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FAMILY BUSINESS newsletter

Building Family

At The Situs Group, business is a family affair. When founder Clifford Weinberger went to purchase his very first commercial property in Denver, Colorado, in 1991 his financing fell through at the eleventh hour. About to see his deal sputter, Weinberger tapped into family to save the project, and it has been about family ever since, with cousins and uncles to in-laws holding ownership in the company.

While they thought they were jumping in to help in a bind, those initial family investments have been returned multiple times over, and the investment continues to be a source of strong cash flow and increasing value.

Multiplying his family's wealth over the last 27 years, Weinberger's endeavor has provided not only financial security and a future legacy for his children, but also an enhanced lifestyle and relationship with family as his son and nephew have recently joined the business.

Over the years, Situs has built a family real estate empire, owning and managing a portfolio of commercial buildings and residential buildings across the Denver Metro area. Focusing on customer service and internal growth of existing tenants, the buildings managed and leased by Situs have maintained near full occupancy with waiting lists over the past several years.

"One of the secrets to our success is keeping expenses low with a hands-on approach managing everything in house," Weinberger says. "Everyone deals with Situs directly, and our employees feel a sense of ownership in the assets. I'm out there picking up cigarette butts and garbage on a daily basis." This approach and pride of ownership is one of the major keys to the success of the company.

Nephew Noam Ashter, Son Hugo Weinberger and The Situs Group founder Clifford Weinberger keep expenses low with a hands-on approach at their offices in Englewood, Colorado.

At 67, Weinberger is developing a succession plan for his family, working to merge his various companies into one to secure an attractive long-term financing package. In recent years, Weinberger was joined by son Hugo, and nephew Noam, both 35 years old, to help continue and grow his legacy. Hugo and Noam look to continue the long-term, hands-on ownership approach, and be active players in the local real estate market.

With its new acquisitions, Situs seeks out value-add opportunities with clear and executable business plans. Utilizing economies of scale and market knowledge, Situs is able to operate assets more efficiently on the expense side and can quickly show positive income growth for its investors. In addition to creating value for ownership, Situs strives to improve the communities in which it operates by continuously reinvesting into the assets owned and forming positive relationships with local authorities to improve safety and well-being for its tenants and the community.

"It's a pleasure, really very satisfying, to be able to know you are doing something that has a bigger purpose and legacy to be able to work collaboratively together on decisions and create a lasting and meaningful impact," Weinberger says.

The featured family businesses are clients 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. All other images are stock photography.

Manage Change Better in Your Family Enterprise

By Wendy Sage-Hayward and Stephen L. McClure

A generation ago, the president of a manufacturing company reassigned his brother-in-law, a plant manager, to two distinct and distant locations within a two-year period. Soon thereafter, his facility was sold and the president offered his brother-in-law a position with considerably less responsibility — so much so, that the man retired early. While it happened 50 years ago, the man's four children remember their uncle's life-changing decisions vividly. Today their families harbor resentment and do not mix well with the rest of the larger family.

Whether transitioning to new business, changing governance leadership, managing the aftermath of a long-anticipated liquidity event or moving from centralized family leadership to governance that includes more voices, business families must learn to anticipate and confidently handle change. Change management principles are not new, yet there are special considerations when applying them to a business family.

We think of change in a family enterprise as falling into two broad categories:

- Natural change, or that which is inevitable, such as the departure of senior-generation members and the rise of next-generation as owners and leaders; and
- Planned/intentional change, purposely initiated changes such as adding independent directors to the board or transitioning from family managing the business to owning it (nose in, fingers out).

In the sections below, we discuss both types of change along with providing a change management perspective, tactical advice, and examples for thoughtfully and effectively dealing with change in your family enterprise.

The Challenge of Change

Change involves both situational and psychological dimensions, or what can be thought of as external and internal aspects. The external components of change, which are easy to observe, may happen quickly, such as the installation of a new board of directors or the passing of an influential senior-generation member. However, the internal psychological dimensions are more subtle and take much longer to accept and adapt to, such as the negative feelings among family members who have reluctantly given up governance roles to new independent directors or mourning the loss of a family leader. So, it's critical to deal with change in both dimensions, especially the harder, more psychological ones.

Not surprisingly, some families adapt to change more easily, while others are more rigid and less accepting of change and more resistant to its implications. Take, for example, the arrival of a new spouse into the family. This event causes hardly a ripple in some families, but can be highly turbulent in others, regardless of the personality or intentions of the new family member.

While many families struggle with change, it can be even more challenging and complex in business families because of the interrelatedness of family, business and ownership. Change in any one of the three systems will inevitably result in shifts, often unexpected, in the other two.

The earlier example of the president changing his brother-in-law's location in the business and the impact in the family a generation later points to the importance of understanding change in its full context, including anticipating and addressing resistance to change.

Understand Resistance to Address Resistance

Resistance can be seen as a natural reaction to any significant transition. William Bridges describes transition as involving three stages: an ending, a neutral zone and a new beginning.[1] Most people focus on the ending and new beginning, but not the middle, failing to understand the challenges of this neutral zone, where the past situation is in the rear-view mirror but the new one hasn't yet taken hold. Most humans aren't comfortable with ambiguity, so this middle zone can be a place of concern and confusion, leading naturally to resistance (though it can also be a period that facilitates creativity and innovation). Placing change in this context can help you understand and accept resistance on your part or that of others, and develop thoughtful, strategic tactics for addressing the challenge of change.

A change manager tries to understand resistance, learn from it and take active steps to address it. It's not healthy, nor useful, to simply wish it away or label it as someone else's problem. Resistance is usually an important source of information. Business owners resist adding independent directors for several reasons; a common one is because of a perceived loss of control. By understanding this source of resistance, more attention can be given to specific ways the owners can influence and benefit the business even if they don't all hold positions on the board. Addressing resistance as a positive will lead to better transition management for the business family.

Tactics and Mechanisms for Addressing Change

Below are several tactics and mechanisms for addressing change effectively:

- **Involvement:** Get more of the family involved, listen to what they have to say, and engage them in understanding and managing the change.
- **Education:** Provide education for all family members about the change in question and its purpose and broader context.
- **Compelling purpose:** Communicate the change in the context of the overall compelling purpose of the family and make it relevant for all individuals and groups affected before the change happens.
- **Task force or pilot group:** Create a small group of family members and others to lead the change, or pilot it within a smaller part of the organization before implementing it more widely.
- **Champion model:** Harness the abilities of an individual or group of family members who are passionate about a change.
- **Parallel planning:** Plan for both the business and family simultaneously with attention to understanding how change on one dimension affects the other.
- **Skill development:** Use the change as a motivation to gain new capabilities, whether related to management, governance or other areas.
- **Consultant:** Retain an outside consultant to help formulate, communicate and implement challenging change.
- **Trimming the tree:** Create opportunities for family members to gracefully exit as owners if they do not want to be included in changes desired by the majority.
- **Generation skipping:** Shift the family unity and continuity focus of attention from the generation of the family members who have experienced long periods of unresolved conflict to their children and in so doing bypass a deadlock.
- **Lay the groundwork:** Put in place policies and fair practices early before they are needed so that unpopular family role changes in the business will be perceived as fair and not personal. As in the case of the president and his brother-in-law described above, the detailed performance evaluation of any individual working in the business cannot be made available to a spouse or his children, but the steps followed in a fair process can be fully communicated.

Let's consider several of these tactics in the context of two examples drawn from real family business situations.

A New Board of Directors (Planned Change)

The Jensen family, owners of a large Midwestern manufacturing business, planned to bring on a new, more formal board of directors and used several interrelated tactics to ensure a smooth, collaborative

> Plan for both the business and family simultaneously with attention to understanding how change on one dimension affects the other.

process. Leaders recognized that family members, owners and managers might be nervous about the change — such as questioning whether the new directors would represent the family well — and resistant to it.

To prepare, they used a series of meetings to help educate and involve the family regarding the upcoming change before it happened. Leaders representing the family (including a family champion), owners, and executives spoke about the compelling purpose of the family (continued unity as the family grows and becomes more complex) and helped the owners understand they could remove the board in part or whole in the future, if necessary.

The family worked with a consultant to create a task force of family members and nonfamily managers responsible for recruiting new board members, developing a system for selecting these members and evaluating their ongoing performance. Multiple family members got involved in the change, and the comprehensive preparation resulted in a more professional board from which the family benefited significantly.

Transition From Second to Third Generation (Natural Change)

The Rodriguez family faced a shift between generations as second-generation members approached the end of their roles as executives, directors and owners of the family's growing West Coast real estate business. In anticipation of the change, members of both the second and third generations had worked on parallel planning to develop a purpose and vision for the future of the business and family, developing clear roles and responsibilities to fill in the enterprise.

Rather than making changes overnight, third-generation members were moved into new business and governance roles with increasing involvement over time — along with guidance and mentorship from the earlier generation. The family also sought education about performance evaluation and compensation and developed a transparent, fair, merit-based system that encouraged third-generation members to excel as a team. The family worked with an outside consultant to help rising leaders understand their strengths and develop new skills to fulfill their business and governance roles.

Because of the family's hard work, the second generation could let go more easily and the third generation felt supported in their new responsibilities, with ongoing mentorship and involvement from their predecessors.

Embrace Change

Change doesn't always have to be a threat. It can be a positive opportunity to create understanding, trust and capability. That doesn't mean managing it will be easy; utilizing mutually reinforcing tactics requires thoughtfulness and planning.

In closing, consider the truths below when anticipating or while in the midst of changes in your family enterprise:

- First create understanding: People can't — or don't want to — change when they don't understand the change.
- Expect resistance: Resistance is part of the change process. Work with it, not against it.
- Think internal and external: Understand and address the situational and psychological aspects of the change process to be successful.
- Patience is a virtue: Sustainable change requires purpose, planning and patience. It won't happen overnight.
- Be proactive: Manage change through effective planning and effective change tactics.

Taking all the ideas here to heart will help you manage — and benefit from — change even more effectively in your family enterprise.

1. For more information on transitions and their stages, see William Bridges, "Transitions: Making Sense of Life's Changes," Da Capo Press, 2004.

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Family Business Education for the Next Generation

By JoAnne Norton and Nicole Bettinger

Soccer analyst Cobi Jones once wrote, "You want to teach the next generation so they can learn a little bit faster and a little bit more so everything becomes that much better." Jones' prudent advice applies not only to sports but also to family business owners who want the family and the business to transition smoothly to the next generation. That's why the families who are successful in both provide education for both the family and the business.

Early Family Business Education

Most of the time, family business education begins naturally and quite informally as parents take their children to work for fun or out of necessity. Very young members of the next generation have the opportunity to see the excitement of entrepreneurs or the generational pride of ownership on the familiar faces of those they love, which can leave a lasting impression. The impact of this experience can be powerful enough to provide inspiration for decades.

Family education can continue almost effortlessly, though certainly intentionally, over long vacation drives or around grandmother's dining room table. When family tales are told, researchers claim that it could pay huge dividends. Robyn Fivush, Marshall Duke and Jennifer Bohanek out of Emory University suggest that children who know their family history show higher levels of emotional well-being, making it great for the family and for the business.

Family Education and Family Governance

By the time younger generation members reach high school, they should be learning about the industry or type of business the family is in, particularly when there are many siblings and cousins involved. Young adults also need to know if they would be welcomed into the business, should they decide they want to work there, and under what circumstances.

In order to make sure all members of the next generation are treated fairly, a family employment

> If future leaders have the wisdom to learn from the experience of present leaders, and if present leaders have the wisdom to learn new competencies from future leaders, both can share leadership in the way that ultimately benefits their organization.

policy, agreed upon by members of the senior generation, should be in place. The present family owners need to decide if they wish to own the family business for another generation and if ownership has the possibility of being extended to their children. If the decision is to continue, more formal education should begin when teens are seriously considering career choices.

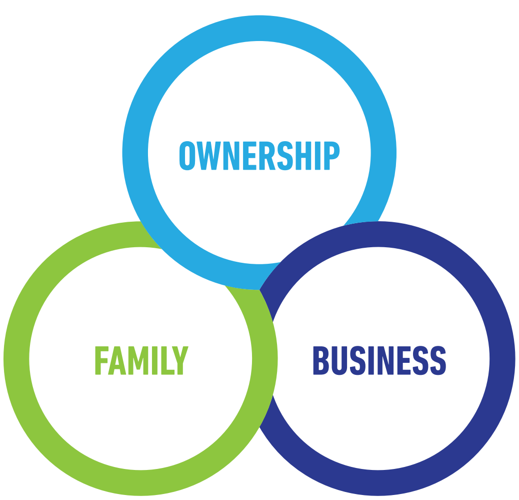
Formal Education

From our years of experience working with family businesses as well as in academia, we have found that those family owners who have had the most success have invested in their family education in four areas:

1. Understanding How the Family, Ownership and Business Systems Could Collide

One of the most critical points of understanding for the next generation is Renato Tagiuri and John Davis' Three-Circle Model of the Family Business System. The Three-Circle Model includes three groups (or systems) all functioning at the same time: family, ownership and business. This model provides families with a framework to discuss the overlapping, interrelating tendencies of family owners as well as explaining the multiple sources of tension. The next generation frequently feels pulled or torn among these three circles, and this model gives them a practical way to think about what they are experiencing.

The Three-Circle Model



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

"Ma didn't want to leave out anyone."

CartoonStock.com

2. Knowing How to Play Nicely But Productively

Communication and conflict resolution skills are absolutely crucial to positively contribute to a family business. Particularly as the family and ownership group grows and evolves, keeping everyone informed becomes ever more important. People have their own way of communicating and how they perceive communication from others.

Understanding these differences goes a long way in the success of the next generation. Navigating a family business transition isn't easy and brings up many tough conversations; however, if the future generation has enough emotional intelligence to steer through these sensitive issues together, everyone benefits.

3. Comprehending Business 101

Up-and-coming family business members must also possess a basic financial and business skill set. Even if they may not be the next CEO or president of the family business, having at least a fundamental knowledge of the business's purpose, function, competition, advantages and financial structure will benefit both the next generation and the business as a whole. The lack of simple skills, such as being able to read a balance sheet or a budget, are to the detriment of the current and future ownership groups.

4. Appreciating Our Family Roadmap

Next-generation family members must also understand how their family governance structure works. While they may be subject to a family employment policy, family constitution, code of conduct, or other documents enacted by the family, they most likely were not involved in the creation of them. Therefore, they will need education surrounding the motivation for these processes, their construction and their formation. Future family business leaders will be the ones charged with evolving these policies and moving their family governance structure forward, so they will need to know how and why both were established in the first place.

Capturing the Hearts and Minds of the Next Generation

During times of change, there is a need for good strong family leaders, "champions of the cause," who can convince others to come along for the journey and that the journey itself is an important one. Even great ideas seldom succeed without a champion.

When it comes to the next generation's formal education, the first step is finding one or two leaders from the next generation who can be champions, who can convince others in their generation that it is important, relevant and worthwhile. That's why we suggest forming a "Next-Generation Education Committee," choosing the best, brightest and most interested to lead the process. They would determine exactly what education would be needed and the best way for it to be delivered to their siblings and cousins.

This committee of next-generation leaders would also take advantage of the experience of both the family and the business leaders of the senior generation for advice and guidance. In turn, the future leaders would share their own expertise with their fathers, mothers, uncles, aunts and cousins to ensure the very best for the future.

Leadership coach Marshall Goldsmith in his best-selling book, Global Leadership: The Next Generation wrote, "If future leaders have the wisdom to learn from the experience of present leaders, and if present leaders have the wisdom to learn new competencies from future leaders, both can share leadership in the way that ultimately benefits their organization."

The goal of family business education for the next generation is acquiring collective wisdom that could last centuries. That's why the time and the effort to provide it are so worthwhile for the family and the business.

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