

Finding Strength in Family

Mother-daughter duo join forces to build successful business during pandemic.



Megan Despain and Dawn by Design founder and owner Dawn Despain

It takes a special kind of person to start a successful new business venture in the middle of a pandemic. It takes someone with courage, gumption and business savvy. It takes someone who is not afraid to take a risk because they believe in their dream.

What it takes is someone like Dawn Despain, the owner of Dawn by Design, a Prescott, Arizona-based hair and lash design studio that she operates with her daughter, Megan Despain.

The truth is, Dawn had been contemplating opening her own salon for quite some time before the pandemic started in 2020.

“When you graduate from beauty school, you have a couple of options: You can go work for someone else, which is a great idea right out of school,” she says. “But you get to a point where you want to work for yourself, and so I started researching what it would take to own a business.”

Once the pandemic started and small business owners all over the country began scaling back, Dawn saw it as the perfect opportunity to move forward and go into business for herself.

“Early in the pandemic, I was working in a salon that had four to five stylists at different times, and I was finding that after the salon reopened [after the initial wave of quarantine restrictions were lifted], people were nervous to come in,” she says. “That’s when I decided it made sense to go into a smaller scale, more private salon — and everything just kind of fell into place.”

And with that, Dawn by Design was born.

The timing could not have been better: Her daughter, Megan, finished cosmetology school in September 2020 and would be able to join her, making Dawn by Design a family business.

While having your child work for you may sound like a nightmare to some parents (and children), it is anything but for Dawn and Megan. That’s because they have learned how to find a balance between the different roles they play.

“There’s a balance between being the boss and being the mom, and making sure we don’t mix that too much,” Dawn says.

And according to Megan, their business also works because they are both flexible and can roll with the punches. “You can’t control every situation in the business,” Megan says. “But if you’re willing to be flexible and put in the work to get through a situation, it’s a lot less stressful.”

“I think anyone who is part of a family business needs to understand that things can change at the drop of a hat,” Dawn adds. “Not every child wants to work with their parent. And while this works for us now, with each challenge we face comes a new set of possibilities and outcomes.”

As this mother-daughter duo continue building and growing their business, they both have a keen eye toward the future. “My daughter is just starting out in this industry, and I’m incredibly lucky to be able to see her growth and cheer her on. It makes me confident that I’ll be able to hand off a healthy business to her when the time comes.”



Building the Best Team Possible: Relationships Between Family and Nonfamily Employees

By Stephen L. McClure, Ph.D., and Christopher J. Eckrich, Ph.D.

In our experience working with family businesses, we often hear of key nonfamily employees who become anxious or frustrated when working with, or overseeing, family employees — especially in the next generation. We commonly hear reports of family members underperforming or being underqualified for the positions they are given, displaying attitudes and behaviors that would get nonfamily employees fired. Fortunately, there are successful strategies for avoiding these situations that can lead to discouragement and deteriorating motivation for your nonfamily managers, as well as for avoiding unsatisfying results for the business itself.

The first step is to develop a clear and transparent process for integrating family members into the business. Often, families handle family employment in a very informal manner, and history has shown an informal method is much more likely to produce negative family employment complications. A clear process might include the establishment of a summer jobs program for high school students who will work in basic jobs for the company, an internship program for college-aged students where they are exposed to higher-level information about the firm and its products and services (excellent for future owners who are not likely to actually work in the business full time), and a formal process for orienting family

members who intend to enter the business full time as their chosen career. Most important is to get this process outlined on paper and to then communicate the ground rules to all in a family forum. This helps set expectations and allows junior generation family members to understand the opportunities and responsibilities involved in working with the family enterprise. It also adds to family credibility in the eyes of nonfamily employees.

In addition to a process for integrating family into the business, a second critical element is a family employment policy guiding the requirements for family members seeking employment. It is the ownership group's responsibility to seek alignment on expectations for employment, as unity around these expectations will protect the family from unnecessary conflict in the future, and allows the ownership group to speak with one voice. A typical employment policy clearly defines the path to employment for the next generation, answering questions such as:

- » Does the policy apply to lineal descendants only? What about spouses?
- » Who do we go to when we wish to apply for a position?
- » What education is needed before we can work full time in the company?
- » How many years of outside work experience are needed before we can come in full time?
- » Can we work directly for another family member?
- » How will our pay be determined?
- » How will promotions be determined?
- » What is the process for receiving performance feedback in the new position?
- » Can a family member be terminated? If so, by what process?

Successful family businesses need the commitment and enthusiasm of the family as well as that of a broad range of key nonfamily employees and executives.

The employment policy is necessary, but not sufficient to guide family employment in a positive direction. The third component needed to navigate family employment issues is a code of conduct to guide behavior on the job. The ownership group has tremendous power in guiding productive family behavior by working together to forge a set of expectations to which family members can aspire. The code of conduct drives behavior by articulating the family's expectations about the following:

- » How are we expected to perform on the job?
- » What attitudes or behaviors are expected toward our supervisors, peers and direct reports?
- » What communication expectations exist between fellow family employees? What information do we share and what do we not share?
- » Will we operate in conjunction with the employee handbook on all matters, or what exceptions will exist?
- » What are our expectations for vacation, time off and work hours?
- » What will we do when we have a conflict with other family employees?
- » How will we speak about each other to spouses, family members and others?

Having worked together to establish the three components of integration, the family must then communicate with nonfamily management about its hopes regarding family employment. This is best done at a forum between the family shareholders and relevant key nonfamily managers. In this meeting, the family articulates its vision for the enterprise, its commitment to the enterprise and the values it intends to support in the business. In particular, the family takes time to articulate its deepest hopes around family continuity and asks the key nonfamily employee group for help in achieving the above.

As the forum is a two-way dialogue, nonfamily employees should be given plenty of time to articulate their needs from the family in meeting the vision, gain clarity on whether they will really be supported in helping the family group reach its goals, and express any concerns they have about family employment. This process can be used to help key employees see what is in it for them, such as ownership continuity, a stronger organization (assuming family policies support a stronger organization), and the freedom to supervise family employees without backlash.

Economic challenges can lead to two complications around nonfamily motivation and family employment: Specifically, 1) bringing on new family employees while the firm is downsizing due to economic pressures, and 2) the family's taking of perks while nonfamily employees are being asked to go without (e.g., pay freezes, reductions in 401(k) benefits, etc.).

The first issue — bringing on family employees — can be addressed through the forum concept described above. The family can express how important it is that they prepare the next generation of family owners/managers and their taking a long-term view in these matters. At the same time, sometimes the family needs to think creatively to limit the disruption this family hire might cause for nonfamily managers. One suggestion could be to put the new family hire's compensation above the line on key managers' budgets (e.g., putting their compensation in overhead rather than in a key manager's operating budget). In this case, the manager will be minimally impacted by having a junior generation family member in "learning mode" on their watch. In fact, it may be viewed positively as they get performance from a family member without it impacting their budget (and therefore, their own compensation or bonus calculations). This is often done for a year or two, until the family employee graduates from training mode and begins to directly contribute to firm performance.

The second issue — family perks in a time of scarcity — deserves the family's attention. Assuring that family perks are not impacting employee compensation structures

negatively is a start. While nonfamily employees may be tolerant of family perks (i.e., those perks not afforded to all employees of the same authority level) in good times, they may become very resentful if they see the family taking benefits when everyone else is being asked to cut back. These feelings will be especially strong if they believe their compensation and benefits packages are being influenced by events beyond their own control, as occurs when family employee perks are charged to nonfamily managers' budgets. Families do well to explore whether family employee perks are hindering employee motivation and take corrective action if this is the case.

As with so much else in family business, the strength of these companies comes from the successful blending of differing priorities or agendas: family and business, or in this case, family and nonfamily employees. While the above details the effort required, it is a great investment to think through the challenges and opportunities that come from the overlap of family and nonfamily employees at your company, and to do what it takes to make this a strong union. In our experience, successful family businesses need the commitment and enthusiasm of the family as well as that of a broad range of key nonfamily employees and executives.

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Getting Started With Family Governance

By Barbara Dartt and Anne Hargrave

For the past six years, the Walcott family has gathered for their family business meeting on the Saturday after the founder Grandpa George's birthday. The 12 attendees range in age from 62 to 11 and include George, his three children and their families.

The agenda has evolved over the past decade. Generally, the annual meeting begins with George reflecting on the past year and sharing a story about the growth of the fish farming business since its humble beginnings in 1970. Then he and son Bill, who joined in 2005, report how the business performed over the last 12 months and the outlook for the upcoming year. The farm's lawyer provides a quick review of the ownership structure. Next, an industry expert or a family business consultant conducts a 30-minute educational session. Sometimes, the family discusses and decides on a charity or service project to support. The meeting usually wraps up in less than four hours.

The Walcotts are employing an approach to address questions many families wonder about: How do we educate our family members so that they can be effective owners and contributors to the family legacy? How can family members' voices be heard if they see issues within the business? Who can work in the family business?

What Is Family Governance?

The Three-Circle Model of the Family Business System (Figure 1) was developed at Harvard Business School in 1982 and continues to be the central organizing framework for understanding family

business systems. The diagram represents three interdependent and overlapping systems in a family enterprise: family, ownership and business. For a family business to function effectively over time, each system must understand how to interact with and support the other systems. In addition, people within each system should appreciate which decisions are theirs to make. This interaction, support and decision-making is governance. Family governance is a process or structure to educate and facilitate communication between family members. It also provides a forum for constructive discussion, problem-solving and decisions about the family as it relates to the business, as well as how the business relates to the family.

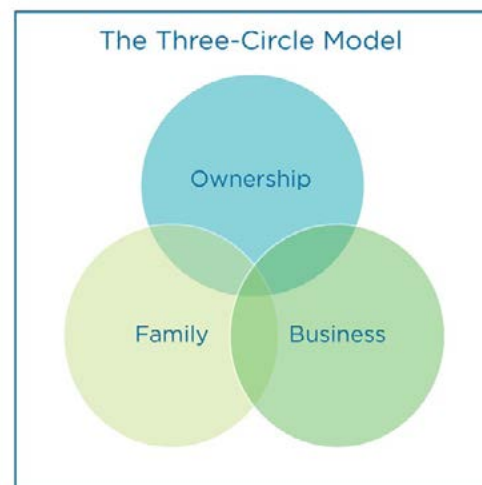


Figure 1. The Three-Circle Model of the Family Business System by Renato Tagiuri and John Davis

Building an effective family governance forum is an evolving process.

In the case of the Walcotts, each system has its own governance strategy. For the ownership circle, George and Bill (who are senior managers and own the voting shares) use a board with advisers who are unconnected to the fish farm to help them make decisions on behalf of the shareholders. The business circle is governed by the farm's senior management team. The annual Walcott family meetings have created a space for the family system to have a voice.

The Role of Family Governance

Any family governance structure builds a strong family by providing a forum to:

- Set the vision for the family and define its philosophy towards the family's relationship with the business and the businesses' support of the family.
- Uncover and maintain the values by which the family and related enterprises will operate.
- Educate family about rights and responsibilities of ownership, family history and values, as well as prepare for the future.
- Establish and maintain an effective plan for ownership and key family leadership role succession.
- Celebrate individual and family milestones.
- Stay informed and communicate with owners.
- Recognize and resolve family conflict to promote harmony.

How a family tackles these tasks is contingent on how complex and how aligned the business, ownership and family systems are. The "right" family governance structure depends on several key factors:

1. How many owners are there?
2. How many generations are in the family? How many are involved in the business?
3. Are owners serving in management roles? How many generations are in management roles? Are there nonfamily executives in place?
4. How large is the business? What resources are available to family members?
5. Do family members know each other? Are they in agreement about the business? Is there potential for disagreement?
6. Who will be involved in family decision-making? How will decisions be made?

The Stages of Family Governance

Families like the Walcotts often find that the way they make decisions together evolves with the size and configuration of the family. In the early years of the business and the family, communication and decision-making are more casual, often taking place around the kitchen table. As children move out of the founder's house to start their lives as young adults, it becomes increasingly important to be intentional about communication

methods and decision-making processes. As the family and the business grow, the need for more formal governance also evolves.

However, just because your family doesn't have more than two generations, doesn't mean you shouldn't think about how you can institute effective family governance. The good news is that if your family business systems are straightforward, how you accomplish family governance can be pretty simple, too. For many, family governance starts with well-planned family meetings.

The Stages of Family Governance diagram (Figure 2) outlines different family governance approaches based on the complexity and interaction of the family and the business.

The Walcotts found themselves between the second and third boxes from the left in the bottom row of Figure 2. George and Bill started holding family meetings when George's son-in-law, Fred, began asking questions about the value of his wife's nonvoting shares and seemed to be second-guessing the fish farm's strategic plan. After three years of post-birthday family meetings, they decided to also schedule adult-only meetings two additional times each year to create more alignment between the family and the business. With five third-generation members interested in summer jobs and George thinking about retirement, there were many important topics to discuss. George and his children decided to include spouses in the meetings so that they could hear things firsthand and actively participate

Managing Effective Family Meetings

Knowing that making decisions together would require a different type of interaction, the Walcott adults spent their first meeting learning more about each other. They explored each other's strengths, interests, skills, and communication and learning styles. In their second meeting, they identified shared family values and a vision for the future of the family. These meetings created a deeper appreciation of each other, a framework for future decisions and a sense of purpose.

The family agreed to focus on addressing two key questions:

1. How can we assure that we are being responsible and committed to the stewardship of the family's assets?
2. What can we do to assure that we have effective, healthy and strong family relationships?

In their subsequent meetings, the Walcotts started developing family business policies. They began with straightforward policies like next generation family employment, a code of conduct policy for interacting with each other as well as those in the business, and a family decision-making process. As they started to dive into more complex topics, the meetings began to meander and frustration was building.

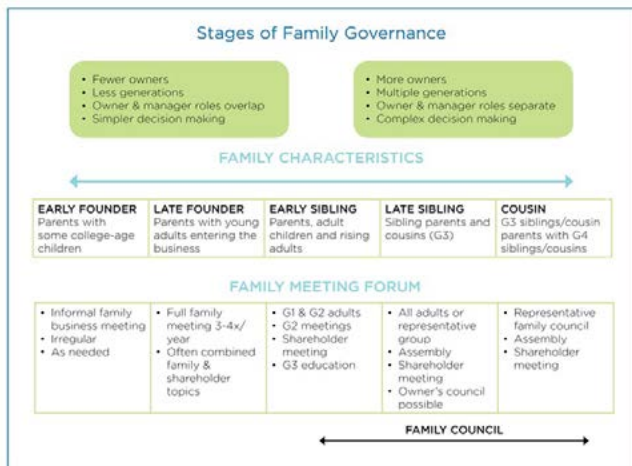


Figure 2. Stages of Family Governance

They decided to bring in a family business consultant to plan and facilitate the meetings so they could explore how other families create policies. The Walcotts wanted to make sure everyone in the family had an equal voice in discussions. It became obvious that it was much easier to figure out what to make for Thanksgiving dinner than it was to plan for the future of the family and the business. Fred had to learn how to listen thoughtfully, and George's brother had to work on sharing his concerns without getting angry.

Embrace the Process and Results

When a business-owning family proactively anticipates challenges, there is a greater chance of creating and maintaining alignment between the family and the business. During the first two years of additional family meetings, the Walcott adults had some real wins. They also bumped up against roadblocks that helped them understand the importance of continuing to meet regularly.

Examples of their accomplishments and upcoming challenges are listed below:

Accomplishments

Practiced family actively listening, focusing on win-wins and building trusting relationships.

Adopted family decision-making process to be able to speak with one voice on policies toward the business.

Second generation family members developed assurance that their interests were being considered by the first generation, and gained confidence in management.

Defined the roles and responsibilities of shareholders, board and management.

Developed a board member job description and key attributes desired in independent directors.

Identified education topics around the business, family dynamics and financial essentials for both generations.

Challenges Ahead

Quieter members still holding back; difficulty balancing fast-paced styles with those who need to think longer.

A spouse chatting with her friend (who is the CFO) about confidential family meeting discussions.

Bob and George made a few unilateral decisions without connecting with the family; they needed to be reminded of the family process and role.

Need to develop buy-sell agreement so that shareholders have a way to exit, if desired.

Determine how a family member might qualify for a board position and the nomination process.

When and how to begin to educate the third generation about the business.

The Walcotts' family governance process evolved naturally. Fred's questions prompted Bob and George to consider being more transparent with everyone. The benefit of creating a shared understanding and appreciation for the business, learning about the family's heritage, understanding what it means to become effective owners, and looking toward developing the next generation was exciting for everyone. After two years, they were comfortable with committing the time and resources to support their investment in the business, and they truly appreciated the deep connections created within the family.

Building an effective family governance forum is an evolving process. By definition, family governance entails embracing a broad range of perspectives, multiple generations and people who have other things going on in their lives. It can be difficult to maintain the momentum. Family members who work in the business and are used to a more direct and efficient process can find family governance frustrating. The process of building a family business governance system requires patience and perseverance in the short-term. Most families find the long-term result of a stronger family and aligned systems, like the Walcotts are experiencing, produces a rewarding outcome for both the family and the business.

Barbara Dartt is a principal consultant for The Family Business Consulting Group helping families get aligned, anticipate and prevent future challenges, and communicate effectively to grow their businesses. Anne Hargrave is a contributor to the Family Business Advisor newsletter published by The Family Business Consulting Group.

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