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FAMILY BUSINESS
newsletter

Fifth Generation Company Still Going Strong

by **Chelsea Bush**

Willard Burton, who founded Burton Lumber & Hardware Company in 1911, would be proud: Today, his Salt Lake City-based company is controlled by fourth-generation family members, with the fifth generation rising through the ranks.

The Burtons have not only weathered many recessions, which starkly affected the building industry, but successfully transitioned through multiple generations to grow the family business into a seven-location and 12-division enterprise from Logan to St. George, Utah.

What's the Burton family's secret? Dan Burton, president and great-grandson of the founder, shares their approach to mixing business with kin.

Don't Pressure the Kids

While preserving the family legacy is important to every family business, insisting that younger generations participate can backfire. For Burton Lumber, the policy is to let family members develop a passion for the business organically.

"We were free to choose whatever path we wanted," says Dan Burton. He picked up summer jobs at the business in his teens, along with brothers Jeff Burton, now vice president of sales, and Robert Burton Jr., now general counsel. From that time forward, they all decided to be involved.

Dan and Jeff have taken the same approach with their children. Two of Jeff's sons, Jake and Dane, work at the Lindon and St. George branches, and Dan's son Mark is director of operations. But they also have kids who have opted out of the family business. Dan's other son, Jeff T. Burton, is on sabbatical to gain outside experience before coming back to the company. "But he may find something that's a better fit," Dan says, "And if he does, that's great for him."

No Free Handouts

It takes more than the family name to get a corner office at Burton Lumber. In addition to hard work, the company also believes in a natural division of labor.

"You've got to put family members in the proper positions they can succeed at," Dan says. "Just because they're family doesn't mean they can do certain things in the business." Dan was operationally-minded while Jeff was drawn to sales, so they found their niches naturally. But it took some time to find where their sons fit. "They've done a lot of different jobs in the company," he says. "We felt like it was important for them to know the business from the ground up." And sometimes, he adds, "you have to have *that* conversation."

Let Junior Lead When It's Time

One of the biggest sources of multigenerational company strife is when the senior generation has trouble letting go. So far, the Burtons have avoided the common "hangers-on" trap. Robert Burton Sr., 88, still serves as chairman of the board, and even comes in a few times a week to "mosey around and see what's going on." But his sons, who've helped the company grow more in the last 20 years than ever before, say Dad never steps on their toes. "He's more than willing to offer advice and commentary. But if we have a difference of opinion, he's able to step back and not get in the way," Dan reflects. "I hope I can do the same thing." ▪

Third and fourth-generation Burton Lumber owners Jeff, Robert and Dan Burton pride themselves on their company's longevity and history. To celebrate their company's heritage, they restored one of the company's original delivery trucks.

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.

"To Sell or Not to Sell"—That Is Not the Only Question

by **David Lansky**

Many of my clients dream of keeping their businesses in their families. Nevertheless, family firms are not infrequently sold to nonfamily third parties. Even though my inclination as a family business adviser, generally, is to support succession within the family, I understand that selling to a third party may well be the right decision for a given family at a given time.

Certainly, realizing financial value from years, or even generations, of dedication to a family business can be an overwhelmingly positive event in the life of a family. However, some of the dynamics and the consequences of a decision to sell can have a negative impact on some key family members that is not always mitigated by the prospect of realized value.

Alignment Among Family Members

When married couples divorce, there is often one partner who has been anticipating a divorce for many years, while the other partner had no idea the divorce was coming, sometimes until papers were served. This misalignment with regard to preparedness makes adjustment to the facts of the divorce very difficult for the surprised party and for the family system as a whole. The same may be said about families who decide to sell a business: Some parties may be much more prepared for the event than others. For example, some may have thoroughly thought through how they will manage the proceeds of a sale, while others have not entertained even the prospect of a sale.

A lack of alignment may be more pronounced because entrepreneurs generally are not the best communicators. They are decisive and action oriented. They may think they have communicated the right things to the right people, but the key message about the serious intent of selling might not have been heard and the absence of true communication may go unnoticed.

In one family I worked with, the spouse of a key family member active in the business had no idea that her husband would be retiring (because of a sale) until the letter of intent was signed. A lack of alignment in these respects may be invisible to a family's advisers if their primary interactions are with family members who are active in the business and have initiated the sale.

Lack of alignment between the various interest groups can have an impact in many ways: Employees may get radically different messages from different family members when a consistent message is absolutely essential; family members who feel they have had no voice in the process may be uncooperative during due diligence; or family conflict may emerge because of unexpected changes in a family's living situation that result from the sale.

In all these cases, alignment can be ensured by encouraging families to hold regular family meetings to provide updates on the sale process, to craft a consistent message that family members will provide to employees, and to arrive at a consensus about including the right interest groups in the right way.

Weakening of Family Bonds

A unique quality of business families is their need to stay closely connected to each other as they develop as individuals and mature as a family unit. When a family considers selling, some may fear that sale of the business could weaken their family togetherness.

Families can address this potential stumbling block by discussing their concerns and by creating other opportunities for those who wish to continue in a collaborative relationship. For example, through shared philanthropy, they can jointly manage a portion of the assets that are generated through the sale or continue regular family retreats that may have been a part of running their businesses.

> EVEN AN OVERWHELMINGLY POSITIVE EVENT CAN LEAD TO A PERIOD OF INDIVIDUAL AND FAMILY ADJUSTMENT.

Dealing With Loss

Sale of the family business—even though on the whole a positive event—may precipitate an experience of grief in some people. A client of our firm has recently engaged us to help their family articulate the nonfinancial, or emotional, benefits that shareholders receive—and that would be sacrificed if the business were sold. Here is a partial list of their perceived benefits:

- Learning about the management and governance of business.
- Learning leadership skills.
- Experiencing pride of ownership.
- Community recognition.
- Annual family council meetings.
- Developing relationships with family members in the context of the business.

• Connecting with a multigenerational family legacy.

• Contributing to the continuation of the family legacy.

• Opportunity for social interaction with family members.

• Family philanthropy.

This list gives one a sense of what could be lost when a business is sold, by active and inactive family members alike. Add the fact that some family members, from multiple generations and perhaps not at all ready for retirement, will be losing their jobs when the sale is completed. They will lose the structure a job brings to daily life, their regular incomes and familiar working relationships.

I often advise business owners to "retire to something, not from something"—to develop a vision for the future after retirement—to encourage them to take an active role in making their futures positive and rewarding. The same advice and encouragement may be given to a family as a whole to assist the family in managing the change that accompanies a sale. By discussing the reasons for a sale and moving on to the benefits of the new situation and plans for the future, a family can help individual members cope with the change that a sale brings. In addition, treating employees generously can make the sale a more positive experience for these important stakeholders. Further, a farewell ritual can help family members say goodbye. If all of this is insufficient for some family members, private counseling may be of help.

Financial Implications

Efforts should be made to inform family members early on about the financial consequences of the sale, since they may need time to adjust to their new circumstances. Some of the most difficult family situations may develop when individuals have had unrealistic expectations of the financial proceeds of a sale. Families need to decide how much information will be shared with minors and family members who are not principal beneficiaries in the transaction. Many families try to keep the extent of new wealth a secret from their children or in-laws, fearing it will affect their relationships, values and lifestyle. Each family needs to make a thoughtful decision about this, based on the maturity of the children, current relationships, and the family's ability to communicate well with each other. Families who intend to manage their wealth collaboratively through a family office or another wealth management structure will benefit from discussions about the purpose of their wealth and the nature of family collaboration. ▪

David Lansky, Ph.D., is well-known for his expertise in the psychology and family dynamics of multigenerational wealth.

Developing a Winning Strategy for Family and Business: The Parallel Planning Process

by **Otis Baskin**

As the central concerns of business (winning, profits, etc.) are different from the core functions of family (nurturing, traditions, etc.), it is not surprising that many people believe the success of one has to come at some expense of the other. The assumption is either we make our choices and set priorities based only on the needs of the business or we focus on the needs of the family. The implication of such a choice is that family members cannot be professional.

The danger of the either/or approach is that owners develop policies that ultimately harm the family and the business. One large family business I knew ceased to exist because the founder decreed that theirs was a "family-first" business and any family member was entitled to a senior management job—irrespective of their actual qualifications. The result was an organization overburdened by an ineffective management structure that not only was inefficient but ultimately inept. By the third generation, there was so much conflict in vision and lack of initiative from senior management that the business lost its ability to compete in the industry. Further,

WINNING STRATEGIES MUST PROVIDE FOR WINNING FAMILIES AND WINNING BUSINESSES.

the family was in such disarray as a result of the stress from the declining business that many relationships were damaged beyond repair.

The opposite approach can also be a recipe for failure. Another large family business I knew developed a preference for "professional management" that became a barrier to family members even being considered for roles of leadership in the company. As more nonfamily executives took control of senior management, they systematically shut out family members who aspired to careers in the business to ensure "family concerns" could in no way cloud business decisions. The result, by the fifth generation, was a distant and disaffected group of family owners who did not understand the businesses they were in and therefore did not appreciate the need to reinvest capital for future growth. Conflict among the ownership led to division on the board and paralysis in strategy that eventually forced the sale of the company.

What these two examples underscore is the need for balance, and considering the needs of both the business and the family—to ensure the optimal functioning of both. The business should be managed by the strongest possible cadre of managers who have a deep understanding and appreciation of the family's priorities for the business. The best family business executives understand that a well-informed and engaged shareholder group is among the greatest competitive advantages they have as a company. Likewise, the family needs to appreciate that their interests as business owners are best served when qualified leaders are at the helm, working in partnership with family leaders as appropriate.

The parallel planning process, originally advanced by Randel Carlock and John Ward in "Strategic Planning for the Family and Business" (Palgrave, 2001), links these two powerful forces to recognize the real potential of family business. By helping both family and management create a business strategy that supports the interests of the family and the potential of the business, a powerful synergy can result. Strategic planning between family and business, owners and management can produce mutual commitment and alignment far beyond the normal range of fiduciary responsibility.

The strength of this model lies in the application of four strategic principles:

1. FAMILY VALUES AND BUSINESS PHILOSOPHY AS THE FOUNDATION FOR STRATEGIC PLANNING.

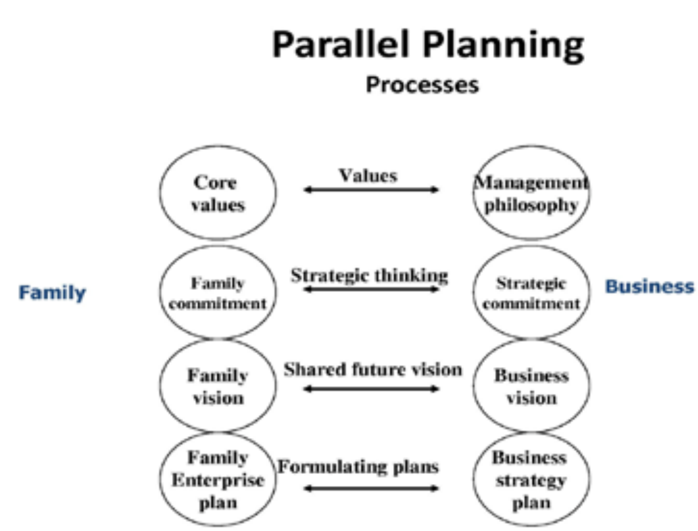
The family must first clarify the shared beliefs, experiences and legacies that unite them in their ownership and stewardship of the family enterprise. With parallel planning, these values serve as the underpinning of the business culture in which the company operates and define how the family will work to support the business' future success.

2. STRATEGIC THINKING APPLIED TO BOTH BUSINESS AND FAMILY.

Strategic planning ensures ongoing communication between the family and the business so that the leaders of the enterprise and the family align the family's expectations with the needs of the business. Just as the business must proactively plan for growth, as the family expands, it must also plan for how it will continue to participate as "effective owners" and not simply leave this evolution to chance.

3. A SHARED FUTURE VISION THAT GUIDES BOTH THE FAMILY AND THE BUSINESS.

Balancing the capabilities of the business and the priorities of the family, the parallel planning process helps to set a sustainable vision for the future of the business and the family. Further, the process examines how family ownership of the enterprise will provide a strategic advantage to help the business bring this vision to life.



4. Formulating long-term plans to guide both the family and the business provides both the means to achieve success and the metrics to evaluate accomplishment of goals.

The parallel planning process requires a commitment to have ongoing conversations, to document decisions and to measure outcomes to determine if goals are being met. While this may seem like a lot of work, it becomes second nature over time, and the process itself contributes to strengthening both the business and the family. It answers the essential question of why does our family own this business and why should we continue to own this business?

The need to choose between "business-first" and "family-first" becomes irrelevant with the realization that assuring the success of the business now supports the continued well-being of the family for generations to come. Formulating a business strategy that supports the current and future welfare of the family assures management and shareholder alignment for generations—such that these will survive economic downturns, create innovation and develop an enterprising family that succeeds in life. In the end, winning strategies must provide for winning families and winning businesses. ▪

Otis W. Baskin, Ph.D., is a former dean of Pepperdine University and an expert in helping business-owning families develop plans for leadership development and succession, and family ownership structures.

Passing the Baby: The 8 Must-Haves of Successful Continuity Planning

by **Dana Telford**

Imagine standing at a family party with your newborn daughter, Sarah, in your arms. You and your wife have just lived through a whirlwind of morning sickness, mood swings and strange cravings. But as you peer into the face of your firstborn child, you know the result was well worth the sacrifice.

Parental visions float across your mental movie screen—her on the gold medal podium at the Olympics, accepting the Nobel Peace Prize, becoming president.

Your daydream is interrupted by Cash, your 7-year-old nephew. He tugs on your jacket and asks if he can "hold yer baby." The very idea that you would hand your delicate creation over to a chocolate-smudged Oompa Loompa has left you dumbfounded and aggravated.

As your mouth begins to form the words, "No way!" Cash's mother (your sister) walks up. She waves excitedly to your mother and yells, "Come see this! Cash is going to hold Sarah." Soon half a dozen cheerful relatives gather, anticipating a magical family moment.

Sweat beads begin to form on your forehead. You feel sick to your stomach. But no matter how desperately you want to avoid it, you know you've got to pass your baby.

Finally resigned to the inevitable, you hold your breath and ever so gently place her in the outstretched arms of your ill-prepared nephew.

The Challenge: Continuity Planning

Planning for continuity in a family business may feel like preparing to pass a valuable, delicate creation to an unprepared relative. Figuring out where to start might be equally disconcerting. Why do only 30 percent of current family business owners have a written continuity plan? Business leaders procrastinate on this planning for a number of valid and predictable reasons, including:

- They care deeply about their company and loyal employees and fear that they may be hurt in the process;
- They do not believe the next generation is prepared to take over;
- They have not adequately prepared for the financial ramifications of retiring;
- The economy is weak and they may believe that it would be wiser to wait until conditions are more stable to pass the business;
- They feel too young and energetic to consider slowing down;
- They want to avoid the psychological and emotional strain that is a part of continuity planning;
- And, as they have never done this before, they don't know where to begin… .

The goal of this article is twofold: to motivate you to begin planning for continuity (regardless of your current age); and to provide guidance by offering tips and suggestions about how and when to start the process.

"Never forget where you came from, son."

Not knowing where to start can feel overwhelming. So what's a well-meaning, legacy-minded, continuity-procrastinating business leader to do?

The first and most important of all steps in continuity planning is to simply begin the process. Block out a one-hour window within the next two weeks to begin crafting your plan. Do it now. Open your calendar, pick a day, pick an hour—preferably in the morning—type in "begin continuity planning effort."

A warning: You will have natural resistance to the changes that you must make as part of this process. It will be an emotional and difficult journey. However, keep in mind the idea that this will be your last true test of leadership—defining, protecting and passing on your legacy.

In an effort to help you start and continue the process, the following are "Eight Must-Haves of Successful Continuity Planning."

The Eight Must-Haves of Successful Continuity Planning

1. A Legacy Statement—How Do I Want to Be Remembered? Consider answering the following questions on your first day of continuity planning: When I've been faced with tough decisions, what guiding principles have I relied on? What achievements, philosophies, causes, movements or rules of thumb are important to me? When my kids and grandchildren think of me, what is the first thing I hope they think of?

2. Leadership Contingency Plan—In Case of Emergency. None of us likes to contemplate the idea that we may die suddenly in the prime of life. Sadly, sudden endings happen all too often, and as such, the business needs at least a stop-gap plan in place for such an emergency. Give direction to your heirs, the board and key management about what needs to be done for the business short-term if you were to die suddenly. Crisis situations like this are already so emotionally difficult that it will be an invaluable resource to all if there is some core and specific guidance in place.

3. Job Description of the Successful Family Business CEO. A specific, written statement that clearly defines what the CEO of your family company must do well in order to lead the business successfully. It must look beyond typical achievements (attaining an MBA or gaining technical training) and delve into leadership and the ability to manage complex, emotionally charged relationships between three organizations—your family, your business and its owners.

4. Develop a High-Potential Successor Pool. If you passed away today, who would be the five most likely successors? Resist the temptation to think only of family members or those managers who are most like you. If you are committed to family leadership, but there is a large age gap between you and your most likely successor, consider using your most loyal, capable nonfamily manager to serve as a leadership bridge between the generations.

5. The Continuity Committee—Who Will Choose the Next Leader? Pick a leader who, based on all available information at the time of succession, has exhibited more of the capabilities, skills, traits and qualities than any other candidate. Getting to this decision will be difficult and will require objectivity, critical thinking and wise judgment. To assist you, choose a group of five to seven trusted personal and professional advisers. Make the expectation clear that you want them to work with you and each other to push beyond personal biases, hopes and genetic predispositions as you make this important choice.

6. The Judgment Template—How to Assess High Potential Candidates. The completion of this step should rely heavily on Step 3, "Job Description of the Successful Family Business CEO." Use the list of skills and capabilities created by the outgoing CEO as the starting point. Have the Continuity Committee review, update (as needed), prioritize and create a template that rates potential candidates as very poor, poor, good, very good and excellent in each area. The goal of this process is to objectively compare candidates to other candidates, not candidates to the former CEO. Some areas to focus on include integrity, character, decision-making, critical thinking, communication skills (especially

THE FIRST AND MOST IMPORTANT OF ALL STEPS IN CONTINUITY PLANNING IS TO SIMPLY BEGIN THE PROCESS.

listening), internal and external credibility, work ethic, financial skills, outside experience, technical knowledge and initiative.

7. Timeline—For Choice, Development, Mentoring and Succession. Thorough continuity planning processes take seven to 10 years. The average tenure of a family CEO is a little more than 20 years, which means effective continuity planning must be a strategic initiative for almost half of the CEO's leadership. As a starting point, identify your retirement day, which provides an end point from which the continuity plan can be reverse-engineered. It is a good idea for outgoing CEOs to be around for a full year as an adviser to the CEO before moving out of day-to-day leadership. Also, I like to see the incoming CEO spend up to a year shadowing the current CEO. This means the Continuity Committee should choose the next leader at least two years prior to the current CEO's retirement day. If the Continuity Committee is going to have two to three years to identify and observe high potential leaders according to the Judgment Template, it needs to be established at least five years prior to the current CEO's retirement.

8. A Plan for Honoring the Contributions of the Current Generation. While this is a task for your successor, it needs to be included in this list as it provides important symbolic continuity. One of the first responsibilities of the next CEO should be to honor and memorialize the contributions and achievements of the outgoing CEO. Don't steer away from this with false humility or to avoid the spotlight! Allow your successor to capture some essence of your leadership (the legacy statement could provide a relevant guide) and honor this contribution.

Conclusion: Don't Drop That Baby

Let's face it; you love your business like it's one of your children. Doesn't it make sense for you to put a thorough, fair, careful continuity planning process in place rather than risk dropping your delicate creation?

Should you choose to avoid continuity planning, or approach it half-heartedly, you jeopardize the future of the business, your family's wealth and the stable employment of your loyal employees. Alternatively, excellent continuity planning can create a bridge of opportunity between two generations—giving one the chance to identify and pass on their legacy and the other the highest chance for continued success, growth and harmony ▪

Dana Telford has advised business families in more than 18 countries in succession planning, family governance, board effectiveness, strategy, entrepreneurship and conflict management.

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September 10, 2013
9:00 a.m.