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Chenin Orthodontics: Father and Son Team Up for Success

At Chenin Orthodontics in Henderson, Nevada, Dr. Stephen Chenin and his son, Dr. David Chenin, carry on a family tradition of dental care that started 65 years ago. Stephen's father, Dr. Joseph Chenin, came to Southern Nevada in 1951 and practiced general dentistry for many years. Stephen Chenin chose to focus on orthodontics because he saw how fixing his own teeth as a teenager made a big difference in his life. Now the motto of his practice is "Making Smiles, Changing Lives."

"I got into orthodontics, not because my dad did it, but because I realized that's what I wanted to do," says David Chenin. However, he took a slightly different route to get where he is today. During his dental residency he was able to oversee the clinical trial for a company called Invisalign®, which had invented a process to replace traditional braces with removable plastic "aligners" that fit over the teeth to gradually straighten them. After graduation, David spent five years growing the company, improving the product, and learning not only about the new technology, but also about business management and marketing.

When David decided to join his father's practice, he added his knowledge of the corporate world to his father's years of clinical experience. Most of the office duties are shared, but Stephen usually oversees finances and accounting, while David handles high-tech functions like their 3-D dental radiology system and the Invisalign technology they use. Stephen explains, "We rely on each other to bring up different points of view to make our outcomes better than if either one of us had tried to do it alone."

The biggest challenge the Chenins faced when they started working together was the recession, which hit Southern Nevada especially hard. They bought land for their new office in 2006, when real estate prices were at their peak. Then the recession hit. "Our challenge was to grow our practice at a time when people were losing their homes," Stephen says. "Fortunately, David had learned about marketing and smart business practices during his time in the corporate world. So internally, we started to run our office like a corporation rather than a traditional dental office. Quality care has been the foundation of the practice, and then we made it our mission to focus on patient satisfaction and community involvement. We understand that a great referral source for future patients is our current satisfied patients."

Chenin Orthodontics combines patient care with a fun atmosphere. The reception area features a section for adults with computers and a coffee bar, as well as kid-themed spaces with iPads and vintage arcade games. The treatment area is an open bay concept with a flat screen above each chair playing movies. "We want to make it fun for everyone to be here," David explains. "That includes patients, employees, and also ourselves."

Orthodontists Dr. Stephen Chenin and his son, Dr. David Chenin, share a practice in Henderson, Nevada.

The Chenins enjoy working together, and often discuss business outside the office. "We brainstorm about our practice while we're just relaxing — camping or skiing or on vacation at the beach," Stephen says. "We love what we do and are passionate about treatment excellence."

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Governance Beats Avoidance for Long-term Family Business Harmony

By Otis Baskin

Most successful business-owning families have a common fear: "How do we keep the next generation from fighting over the business?" This fear is well-founded, as the survival rate for family businesses from founding generation to second generation and beyond is low. Further, most of us know tragic stories of ruined family relationships and lost fortunes because a group of siblings or cousins — who were to be the beneficiaries of a wonderful blessing — could not get along. "Shirtsleeves to shirtsleeves in three generations" is a common refrain that haunts the dreams of great entrepreneurs around the world.

The Root Cause of Family Conflict in Family Business

While there are many reasons why family members do not get along, the issues that surround conflict over the family business are often predictable. When heirs of a family business feel that they are not being treated fairly or respectfully tensions will mount and frequently explode into conflict. Ultimately, it is important to remember that the experience of "fairness" is more driven by the decision-making process than by the decision itself. People can feel as cheated or second-rate when the shares of a business are distributed equally as well as when they are not. I recently heard a story of a family business heir whose response upon being told the size of his inheritance was "only $60 million? I've been screwed!"

The core issue is almost never "how much" but rather, how the decision was made. The power of engaging stakeholders in the decision-making process cannot be overstated. While finding agreement with many voices is hard and can be divisive at times, engaging all affected stakeholders in a decision is critical to buy-in and ongoing alignment. When leaders in a family business seek to avoid the complexity of engaging all stakeholders in decisions they often bring on the very conflicts they were trying to avoid. The reality is, when family businesses succeed beyond the founding generation into subsequent generations of ownership and leadership, the dynamics of decision-making need to change. While there is a natural acceptance of decisions made unilaterally by the founding generation, when the elder members of the family are no longer able to make such decisions, previously compliant next-generation family members may explode in conflict over even minor decisions if they feel they have no real voice at the table.

Family trust and harmony are keys to preserving patient capital. All shareholders need to have confidence that their interests are being considered in decisions that involve their capital. When one sibling attempts to make unilateral decisions about the future of the company — the way a founder might, without consulting all owners — resentment may result regardless of quality of the decision itself.

The Cure Can Be the Disease

In their efforts to prevent family disharmony many business owners actually exacerbate the problem by taking actions that remove family from the process. Often with the best of intentions, the decision-makers in one generation will set a future course that seeks to avoid complexity but results in negative consequences. For example, some owners will sell a business with a great future so that the proceeds can simply be divided up among heirs equally. While this solution is reasonable because each heir can get an equal share of funds to do with what they want, it may be shortsighted. Immediate access to cash may deprive generations to come of a great family legacy and an economic engine that could continue to generate wealth for many generations. More often than not, when wealth is divided up into smaller portions to be invested in the stock market, it does not last beyond three generations.

In another approach to limit complexity, rather than sell the business, some owners attempt to promote family harmony by having one member of the next generation buy out the other members of their generation to achieve sole ownership. Entrepreneurs often struggle to imagine how a business can be effectively run if the leader does not have full and total authority of ownership. While this logic is appealing on one level, it comes with serious risks. First, because the business is strapped for cash, either due to leverage or the use of free cash to buy out other family members, it may underperform or ultimately fail. Alternatively, if it does succeed and grow, those who sold at the time of transition (typically at a minority shareholder discount) will feel cheated because their shares would be worth much more had they kept them. Finally, when the business is transferred to only one family branch it may create a perceptual "gulf" between the owners and their cousins in future generations.

Some other measures to head off conflict attempt to legally "tie the hands" of future generations with regard to the business they are supposed to own. This is a near-guaranteed prescription for failure because no business leader or advisor today, no matter how successful and smart, can predict the business needs of the future. Good businesses must remain flexible and adaptive to thrive in the future. Any attempt to construct a trust or use other legal tools to put a business on "auto pilot" is on a likely path to failure.

Any formula to prevent future conflicts among family members by removing them from any say in the enterprise, while making them beneficiaries of the success of the business also mostly fall short. One common approach is to give one or more heirs working in the business control while making those heirs

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who do not work in the business beneficiaries of dividends or other distributions. This effectively puts different family members into roles of "makers" vs. "takers." Such an approach often opens the next and subsequent generations to bitter disputes over the salaries and benefits of those who run the business. Also, beneficiaries who may have legitimate questions about the dividend policy set by their relatives with voting rights will run the risk of being labeled greedy. Mature adults tend to chafe at the idea that a significant portion of their wealth is entirely outside of their control.

"You see any next generation leadership, you call me."

Good Governance Makes Good Owners

While there are businesses that successfully choose to concentrate the ultimate decision-making authority into one or a few hands, in our experience all affected stakeholders want to feel they have a voice (even if they do not have a vote) in the process. In addition, by the time a family business has multiple owners it needs to have policies and processes established for good governance that represents the welfare of all owners and the enterprise as a whole. This is the point when the board of directors needs to actually meet, create advance agendas and be structured to represent all owners effectively. This does not need to be an overly bureaucratic process but it should be a time when owners who work in the business and those who do not sit and consider major strategic issues together.

If the ownership group is large enough, or the business requires a professional board that does not include all owners, it is important to develop a process where all shareholders can have their voice heard. Many families will convene an annual shareholders' meeting or may develop a shareholders' council that meets quarterly to discuss ownership issues. Whatever forum you use, it needs to be a process where all shareholders can be brought up to speed on the business and have their concerns and priorities heard. These meetings are often held in conjunction with family meetings that focus on broader family issues and offer an opportunity for younger next generation owners to learn about the role of being an owner before they take on the mantle of leadership as governing owners or business executives.

In our experience, the progression of governance often follows a pattern of the senior generation forming an advisory board of outside business experts that meets with the fiduciary board representing the owners of the business. Over time, perhaps as the CEO role transitions to the next generation, the senior generation will focus on the role of board chair and integrating next generation owners into functional board roles. As good governance progresses, the board will transition from its advisory board to appointing outside independent directors that are trusted by all owners for their business acumen and decision-making.

When the practice of good governance has matured, all owners will have the necessary transparency into their business to trust that those who are running the enterprise are competent, fairly compensated, and accountable for the good of the whole. When this is the prevailing perception, owners are aligned around strategy with management and a family business reaches its true potential for success.

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Why Family Business Owners Need a Job Description

By Jennifer Pendergast

Do you know what one of the most important tools family business owners need to ensure their business is well-run? You might think of a board of directors, a strong management team or a family employment policy. While these are all good answers, the tool I would like you to consider is an owner job description.

My guess is that many readers are skeptical at this suggestion. This is not the advice you typically hear. Yet in my experience, a sophisticated appreciation of what ownership is (and is not) is such a critical dimension for long-term success in family enterprise that I want to convince you that creating an owner job description should be at the top of your to-do list.

If I were trying to encourage you that having a job description for the CEO or other key positions in your business is important, my task would not be so complicated. The value of job descriptions in a business is widely understood. Job descriptions clarify the hierarchy of authority, establish accountability, ensure key tasks get accomplished and provide a mechanism for evaluating performance.

Imagine that you have created a new position for a vice president of marketing in your business. How could you possibly fill that position without a job description? Potential applicants need to understand what will be expected of them in the job, to whom they will report and how you will evaluate their success in the job. You would also use the job description to determine what skills and experience will be needed to fill the role. And other managers on the team need the job description to understand how this new team member's responsibilities will integrate with what they do.

These are clearly actions a responsible owner should take to protect his or her investment.

Since convincing you that a job description in your business is probably an easy sell, let's take an example that may not be as familiar. What if I told you that you have a job description as a homeowner, even though it is unlikely you have put it down in writing?

As a homeowner, I would suggest you need to do the following:

- Ensure that your mortgage and property taxes are paid;
- Invest in the maintenance of your property to ensure that it is a safe environment for your family;
- Protect your property rights (e.g., do not let others infringe on the property);
- Be informed on issues that affect your community (e.g., changes in laws, new building codes, etc.);
- Create a will that determines who will own your property if you pass away; and
- Maintain records to protect your ownership (title, tax records, etc.).

While you may not think of this list as a job description, these are clearly actions a responsible owner should take to protect his or her investment.

So, what is the job of a business owner? Let's take a look at the job descriptions we have already considered. In the case of a management job description, the purpose is to clarify lines of authority and ensure that key tasks are accomplished, among other things. In the case of an owner's job description, these criteria apply as well. An owner job description outlines who is accountable for key responsibilities in the oversight of the family business. Are owners responsible for day-to-day operations of the business? No. But, they are responsible for setting the vision and direction for the business. With respect to lines of authority, owners are responsible for electing directors, who in turn, are responsible for overseeing management.

Similarly, there are parallels between the homeowner job description and the business owner job description. The focus of a homeowner's job is to ensure his investment is protected. A business owner has a similar motivation to protect his or her investment. So, what are some of the actions you should take as a business owner to protect your investment? First, management is best able to do its job if owners provide clear direction about their desires for the future, as well as their financial expectations of the business.

In setting an ownership vision, questions that need to be answered include:

- How long do we want to own this business?
- What role do we want family to play in management of the business?
- What are the rules for who can own stock in the business and how ownership will transition from current to future owners?
- How much risk are we willing to take on?

- Do we aspire to diversify into different business lines?
- Do we expect to take money out of the business every year?

Beyond these vision questions, owners should also provide guidance on the values they would like the business to embody. Is creativity or entrepreneurialism important? Do we expect management to make a strong commitment to employees? Do we expect the organization to be involved in the local community?

In order to protect your investment, you must also ensure that you have the appropriate governance structure in place to oversee management. Owners must decide how the board of directors will be structured. What role will owners play on the board? What role will management play? Will you incorporate independent directors in the mix? How often will the board meet and what authority will it be given? And, owners have the responsibility for selecting the directors, typically on an annual basis.

Finally, in order to make all of the decisions described above, owners need to be well-educated. They need to understand their industry, the competitive environment and be able to read and evaluate financial statements. They also need to understand the unique aspects of businesses with a family ownership structure.

In summary, if you were to write a job description for yourself as an owner, it would be fairly short:

- Define the vision for the business;
- Clarify financial expectations to management;
- Articulate values that should be embodied in the business;
- Develop a strong governance structure to oversee management performance;
- Elect qualified board members; and
- Understand the business context we operate in.

While the list may be fairly short, each of these responsibilities is incredibly important.

Protecting your investment in a home or other assets is something you do without thinking. Shouldn't you place the same importance on protecting what is likely a much larger investment — your investment in the family business?

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