THE COMMERCE BANK OF OREGON

Summer 2016

FAMILY BUSINESS newsletter

Three Diverse Family Businesses — One Piece of Advice:

Clear, Direct, and Open Communication Is Key

All three of the following family business leaders agree that it can be a tough challenge to run a family business — admitting that disputes are common.

But these three executives give hope. Their advice clearly shows that candid dialog, open communication, and mutual respect strengthen both their families and their businesses.

As management consultant Peter Drucker once pointed out, a business becomes successful because someone made a "courageous decision."

Making business decisions is tough enough, but those who run family businesses face challenges from two sides — family and business. With that added complexity, how would leaders of successful family businesses advise their peers who cope with similar challenges?

Three family businesses gave their insight. At first glance, they seem to have little in common — serving in diverse products and markets. But surprisingly, the key piece of advice each would offer to other family business leaders centered around the value of keeping lines of communication open, both at the family and business level.

That's straightforward advice, yet the executives offered a unique perspective based on their own experience.

Open and Honest Discussion

As CEO of DDH Group in Vista, California, David Du manages three different companies with the help of his six brothers and sisters.

Although of Chinese heritage, David, his parents and siblings immigrated to the U.S. from Vietnam in 1979. After the family arrived, David and two of his brothers worked for a local cable and harness assembly company.

When that company changed ownership in 1988, David's father encouraged his children to start their own cable and harness business. Over time, David and his family grew that business, then started a second company to manufacture

The featured family business is a client of one of Zions Bancorporation's collection of great banks: Amegy Bank; California Bank & Trust; The Commerce Bank of Oregon; The Commerce Bank of Washington; National Bank of Arizona; Nevada State Bank; Vectra Bank Colorado; and Zions Bank. Featured Family Business photos courtesy of the featured business. All other images are stock photography.

Three family businesses. One key piece of advice.

printed circuit boards, and later launched a third business to manufacture precision sheet metal.

"We started with an 1,800 square-foot facility and five part-time employees," David says. "Since then we've grown between 25 and 100 percent each year. Now we have 100,000 square feet of production and office space, four buildings, and 250 employees."

"Much of our success comes from what I learned from my father when I was a little boy," David says. "My father ran a successful business in Vietnam before it was confiscated after Communist leaders took over. He'd tell me that although I may be smart, I only have two hands, so I'd need help from others."

In addition to his brothers and sisters, David's two sons and a nephew are now involved in his businesses, and he plans to give them more responsibility as the companies continue to expand.

"My advice to anyone running a family business is to always communicate and have open and honest discussions. Our family has regular dinners together. We may not always agree, but we respect each other. With patience we can come to a decision and move forward," David says. "Over 30 years, we've never had a serious fight. After all, the business belongs to the seven of us — and family is more important than money."

Don't Let Your Ego Get in the Way

Ron Cassell has been CEO of C&L Refrigeration, a cooling machinery repair firm in Brea, California, since 1992. Ron's father was an emergency refrigeration technician and started the business in 1977.

Ron said his interest in the business began at a young age. "I was mechanically inclined like my dad. I always wanted to work on machinery with my dad. There was never any doubt," he says.

He began working in the business when he was 16. After college, Ron became more involved and gradually acquired ownership of the company. Ron's sister, Maggie, also works for C&L managing human resources and safety programs.

"My dad was really good at succession planning," Ron says. "His plan was for me to acquire the business and for my sister to acquire real estate assets such as the building."

"It's worked out well," he says. "Maggie's worked here for 30 years, managing many of our internal functions. We're very close and live only three blocks away from each other — our families socialize and vacation together regularly."

Ron hasn't decided on future plans, but said that his oldest daughter, Samantha, has shown interest in the business. She's a junior at Chapman University and has worked part time for Ron.

"Working for me is tough on her. After all, I'm her dad," Ron says. "But this summer we found another solution. She's going to work for my sister, Maggie, and I think that's going to work out well."

Ron's advice to those running family businesses is to realize that while leaders need to speak their mind, everyone needs to see all sides of the issue.

"When you're convinced you're right, you start getting defensive — but don't let your ego get in the way. Listen to all views, even if you disagree." Ron says. "After all, what's best for the company is also what is best for the family."

Make Sure Everyone's on the Same Page

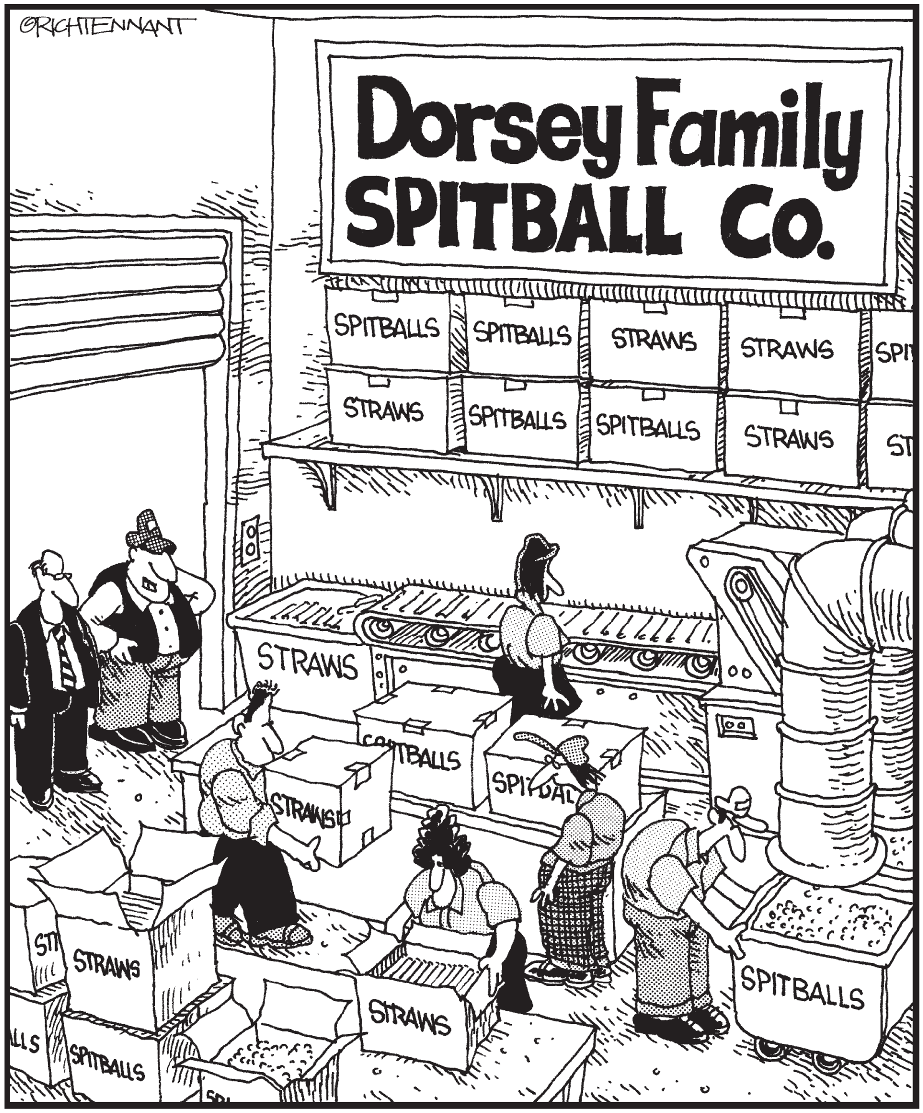
In 2009, Robin Diep became the owner of Maxim Mattress in Los Angeles, a company his uncle started in 1981.

That's his family business now. But before then, Robin worked in another of his family's businesses: All American Frame, a bed frame manufacturing company his father started in 1988. Although the two businesses are completely separate, the companies work together in the furniture industry and their product lines complement each other well.

"I worked for my father at All American for 10 years," Robin says. "But when the last recession took its toll on my uncle's business, I felt I had an opportunity to do something great at Maxim Mattress and bring in new marketing ideas."

So after some discussion with his uncle and father, He made the move. "It's worked out well. We've seen significant growth over the past six years," he says.

Robin is of Japanese and Chinese descent and thinks his Asian roots may influence his outlook on business.



"A large part of our success is based on our ability to resolve conflicts before we get to work."

"Perhaps it's in our blood. I was always encouraged to be involved in a business. I started one at the age of 19 and failed miserably — but my dad supported me because making mistakes is how we learn," he says.

As Robin runs the mattress company, his brother runs the bed frame company his father started, each as separate businesses. Yet they align with each other so closely that the family must collaborate regularly to maintain efficiency and growth.

"My brother and I talk about 10 times a day, coordinating logistics and managing other operations," Robin says. "It's almost like we run one company."

"My advice to anyone running a family business is to communicate well. Make sure everyone's on the same page," Robin says. "No, we don't always agree, but in my family, we're not confrontational. We support each other. Our goals and how we achieve them are always our core focus. As long as that's on the table, then it all works out well."

Don't Think of It as 'Succession Planning'

By Kelly LeCouvie and Jennifer Pendergast

Although "succession planning" is the term many use to describe the strategies and processes to pass leadership and ownership from one generation of owners to the next, we find it useful to define the process in terms of continuity. Succession connotes an event, something with a defined beginning and end. Continuity, on the other hand, suggests an ongoing process.

Why Continuity?

This distinction is important because succession planning is really a lifelong process, one that merits the ongoing attention of multiple business stakeholders and one that should always be on the owning family's radar. It is critical to recognize that the process is never really complete. Ensuring continuity requires careful thought and planning, a great deal of discussion that includes family members as well as non family management and the board of directors, and an ongoing focus on what the family wants for the future of the business and for themselves.

Continuity planning is a mindset, a part of the family and business culture and an ongoing effort with essentially no conclusion. Continuity planning requires proactive effort. By the time children are in a leadership role, they likely have grown children who, in turn, are thinking about their future in the business. Continuity planning requires consistent attention so progress is smooth and systematic. The focus is not solely on passing the business from one generation to the next, but establishing a clear rationale for continuity of the business, one that supports the family's mission, values and goals.

The Challenges of Continuity Planning

As important as a focus on continuity planning is, many families find it more complex and multi faceted than meets the eye. This is so for a number of reasons:

- Each generation of business leaders puts its own unique stamp (and challenges) on progress.
- Family members generally feel a strong emotional attachment to the business.
- The strategic challenges associated with a growing business require professional management bench strength that might be lacking in a current structure.

The evolution of the business also complicates continuity. The first generation of ownership works extremely hard and typically reinvests their earnings in the business, although they may begin to accumulate wealth. The second generation builds on that wealth and, in many cases, grows the business exponentially. The tipping point often comes with the third generation. This generation of cousins often enjoys financial means that were unavailable to the previous two generations, providing access to educational opportunities and, quite possibly, career choices other than the family business. Cousins and in-laws may now play a prominent role in the business. Having been raised in different households, these family members may develop a different perspective on the business than others who grew up together. Sometimes the blend of perspectives meshes beautifully. Often, the opposite is true. Certainly growth in the ownership group adds complexity to the process of gaining alignment.

The family's psychological connection to the business is another factor. We typically find that emotionality around the business becomes somewhat diluted as the business transitions from one generation to the next, which can lead to inter-generational tensions. Not only may third-generation members pursue other professional options, but those who are interested in joining the business can become discouraged after listening to older family members complain about business and family challenges. Yet, many family members feel a strong emotional attachment to the family's heritage and wish to perpetuate an important legacy.

In addition, the business itself plays a role in the complexity. Typically, the business will become larger and more challenging to manage as time passes. Informal management practices must be replaced with more sophisticated processes and structure. Senior leaders must be willing to delegate authority, often to people who are not members of the ownership group. And, higher levels of skill and experience are required. Continuity planning must take into account the needs of the business in this regard, and consider the impact such material changes might have on the family and shareholders.

These factors underscore the importance of comprehensive planning. It is important to recognize that continuity is intricately interwoven with the fabric of the business as well as the family. It is also tied with the issues of ownership and leadership, as well as family and business governance structures that support sound decision-making.

Continuity planning requires proactive effort.

A Shift in Thinking

As long-time consultants with the Family Business Consulting Group, we work with business-owning families who struggle with the challenges inherent in effective continuity planning. One interesting observation that has emerged from our experience is the number of family owned companies that, in effect, take continuity as a given. Many assume and expect that all family members hope that the business will last for generations to come. However, from our experience, we also know that you cannot simply assume there is a true commitment from future generations without working to develop engagement.

Even though continuity planning may at times lead to difficult conversations (e.g., "should a better qualified, but non family, executive be groomed as next CEO?"), avoiding these important discussions will always put your business continuity at risk. Successful families work together to define a vision of their desired future and build the plans, systems and processes required to make that vision a reality.

Keeping Continuity as a Focus

The family's continuity planning goals should influence almost every action and decision. For instance, when making a new management hire, it's helpful to consider how that individual might be included in the business' plan for continuity. Proactive business leaders will make key decisions — new hires, diversification initiatives and geographic expansion — with business continuity as a backdrop for those choices. They will ask themselves whether key strategic moves will be supported by the necessary infrastructure to steward the company through the next generation. Similarly, owners will make decisions in light of their desire for continuity, including their expectations for liquidity and the rules and process for passing stock to succeeding generations.

Here are a few ways to ensure that continuity planning gets appropriate focus in your family:

- Put this topic on the annual board calendar.
- Regularly engage all owners in discussions about the future vision for the business and family and ensure you track progress on these shared goals at regular family meetings.
- Build a culture of capability and continuity by investing in education in your business and family so that all your stakeholders have the skills and knowledge they need to continue to add value as the business, family and ownership groups continue to grow in size and complexity.

Kelly LeCouvie, Ph.D., and Jennifer Pendergast, Ph.D., are senior consultants with the Family Business Consulting Group, Inc. Kelly focuses on corporate and family governance. Jennifer specializes in advising large multi business family enterprises on strategy and governance.

Sharing Family Cottages, Lodges and Resorts: Part 1

by Christopher J. Eckrich and Stephen L. McClure

Business owning families often share ownership of family lake or beach homes, or historic home places that have been in family hands for years or generations. These assets can evoke strong emotions and positive memories, as well as produce feelings of connectedness to loved ones. They also can evoke conflicts over funding, use, abuse, décor and other matters. Sometimes these disputes get so serious, they threaten the family business. Consequently, in many ways, managing family properties requires the same key elements needed to manage a family business: purpose, structure/ formality, budgets and trust.

Consider the purpose of a lake cottage as the family's place to relax, connect with each other and have fun. This is the unspoken purpose for many benefactors. Yet purpose needs to be explicit as options vary greatly depending upon the purpose. If the purpose is for relaxation and connection, the family will likely hold the property indefinitely. If the property is meant to be an investment, then a run up in property values may lead to sale.

Just as family businesses need more formality as the family grows, a lake home requires organization to accommodate generational transition. Consider the challenges presented. From earliest memory, it starts out as mom and dad's lake home. In our experience, the senior generation usually manages the home and the junior generation accepts that it remains their parents' home. Threats to harmony are avoided or nipped in the bud by parental intervention, or through respectful deference that the children pay to the parents.

Status quo is maintained until the parents decide (or have) to pass independent control to the next generation. At this point, many families find themselves without a structure to replace parent leadership for achieving the unspoken mission of relaxing, connecting and having fun. How will decisions be made? Will it be democratic with everyone involved in all decisions or, as many larger families do, representative, where some individuals speak for others? What happens when the rules are not followed, or what exceptions are permissible when individual circumstances make it impossible to meet a financial obligation? Families are most likely to avoid destructive family tension when all involved have a clear understanding of how decisions will be made and conflicts resolved.

> Just as family businesses need more formality as the family grows, a lake home requires organization to accommodate generational transition.

The following is an example of a lake cottage management structure where three siblings share ownership and management.

- **Decision-making:** Siblings have one vote each. Spouses do not vote but are present at meetings. Majority rules.
- **Meetings:** Group meets once a year for conducting the business of the cottage.
- **Celebration weekend:** For siblings and spouses only, no children. Second weekend in June.
- **Usage:** Names drawn randomly to determine first choice of weekly usage, rotate in subsequent years, trades allowable. July 4 weekend is an all-family weekend.
- **Governance:** Janet serves as president and facilitates meetings. Rob serves as treasurer and manages budgets, payables and receivables.
- **Budget:** Annual assessment ($5,000 per sibling, perhaps funded from trust distributions) for taxes, maintenance and repair.

Families use annual group meetings to decide upon rules of engagement, consider exceptions or changes to the rules, and resolve how they will hold all accountable. Many use the annual meetings to rotate roles (i.e., president, treasurer) thus fostering involvement, though two- to three-year terms can provide additional stability.

A major challenge arises when some heirs are less interested in or able to use the property than others, or lack financial resources for its upkeep. Early generations do their heirs a favor when they provide funding, usually through trusts, to maintain the property. When this option is not available, some families adopt usage fees to cover operating costs. Those who use the property most contribute most to its upkeep. The situation gets more complicated when some see the property as an investment (and want to cash out), and others see it as a place for connecting and relaxation. These differing visions will stress the family, which is why we so strongly recommend that the granting party articulate purpose first, and that it be reaffirmed often.

Specific written procedures for exiting ownership promotes planning and reduces awkwardness. Relationships are enhanced when family members are not required to share a property as a symbolic ticket to family membership. It must be okay to withdraw or politely decline an invitation to participate in the first place. Independent appraisers can set buyout prices to ease the tension.

Written rules promote fairness, which in turn promotes trust among family members. Rules should be designed to preserve and promote the property's purpose and minimize needless conflict. Many families feel uncomfortable, even unnatural, with rules governing the use and maintenance of shared properties. Paradoxically, trying to avoid relationship discomfort by establishing some basic rules actually increases the risk of damaging those relationships by leaving expectations ambiguous.

Sharing family properties to strengthen the family glue requires increased management effort with each succeeding generation. An extended family of well-connected cousins provides grounding and identity, the continuation of which can be facilitated by the cabin in mountains, the retreat lodge on the lake or the beach home. A property that is preserved into the third generation can help promote relationships among those who might otherwise cease to put forth the effort. Our family business clients have found that well-crafted vision statements, shareholder agreements and codes of conduct are key ingredients in preserving successful businesses. These same support structures allow families to manage shared vacation properties across generations.

Christopher J. Eckrich, Ph.D. and Stephen L. McClure, Ph.D., are principals of the Family Business Consulting Group, Inc. Dr. Eckrich assists family owned firms in establishing orderly succession plans that maximize effective leadership transition and prevent conflict during the transition. Dr. McClure specializes in family communications and decision-making, succession planning and implementation, and governance and management in family firms.

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: