THE COMMERCE BANK OF OREGON

FAMILY BUSINESS NEWSLETTER

Couple's Creative Synergy Is a Recipe for Restaurant Success

When his brother first encouraged him to open a restaurant, Cubby James thought it was a terrible idea. Having worked in restaurants before and during college — including at the Sundance Mountain Resort and five different Outback Steakhouse locations — he knew the business well. He also understood the obstacles: the high employee turnover, the impossibly low success rate.

But on a vacation with his wife, Amanda, the possibility began to percolate. With more time and space to reflect, the couple jotted down menu ideas. Cubby dreamed of bringing Italian beef sandwiches — a staple of his Chicago upbringing — to Utah. Amanda envisioned a menu with the fresh, organic salads she craved.

Cubby ultimately followed the advice of his older brother, Josh. Partnering with Josh, who invested in the startup, Cubby and Amanda opened their original restaurant in a struggling strip mall in Provo, Utah, in 2012.

Juxtaposing Cubby's beef sandwiches and burgers alongside Amanda's organic salads and soups — all made with high-quality, organic ingredients — the eclectic menu and fast-casual format hit the perfect note with diners.

A decade later, there are 11 Cubby's restaurants across Utah, with four more locations in the works. In May 2022, the family-owned restaurant celebrated its 10-year anniversary by giving away 7,000 plates of brioche French toast on a single Saturday.

A Case of Complementary Opposites

Pursuing the perfect beef sandwich, Cubby and Amanda spent six weeks visiting every Italian beef stand and restaurant in the Chicago area before they opened their restaurant. Notably absent from all the establishments they visited were healthy offerings like high-quality salads and whole grains. They looked into buying a franchise, but none would give them the flexibility to include these items in their menu.

"No one would let us do what we wanted to do," Cubby says. "The harder choice was to do our own thing and be creative."

A Collaborative Process

Cubby's has been a creative collaboration since the start. Amanda, a photographer and artist, designed the interior of the first store. While Cubby perfected the art of cooking tri-tip steak, Amanda masterminded mouth-watering salads. They brought on a head chef to dial in their concepts and create exceptional recipes.

From burger to beet salad, and from breakfast burrito to quinoa breakfast plate, the well-curated menu has something for everyone. Favorites like the tri-tip steak sandwich, tri-tip steak salad and buffalo blue cheese fries have remained Cubby's staples for a decade, as new items have been selectively introduced to enhance the menu.

As the family restaurant has grown, so has the James family. They had one child when the first Cubby's opened, now they have four. And those children are beginning to add their voices to the family's collaborative process.

"Anytime we're anywhere, we're eating out and trying new foods," James says. "Now we get to bring our kids along with us, and they have ideas about what we should serve at the restaurants."

Getting the Right Mix of Family Members and Independents for a High-performance Family Business Board

By Joe Schmieder

A cornerstone of effective family business governance is developing strong boards of directors. One board factor that correlates with family business performance and continuity is the addition of outside independent directors. Another factor that has not received as much attention, is the importance of developing family members into strong directors, capable of complementing the independent outside directors. These “governing family owners” and “nonowning family members” play a pivotal role in the success and continuity of the family business.

A natural first phase in family business governance is to create a family-only board. These initial boards are usually comprised of family-member owners working in the business. This family-only board often evolves to include younger generation family members working in the business who may not yet have ownership. Typically, the governing family members (both owners and nonowners) in this stage are narrowly-focused on the growth and operation of the family business’ current offerings and operation with limited outside influence.

As the business develops further into the second and third generation, increasingly outside influence has greater impact. When transitions occur, governance often evolves from a family-only board, to an advisory board, to a fiduciary board with family members as the majority, and then to a fiduciary board with nonfamily members as the majority (see the figure 1). Each stage represents a meaningful change from the previous one.

Gaining Strength From Difference

As an example, the Irwin Seating Company has evolved from a family-only board when it was founded over 100 years ago to a fiduciary board today with four family members (two in the business and two outside the business) and four independent outside board members. This blend of board members has been effectively governing Irwin for the past several years. The two family members in the business have a deep understanding of the business, while the two family members outside the business and the independent board members working in other organizations bring unique perspectives to the table. During a recent assessment, there were several contributions the board members and executives cited as valuable:

- Acting as a sounding board;
- Creating a level of accountability, particularly to the annual plan;
- Assisting with banking and financial structures;
- Providing guidance on estate planning matters;
- Helping build shareholder relationships;
- Giving encouragement and support, as well as challenging certain initiatives; and
- Providing in-depth support when critical events occur, most recently the turn-around of one division.

Both the governing family members and the independent directors of a fiduciary board have some similar roles and responsibilities:

- Selecting and removing corporate officers;
- Setting officer compensation;
- Declaring dividends; and
- Holding management accountable for its performance.

However, many family boards, like Irwin, take on more expansive roles:

- Reviewing and approving budgets;
- Developing long-term strategic direction;
- Serving on committees that oversee the audit and compensation process;
- Assisting in creating policies; and
- Approving significant capital expenditures, including acquisitions.

Mixing Expertise With Insight

Ultimately, the key to high-performance boards, whether advisory or fiduciary, is who sits around the board table. A complementary mix of skills and experiences relevant to the family business being served has proven to be a strong indicator for ongoing family business success. While having specific industry or functional experience is important, it is equally important to include members who have different industry or organizational experiences and a variety of functional expertise, including finance, marketing, sales, operations, human resources and information technology.The roles of all board members are greatly enhanced with the appropriate selection of both family members and independent board members. It is unlikely that all family directors, particularly those not employed in the business, will possess the same level of skills and experience that independent directors bring to the table. An equally important attribute for board effectiveness is a profound understanding of the owning family. Therefore, it is best to establish qualifications and training for family directors to ensure they can function effectively on a board with independent directors.

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Table 1 is a sample list of qualifications that show some of the unique differences between family and independent board members that one family business has used as their guideline for selecting a blend of qualified board members.

Raising the Bar Realistically

Strong family business boards have consciously developed distinct criteria for family members and outside board members. To raise the bar on board member skills, it is realistic to apply more demanding "business experience" qualifications for outside independent board members and more demanding "family dynamics experience" qualifications for family members. The process of creating these qualifications and then applying them to the selection of board members greatly increases the probability of long-term continuity.

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Selective data in this article comes from "Building a Successful Family Business Board" by Jennifer Pendergast, John Ward and Stephanie Brun de Pontet.

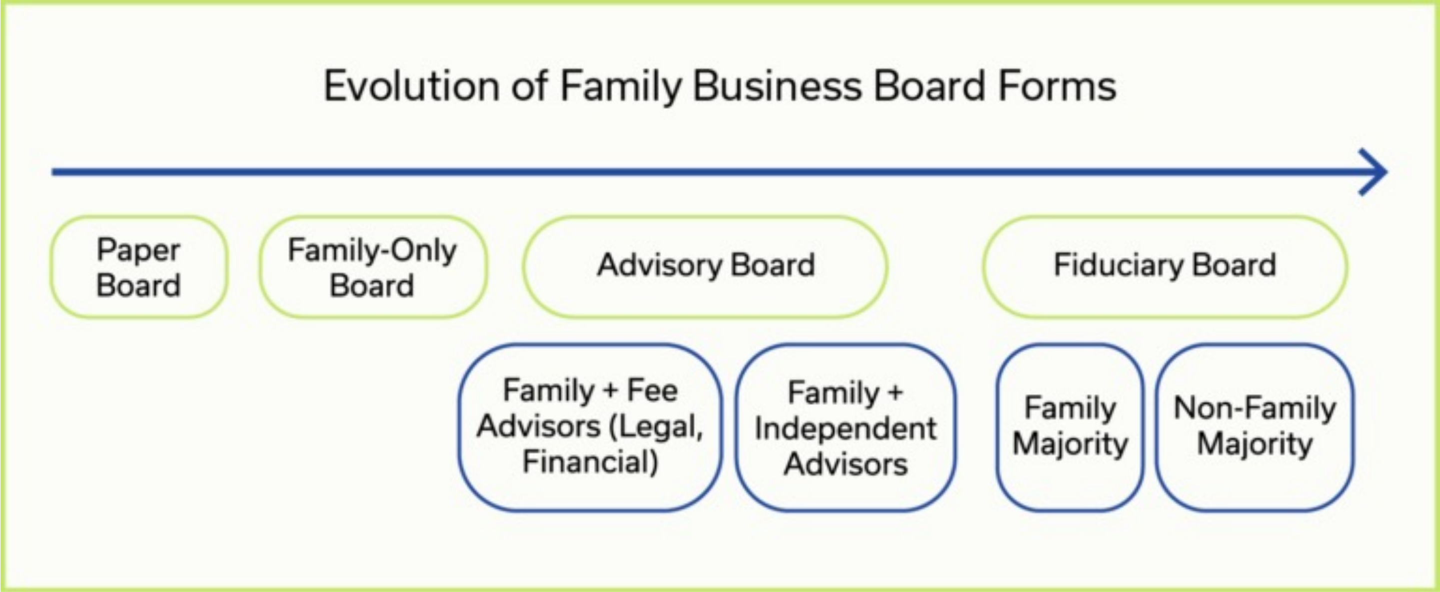

Figure 1

Board Member Qualifications

FAMILY BOARD MEMBER	INDEPENDENT BOARD MEMBER
Represent Family Shareholders: Able to effectively carry out the responsibilities a director has to all shareholders; not only a family branch. **Integrity:** Acts discreetly with confidential data; a trusted and respected member of the family. **Financial Acumen:** Strong understanding of financial statements and analytical experience on using numbers to help drive decisions. **Business Understanding:** Experience in exercising sound business judgment, a basic knowledge of the industry, competitors, clients, products and service offerings, the business model, company strategies and key metrics. **Family Sensitivity:** Sensitive to the nature of the family dynamics and knowledge of family issues and idiosyncrasies. Open to concerns or ideas expressed by other family members. **Leadership and Outside Experience:** Proven record of accomplishment in a prior position and/or outside experience that brings perspective in areas like science, finance, legal, marketing or global development. **Strategic Thinking:** Able to focus more on strategic issue resolution than tactical details. **Diplomatic Skills:** Possess an ability to assertively disagree with enough forcefulness to be heard, without attacking, promoting an engaging exchange of views. **Communication Skills:** Possess an ability to clearly articulate concepts and events, an intuitive understanding of timing and frequency of communication to maximize trust and confidence.	**Senior Leadership Track Record:** Successfully performed at senior management/leadership positions (CEO, COO, CFO, EVP, VP, etc.). **Board Experience:** Has served on for-profit and nonprofit boards. **Industry Experience:** Worked in or possesses a good understanding of the construction process for residential and commercial projects. **Employed or Recently Retired:** A thirst for learning and still engaged to some level in the business world, either working full or part time and/or serving as a consultant/adviser or board member. **Family Business Understanding:** Familiarity with the culture and unique complexities of a closely held family business. **Battle Scars:** Struggled through difficult times leading a business through a severe downturn, high-level growth or industry disruption. **Succession Experience:** Involved in generational transfer of business. **Reputation:** Well-respected in given industry and community; matches up with company's values: humility, servant leadership, fact-based decision-making, etc. **Adaptable:** Able to quickly adapt strategic thinking to ever-changing marketplace dynamics and move expeditiously when conditions call for change.

Table 1

Developing a Family Enterprise Owner's Mindset

By Barbara Dartt, Wendy Sage-Hayward and Gaia Marchisio

Family enterprises matter, not only to the families who own them but to the communities in which they operate and the broader global economy. Their health and growth have a large impact on every country's economic welfare. In fact, the top 500 family firms equal the world's third-largest economy, employing about 25 million people, with total revenues of almost $7 trillion, according to EY and University of St. Gallen Global Family Business Index.

Because effective owners and owner teams have a material impact on the outcomes of their enterprises and, by extension, for the lives and economies they impact, the role of owner must not be taken for granted.

Consider these questions from family members when asked about ownership in their family enterprise:

"My parents did a great job separating business from family — we never talked about it at the dinner table. And I kind of wish we had. I earned a history degree, which has no relevance to the family business. **How can I contribute without knowing anything about the industry?"**

"My nephew never seemed a great fit for the business. But who was I to tell his dad, my brother-in-law, my concerns? Now my son is a partner with that nephew and the fit is still very poor. **How could I have shared those early fears?"**

"I really like my life. It's full with my job and family. How much time will this ownership 'thing' take? **And if my brother works in the business and I don't, what do even have to offer?"**

"This business is so special to me. My parents and uncles sacrificed to get it through some really tough times. And my sister's husband looks at it like an ATM. **How are we supposed to lead this business into the future together when all he cares about is getting a distribution?"**

Why Ownership Roles Are Overlooked

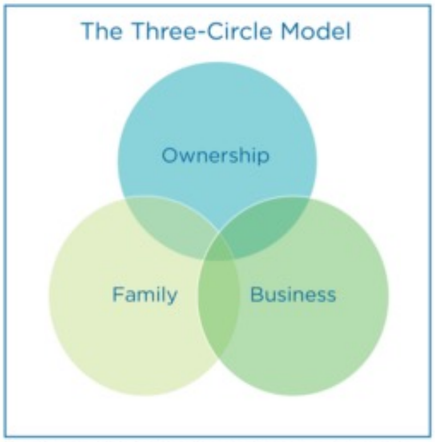

Figure 1. The Three-Circle Model of the Family Business System by Renato Tagiuri and John Davis

Ownership as a distinct role is often overlooked in the early stages of family business when ownership and management are one and the same.

This early overlap drives a common perspective that the only way to protect the business is to concentrate control in the hands of a few family members who work in the business. "How could nonmanaging owners know enough to be effective owners?" is a familiar refrain. This bias toward consolidation of control in family members working in the business perpetuates the lack of focus on the development of nonoperating owners. In addition, it causes confusion when the rising generation is asked to choose if they are "in or out" of the business because this limits the option to participate to one type of ownership: an operating owner.

The Owner Role

Owner decisions focus on highly technical and complex topics including creating shareholder agreements, large acquisitions, debt, the sale of the business, as well as dealing with prenuptial agreements. Although ownership decisions are less frequent, more complex, and potentially more difficult, they also have deeper, broader, and longer-term implications than management decisions do. Ultimately, owners decide where to invest their financial assets and whether to keep, grow or sell the business. The importance of the owner's role is akin to the rudder on a ship: It provides an enterprise with overall direction setting its fundamental purpose and financial goals. Adequately preparing owners to make these infrequent but considerable decisions takes time, persistence and deliberate attention.

As generations progress, we often witness the coexistence of different types of owners. A host of differentiating factors such as time, commitment, emotional attachment, participation in governance and decision-making, involvement in management, expectations, legacy orientation, and level of expertise distinguish the various owner types. An inclusive concept of ownership embraces a range of owner types — ones that encompass skills in the typical, more technical aspects (possession, decision-making, and economic returns) as well as the inspirational pieces (stewardship of legacy, contributing to the community and world, support of family, caring, and active participation).

Enterprising families understand that ownership may contribute to an individual's life purpose and personal growth. These families allow the rising generation to choose the type of ownership they aspire to. The appreciation and inclusion of different ownership types in a family enterprise fosters greater alignment and leads to the development of effective shareholders. Some families may not yet know what type of future owners they will have and should not be a barrier to grooming the rising generation of potential owners. Understanding the nuances of the different types enables family enterprise leaders to create deliberate choices around alternative ways to participate and clearly guide individuals who want to calibrate their level of involvement.

Developing an Owner's Mindset

While development of specialized knowledge and skills are necessary to create truly effective owners, they are not sufficient, especially in the case of shared control. We advocate for purposefully building an owner's mindset in all owners and prospective owners.

The Arbinger Institute suggests a mindset is "a set of beliefs, which drive and shape what we do, how we engage with others, and how we behave in every moment and situation." A mindset profoundly impacts our results because it shapes every action we take. Those who attempt to improve by changing their mindset instead of changing their behavior are four times more likely to succeed per thought-leader McKinsey and Company.

All owners have a mindset, but not all mindsets lead to success in a family enterprise. Below, we have gathered key elements of a family enterprise owner's mindset from authors and thought leaders* which foster effective owners (and owner teams) and offer a greater chance of success in operating and transitioning a family enterprise.

- Development is a continuous individual and collective process. Development is not only an individual endeavor but also a collective process that builds a family's human, intellectual, social, financial and spiritual capitals. It happens at every life stage and has no finish line.
- Ownership requires deep commitment and responsibility. Those with an owner's mindset see the role of an owner as an important one that requires time and investment from which they derive personal satisfaction and energy.
- Proactivity is paramount. An owner's mindset entails being resourceful, continuous learning,

engaging others, tackling challenges and actively taking steps to get things done. Owners take initiative by anticipating and preparing for future challenges.

- Consider abundance rather than scarcity. Individuals and organizations have a worldview as "inherently resource-rich or resource-poor," or anywhere in between. Those with an owner's mindset believe that there is always more available to individuals, expect openness and trust, think big, are thankful, and learn from others.
- Strive for win-win solutions. An owner's mindset is characterized by understanding the importance of thinking and acting "together" to become linked as a "we" while becoming differentiated as a collection of "me's." These owners intentionally and continuously manage the delicate balance between individualism and collectivism. This tension assumes critical importance for families who share economic interests, especially for those belonging to individualistic cultures. But instead of leaning toward one at the expense of the other, those with an owner's mindset design creative solutions resulting in mutually beneficial outcomes.
- Diversity and inclusion do matter. Decision-making, when made with diverse viewpoints, has been shown to increase business objectivity, analytical thinking, innovation and financial performance. Those with an owner's mindset embrace people with a variety of differences and, in short, they see diversity as a tremendous strength.
- We are stronger together than apart. Those with an owner's mindset understand they can't do it all themselves. More importantly, they don't want to do it all themselves. Instead, they are interested in collaborating in work and decision-making. They value both independence and togetherness and sincerely appreciate being in business with other family members.

Development as a Lifelong Process

We take a broad view of development. As we've stated, family members with an owner's mindset treat learning as a lifelong process. They constantly assess their capabilities, improve their awareness, consider their role and responsibilities, and set goals to maximize their contribution to their family enterprise. A wide range of activities and experiences contribute to developing owners' skillset and mindset, which can occur at individual and collective family levels. For example, family members individually take courses, attend conferences and complete on-the-job training. Likewise, the family can develop their collective capacity through focused discussion, workshops, and skill-building activities to deepen their relationships and advance their capability as a family.

> Those with an owner's mindset design creative solutions resulting in mutually beneficial outcomes.

Conclusion

Ownership development can feel like having to figure out how to eat the proverbial elephant — lots of information to digest, areas to assess and action plans to create. We know that can be overwhelming. But remember the advice on how best to eat the elephant: One bite at a time. We recommend approaching ownership development by starting small and slow — with a big vision for change. That will help you take early steps and gain momentum.

Building an owner's mindset takes intention, time and effort at each stage of life and over the generations. And the reward of this hard work are cohesive, collaborative owner teams that advance the lives of their members, their enterprises and the communities and economies they inhabit.

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For questions or comments, we’d love to hear from you. Contact The Commerce Bank of Oregon at (503) 548-1000.