership preparation is still important. And, the activities identified for the ownership preparation above still apply. However, the time allotted to ownership preparation may vary, depending upon other constraints on the NG owners' time (e.g., employment, school, parenting, etc.). Families often dedicate time at shareholder meetings for NG owner education, particularly if there is a group of NG owners in a tight age range.

While the 80/20 approach can be very effective, the special assignments for NG members should be carefully planned. Considerations include:

NG skills and interests

Allow NG members to gravitate to jobs that naturally fit their interests and abilities while balancing with requiring a wide exposure to a range of business areas.

Timing of assignments

Areas of exposure need to be sequenced appropriately, with leadership succession taken into consideration. Be sure to avoid leaving someone too long in a job they hate, as well as leaving people in a job long enough to really benefit.

Supervision

The NG member will benefit more from an assignment if an appropriate supervisor is chosen. Consideration should be given to the supervisor's coaching style, willingness to deliver honest feedback to family members and empathy for the NG member's situation.

Performance management

To gain valuable experience from an assignment, the NG member needs feedback on his or her performance. Before the assignment begins, clear goals should be decided, and a system for measuring performance against the goals should be established, including a clear understanding of who will be evaluating performance.

And, an understanding should be established between the NG member, his supervisor and family members concerning what feedback the family will receive on the NG members' performance. If the family anticipates more than one NG member will enter the business, a structure should be created to manage entry. This structure will answer questions such as:

How will NG assignments be selected?

How will NG performance be evaluated?

How will family members in the business interact with each other?

If regular meetings of family members have not already started, entry of the NG is a great time to establish such meetings. In addition, regular gatherings of NG members can be beneficial. Besides the obvious team building benefit — building a strong, trusting group of next generation owners — the NGs can share tips for success and provide each other with support.

There are many decisions to be made when NG members enter the business. The more thought that goes into managing the entry process, the more likely the NG members will succeed. The 80/20 rule allows you to set high expectations while recognizing the reality that the next generation owner will never be just like everyone else.

Amy Schuman is a principal consultant of The Family Business Consulting Group, Inc., and the founding facilitator of the Next Generation Leadership Institute at the Loyola University Chicago Family Business Center.

The Family Factor in Family Business: *Does Your Family Add or Subtract?*

by Jennifer Pendergast

No one has ever told me I have a boring job.

I'd agree — working with family business is never dull. People think either I must have one of the most interesting and rewarding careers or simply that I'm crazy. It depends upon their experience with family businesses.

And, people love to share their experiences with family businesses, even if they don't belong to one. People tell me about a neighbor or their in-laws or a college roommate. I suppose this is not surprising, given the large (and often unrecognized) role that family businesses play in our economy.

People's reactions are so different because of the Family Factor, an element that frames peoples' perspective on family business. The Family Factor is a measure of the family's impact on the business whether the family is a contributor or detractor. The people who tell me that my job must be very rewarding are those who have been exposed to a family business with a positive family factor. Those who think I'm crazy have been exposed to the "dark side" of family business.

Most family business situations are not black and white. There are positive and negative elements that the family brings to the business. The key to success is to manage the family's impact on the business so that the net impact is positive.

Although some elements may seem out of your control, you can determine, to a large extent, whether the family is a contributor to or a detractor from the business. And, most important, it is the family's job to manage the family's impact on the business. Here are some examples of the family's positive and negative contributions:

www.CartoonStock.com

Positive Impacts

Families often treat their employees like family, creating a culture where nonfamily members feel valued and enjoy working.

Families make investments in people, facilities, etc., that owners who do not intend to own a business for several generations may not make.

Families are typically conservative in the amount of debt they accumulate, reducing the risk of the business facing financial difficulties due to being overleveraged.

Family businesses are able to make decisions quickly because the owners and managers are often the same individual.

Family businesses typically have a deep understanding of their industries, due to multiple generations of experience in the business.

Many stakeholders (customers, suppliers, etc.) like to work with family businesses because they trust that families will want to do the right thing to uphold their reputations.

Negative Impacts

Families may be so committed to employees that they are not willing to let go underperformers.

Families may employ family members in positions for which they are not qualified. This can be discouraging to non-family managers and limit promotion opportunities for qualified non-family employees.

Conflict within families can distract from business issues that need to be addressed.

Families who lack a means for gaining outside perspective (e.g., an employment policy forcing family members to gain outside experience, board of directors) may not keep up with changes in their industries.

Families may underpay senior management, reducing their ability to attract the best non-family managers.

Families often operate their businesses more informally than non-family businesses (e.g., no job descriptions, management meetings at the dinner table, no performance review system). Although too much structure can slow a business down, lack of structure can cause poor decision making.

If you read carefully, you will notice that some strengths of a family business can also be weaknesses. For example, families can place such a high value on loyalty to employees that they're unwilling to let underperformers go. Or families might have no experience outside their industry may be unwilling to listen to outside advice (the "not invented here" syndrome). The key is to understand these factors and manage them so they provide a positive rather than negative contribution.

Next step, as a family, is to articulate the impacts your family has on the business, both positive and negative. Then you can note the opportunities and risks. Perhaps you have never promoted the fact that you are a family business to your customers. Maybe it would be a good selling point to demonstrate how committed you are to the industry. Or maybe it is time your family put an employment policy in place to ensure that family members working in the business bring in best practices from other companies.

The key is not to bury your head in the sand. It is OK to admit that your family may have a negative impact on the business — every family does in one way or another. Whatever your opportunities or risks, put them down on paper and outline a plan for addressing them. Some may be the responsibility of the family members working in the business. Some may belong to the family itself (e.g., minimizing the impact of family disagreements on the business).

If you are aware of the impact your family has on the business, you can create a plan to transform your Family Factor from negative to positive.

Jennifer Pendergast, Ph.D., is a senior consultant with The Family Business Consulting Group, Inc., specializing advising large multi-business family enterprises on strategy and governance.

Avoiding Family Cutoffs

By Bernard Kliska and Stephanie Brun de Pontet

Ralph, a self-made man, grew up believing in his generation's values of sacrifice and hard work, and he devoted the majority of his daily life to the family's wholesale liquor business. Eventually his children, Bill, Sally and John, joined the business. John, the youngest, often clashed with his two siblings. John believed that the road to success lay not in his working the same kinds of hours as his father and siblings, but in making management and operational changes that would allow more personal time. Compared to the family's norm of long hours and hard work, John appeared lazy, impatient and often came across as brash.

Trying to avoid confrontation, Ralph sidestepped discussions and arguments. He rarely talked to John about career goals or job responsibilities. Ralph's retreat made John even more assertive and impatient. Following their father's example, Bill and Sally also began avoiding John. As John's isolation increased, he became more cynical and depressed. Finally he decided to leave the business and cut off all relationships with the family.

When we are called in to resolve such situations, the family often says it has "no idea" why a sibling left. For those who remain in the family, the departure of the family member often feels sudden or out of the blue. Unfortunately, this typical response is further evidence communication has been deteriorating and dissension has not been addressed. In our experience the surprised reaction of the extended family often adds to the anger and frustration of the family member who has cut off, as it just reinforces no one was listening or understood what they said, or that their views or needs were simply not equally valued. A cutoff is a tragedy for both the family and the business. But, it is often avoidable.

A cutoff is a tragedy for both the family and the business, and it is often avoidable.

Three Keys to Avoid a Family Cutoff

1. Celebrate Differences

Be aware of characteristics and perspectives of people who are more likely to cut themselves off. Often, these family members have a heightened sense of being different, misunderstood, unappreciated and humiliated. They feel their needs are not adequately valued in the family. They can feel that no matter which way they turn, their road is blocked. Paradoxically, these feelings can be intensified by two opposite ways of being treated: they can feel ignored (no one listens to them) or suffocated (endless demands by others in the family preventing them from attending to their own needs). Either way, resentment builds and they begin keeping count of all the times they are excluded or squelched. Finally, the only way they feel they can assert themselves is to cut themselves off from the family.

Celebrate their differences. Too often we have a tendency to reward conformity to family styles and values, and to disparage or shun those who deviate. For example, John's impatience can be channeled into energy. If family members disagree on the way to reach a goal, they may still agree on the ultimate goal. And even disagreement on the ultimate goal can spark conversations on goals routinely ushered in.

2. Fanning the Fire

Frequent meaningful communication is essential to every family business and a perfect venue to address simmering discontents before they boil. We tend to avoid communication when there is discontent, but this is precisely when communication needs to intensify. Discussions that do not allow the discontented person to feel that he or she is genuinely being listened to will only add more fuel to the fire. Don't squelch debate and discussion because you are afraid it will reveal the areas of disagreement; most families will be able to move forward from this disagreement in a healthy manner. On the other hand, if a family member is excluded from the decision-making process for any reason, mistrust can take root, making radical outcomes like a cut-off much more likely.

Sometimes, despite our best efforts, cutoffs occur. In those cases, it is important to keep the door open. People may or may not return to the business, but this does not mean they must leave the family. Everyone is always better off when reconciliation occurs.

3. The Happy Exit

Cutoffs may be regrettable but need not be angry. Silence and invisibility are the enemies of family cohesion, and so it is important to acknowledge what happened and why, without rancor. The minute a family member leaves, the time for recriminations must end. Instead of justifying their own positions, each side must acknowledge the other's feelings. Be objective or regretful, not accusatory. At this point, trust levels can be fragile. Engage the services of a neutral and trained facilitator to help you undertake this mutual acknowledgement process, as it may be very difficult to do on your own.

Insist on continuing the connection. Families should keep in touch. One cutoff person who moved out of state made it a point to send a monthly postcard, which the family prominently posted, and they let him know the postcard was in everyone's sight every day. If one side refuses to communicate, the other side should continue communicating in a way that respects boundaries, even if there is no response.

Sometimes we cannot control whether things end. But we can have considerably more control over how things end.

By following these rules, resilient families who recognize the value of family cohesiveness can avoid cutoffs or at least turn a family member's exit from a bitter cutoff into a new family chapter.

Stephanie Brun de Ponte, Ph.D. and Bernard Kliska, Ph.D., are consultants with The Family Business Consulting Group, Inc. Stephanie specializes in family succession planning, training and collaboration. Bernard is a licensed family therapist and Chairman Emeritus at Loyola University Family Business Center in Chicago.

THE COMMERCE BANK OF OREGON

FAMILY BUSINESS newsletter

1211 SW 5th Avenue, Suite 1250
Portland, Oregon 97204
www.tcboregon.com

For address change or other concerns, call The Commerce Bank of Oregon customer service at (503) 548-1000

IN THIS ISSUE:

SAVE THE DATE

for our next
Family Business Webcast:

RETIREMENT PLANNING FOR BUSINESS OWNERS
Thursday, September 10, 2015
9 a.m.