Managing Your Hat Collection

Becoming a Successful Multi-Generational Family Business

NAMI Conference, April 2016

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Why Are Family Businesses Important?

- 90% of all businesses in the USA are family-owned businesses
- Family-owned businesses represent 60% of the nation's jobs and 65% of the GDP
- Mortality rate is extremely high
  - 40% pass to Gen 2, then falls to ~ 12% to Gen 3 and 4% beyond
- You're in a family-owned business

USC Family Business Program Mission

To

Create and Preserve Wealth

by

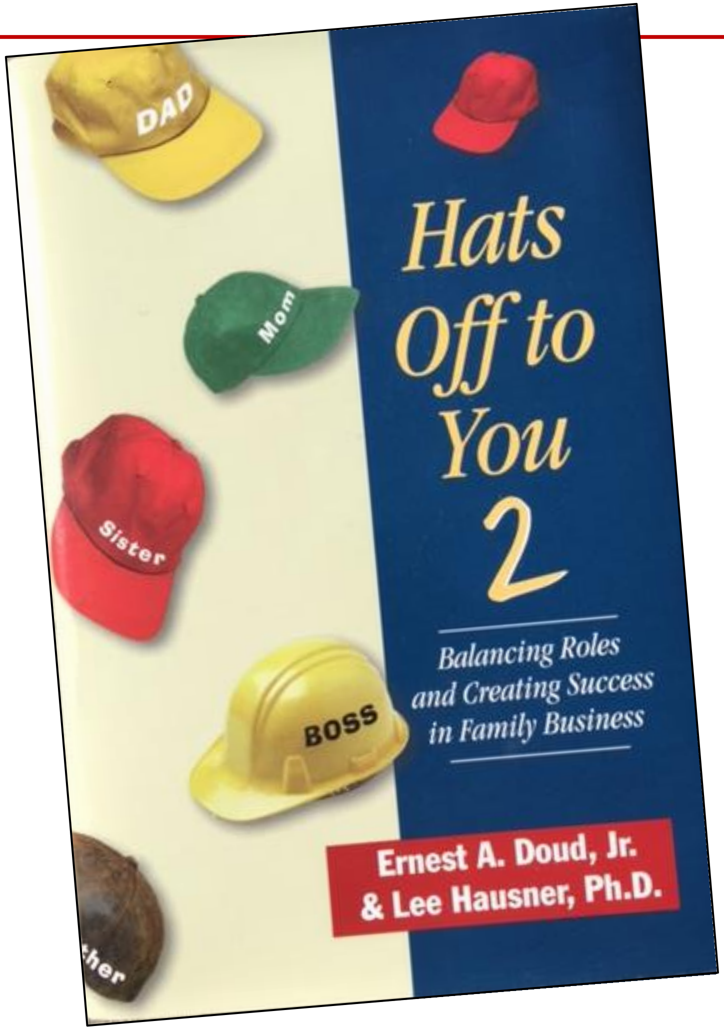
Increasing the Professionalism of the Business

and the

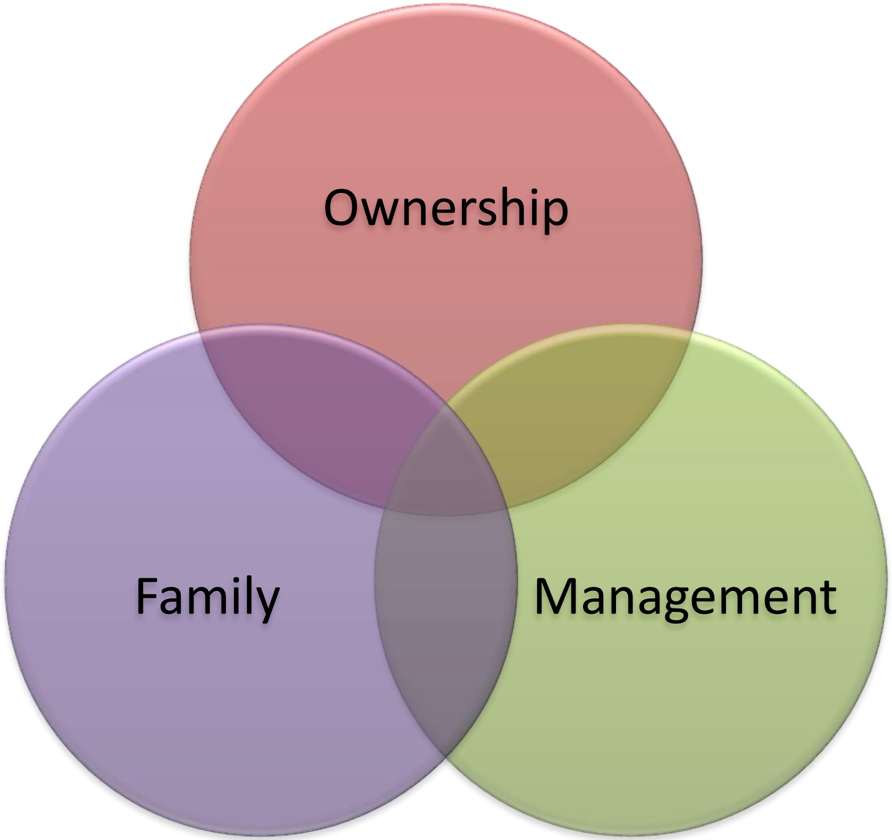
Effectiveness of the Family

Why "Hats"?

- Every Family Business has a Set of "Hats"
  - Each hat has a role, authority and responsibility
  - "No Hat = No Vote"



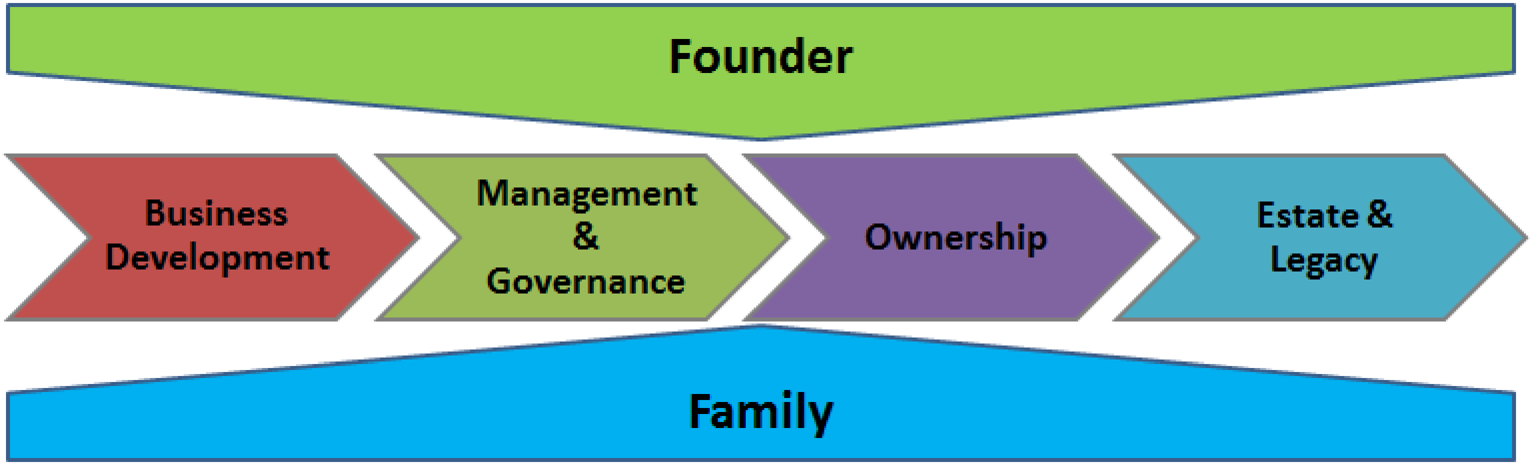
Systems Theory of Family Business



Source: Family Business 3E. Ernesto Poza 2010

Discussion Framework

Six Major Transitions that a Successful Multi-Generational Family Business must Navigate



Many Types of Family Businesses

- Operating Business
- Family Office
- Family Foundation
- Family Investment Pool
- Shared Vacation Property
- Any type of Shared Asset

Families in Businesses Want

- Business prosperity
- Family harmony
- Personal well-being

Instead, They Often Have

- Business prosperity
- Family harr
- Personal we being

- Under-performing businesses
- lysfunction
- l vendettas

Why?

Two Principal Reasons

- Conflicting Values
  - Family vs Business
- "Personal Well-Being" definitions can be different
  - Based on personality differences

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Conflicting Values: Families vs Businesses

Family

- Born into
- Relationships
- Unity and Support
- Security
- Equality
- Inward
- Status Quo

Business

- Hired into
- Results
- Competition
- Risk
- Equitability
- Outward
- Change

Differences in "Personal Well-Being"

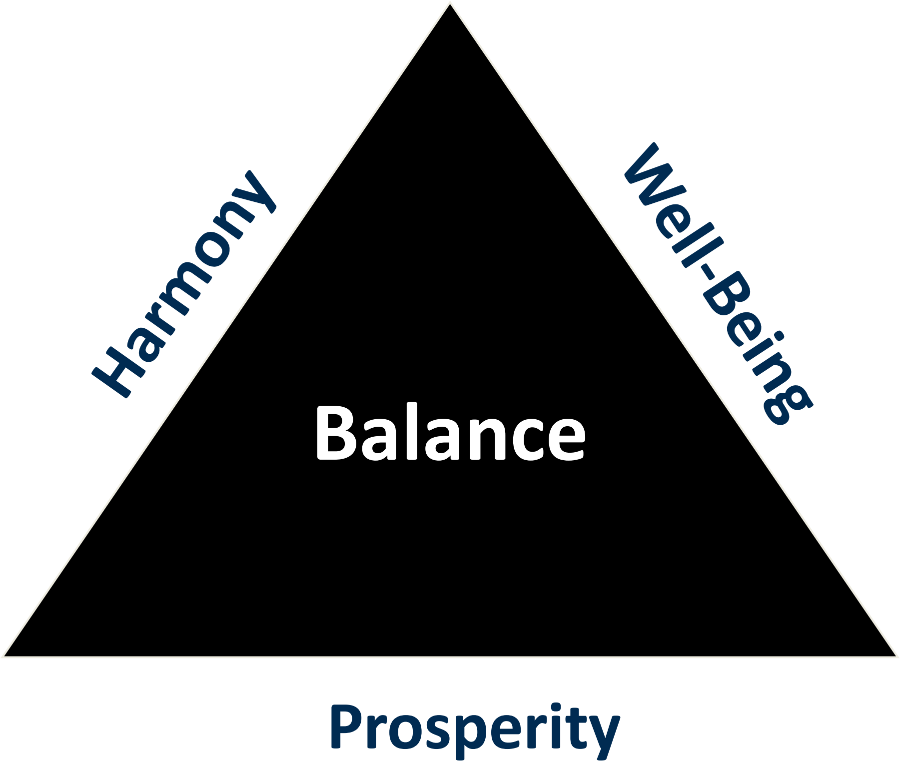
Personality "A"

- Risk accepting
- Growth investor
- Active manager
- Decision maker

Personality "B"

- Risk adverse
- Income investor
- Uninvolved
- Passive investor

Family Goals Can Only Be Achieved With



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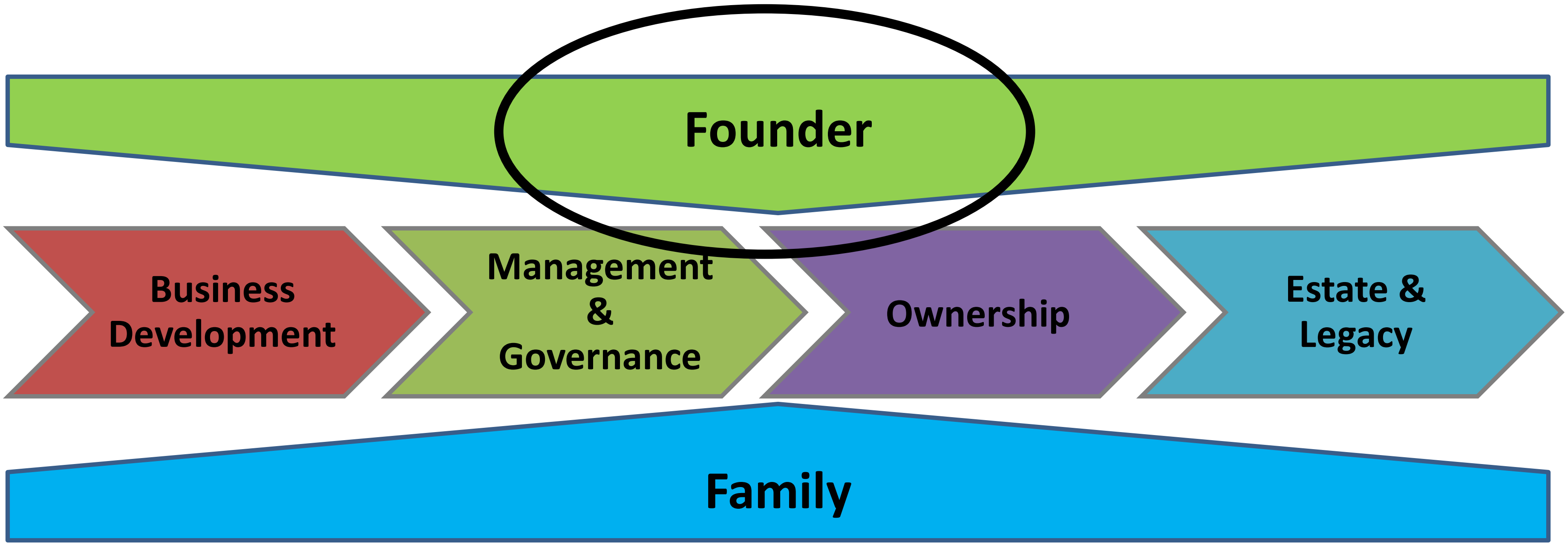
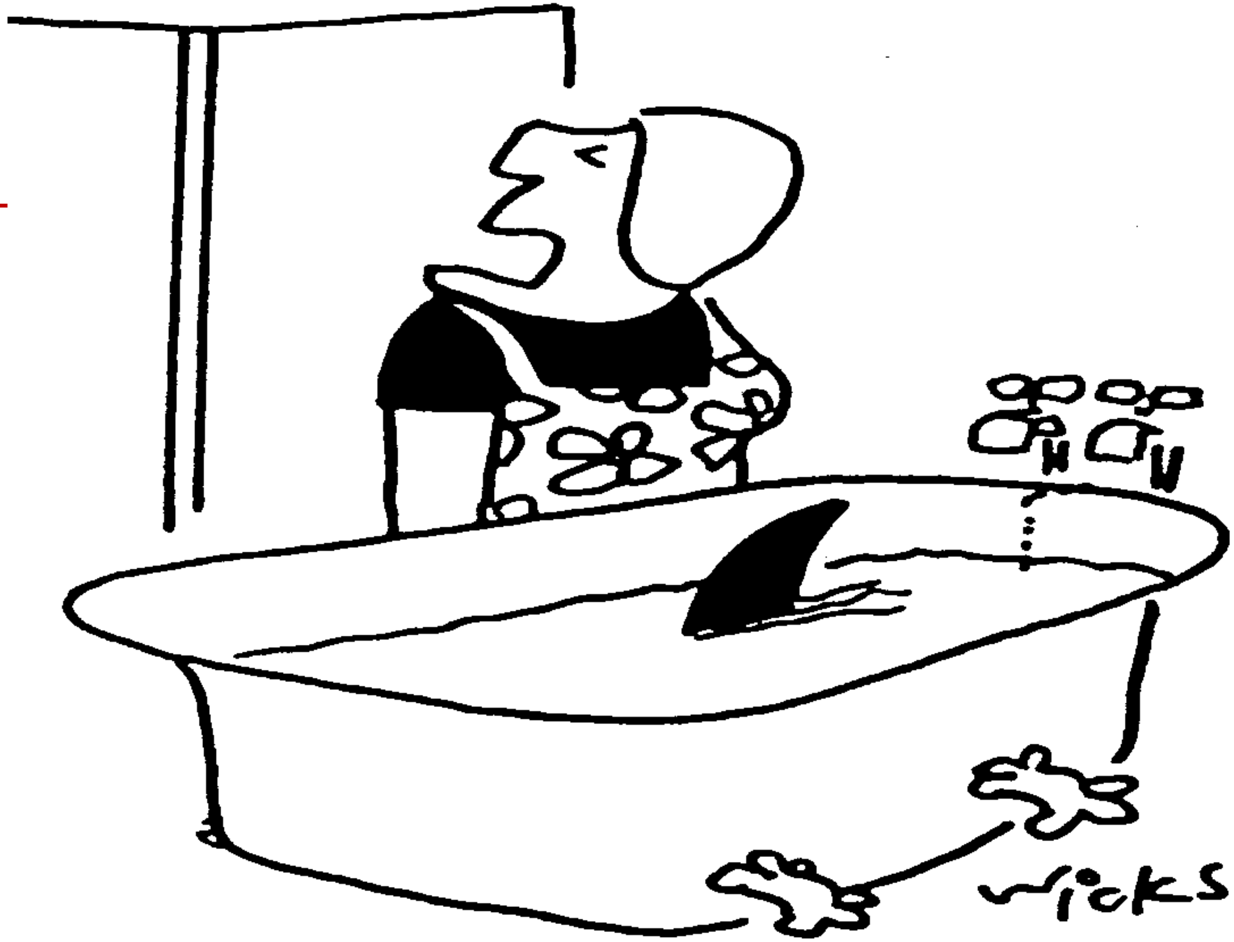
Six Critical Transitions

Creating Successful Multi-Generational Family Businesses





Harold, before you take your bath, are you sure that the children have accepted your decision not to retire?

Phases of Business Growth

Phase I:
Start-Up
- Avoid the Founder's Trap
- Prove the Business Model
- Hold on and Grow

Phase II:
Growth
- Re-align Team & Execute
- Manage Growth
- Reinvest in the Business

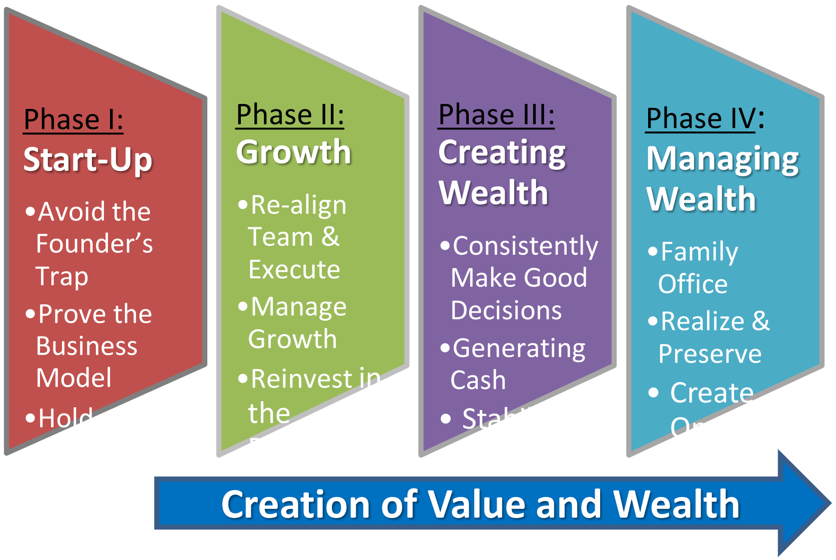
Phase III:
Creating Wealth
- Consistently Make Good Decisions
- Generating Cash
- Stability

Phase IV:
Managing Wealth
- Family Office
- Realize & Preserve
- Create Opportunities for the 'Next Gen's'

Creation of Value and Wealth

The Founder's Role Must Evolve

- Start Up
  - The Founder is the "Doer" and "Initiator"
- Growth
  - Founder transitions to a "Builder" and "Student"
- Creating Wealth
  - Founder becomes the "Manager" and "Teacher"
- Managing Wealth
  - Founder as "Mentor" and "Door Opener"



Keys to the Founder's Transition

- Realization that there is Life After Business
  - Preparing to transition to the next leader
  - Preparing to retire
- Effective Transfer of Power
  - What role will the Founder play?
- Financial Independence
  - Making sure that the Founder has enough $$$

Guidelines for the Transfer of Power

- Gradually extend limits of authority to the 'Next Gen'
  - Don't just throw the keys on the desk and leave
- Expect the 'Next Gen' to make mistakes
  - Communicate, plan, monitor and mentor
- Don't expect a clone of yourself
  - Different management and leadership styles are different

The Founder's Financial Independence

- Avoid the "one stock portfolio" trap
  - Move wealth out of the business into other investment vehicles
- If the Founder's retirement income security depends on the business…
  - You may never let go!

Top 10 Reasons Founders Won't Let Go

1. The kids may run it better than I did…..
2. Nobody can run it as well as I can
3. I have to protect my source of income
4. I can't choose between my kids
5. The kids want to change "my" business
6. I need someplace to go every day
7. I hate gardening and 'stink' at golf
8. Without the business I am a nothing
9. Without me the business is nothing
10. I am too young to retire

Well my boy, can you tell me how much business fell off during my 4 months in Florida?

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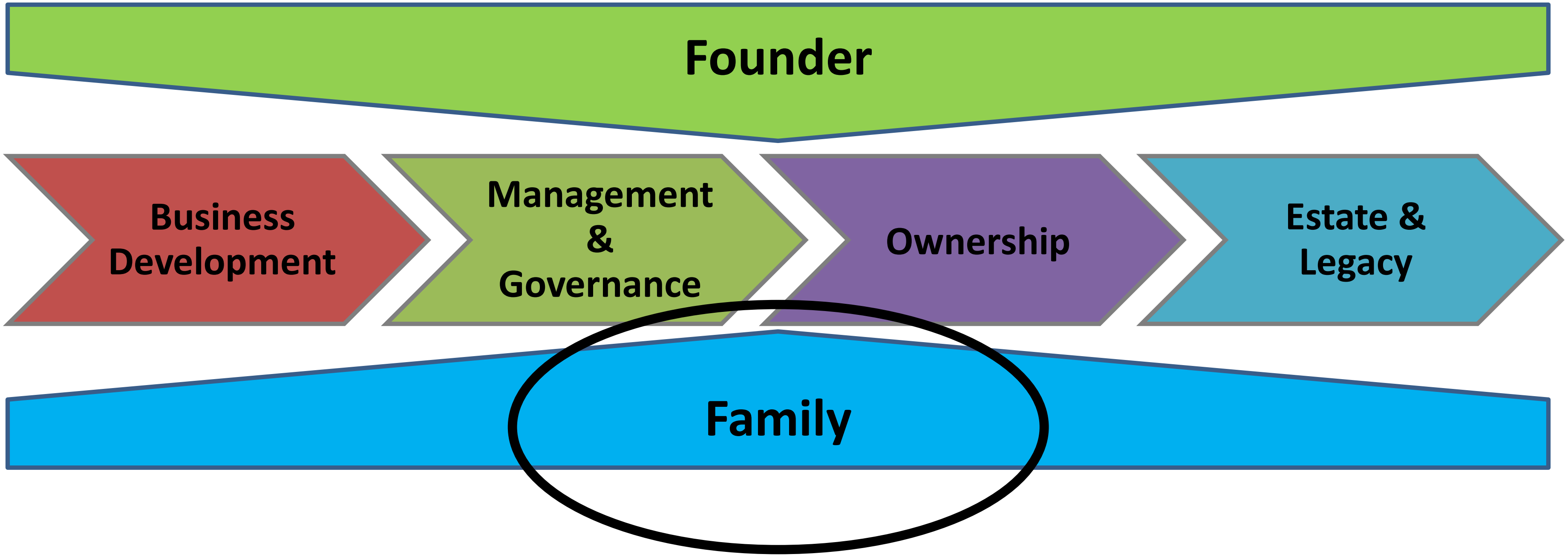

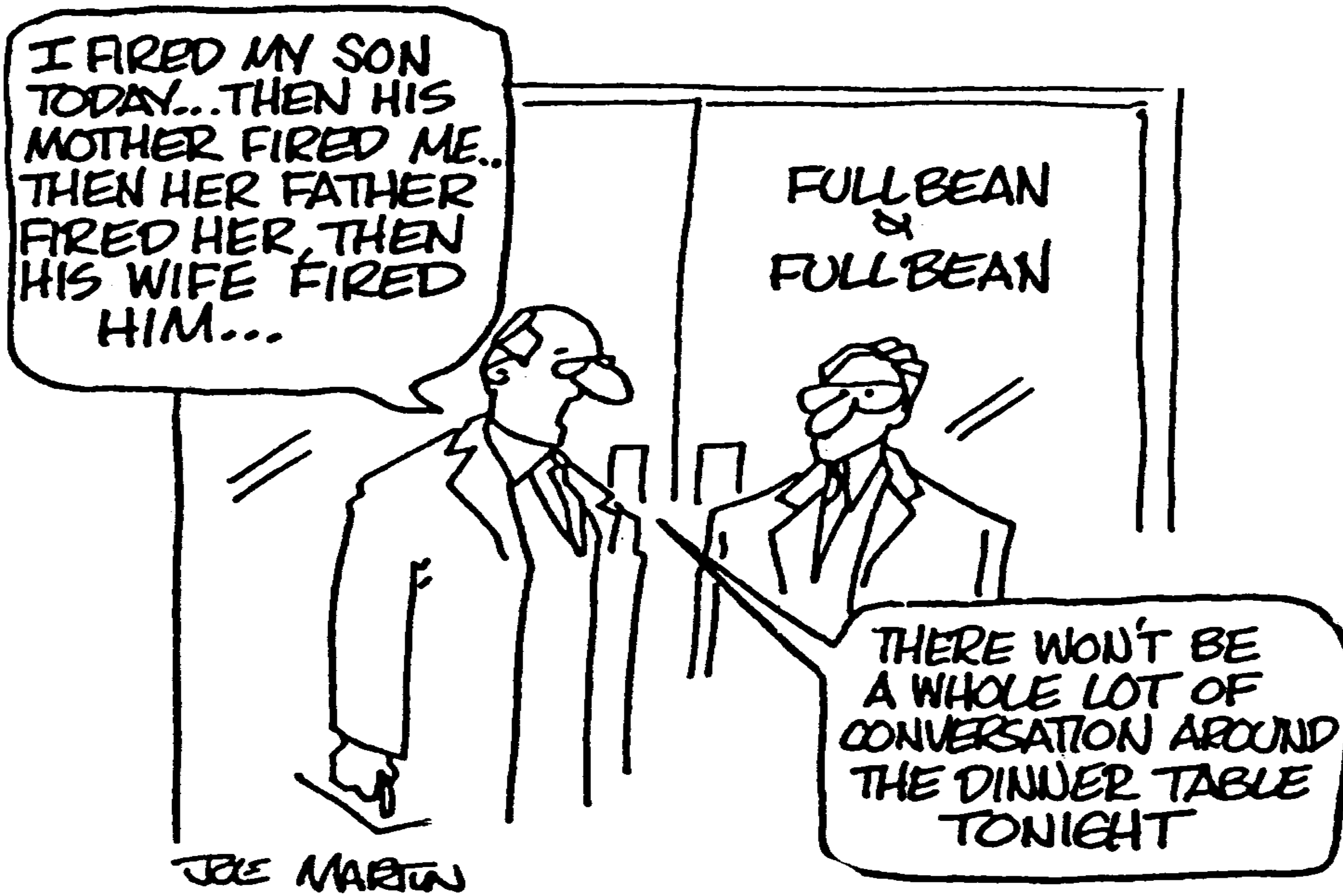
I FIRED MY SON TODAY...THEN HIS MOTHER FIRED ME.. THEN HER FATHER FIRED HER, THEN HIS WIFE FIRED HIM...
FULLBEAN & FULLBEAN
THERE WON'T BE A WHOLE LOT OF CONVERSATION AROUND THE DINNER TABLE TONIGHT
JOE MARTIN

Family's Role

- Goal:
  - To make your family's movements in search of balance purposeful rather than random!
- Value the Differences in Your Family
- Beware of Family Myths
  - Avoid letting them "splash" into the business
  - Especially as the in-laws show up

What Changes Family Dynamics

- Age
- Evolution of the Business
  - And its success … or challenges
- In-laws
- Kids and Grandkids
- Substance Abuse
- Death & Divorce
- $$$$$

Keys to the Family's Transition

- Managing your Hat Collection
- Effective Communication
- Governance
- Competency

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The Family Business Hat Collection

Business Hats

- Founder
- Owner
- CEO
- Manager
- Non-management employee
- Director

Family Hats

- Dad
- Mom
- Spouse
- Son or Daughter
- Sibling
- In-Law
- Aunt or Uncle
- Cousin

Each Situation Has a Hat

Each Hat Has a Role

- Rights
  - That come with each hat
- Responsibility
  - Associated with wearing the hat
- Accountability
  - That comes with the hat
- *No Hat = No Vote!*

Effective Communication

- Build a Collaborative model
  - When the business, and the kids, are young communication can be more authoritative
- Be aware of roadblocks to successful communication
  - Filters, Headset and Emotions
- Hearing and Agreeing are <u>not</u> the same
- Practice and build your skills!

Family Governance

- Who will make which decisions?
- How will decisions be made?
- How will decisions be communicated?
- What are the requirements of the decision makers?
- Who are the decision makers accountable to?

Competency

- Clearly defined responsibilities
- Coaching and mentoring system
  - Develop tomorrow's leaders today
- Specialized education and training
  - Especially as it relates to entering the family business or teaching non-executives about the business
- What are the rules before entering the business?

Key Tools for the Family

- Strategic Family Plan
  - Like a business plan, but for the family
- Family Constitution
  - To define the guiding principles under which the family will operate and to set goals
- Family Policy Manual
  - To define the rules for those planning on entering the family business
- Family Communications Plan
  - Through family meetings

Key Tools

The Foundation for the Family

- Vision:
  - The family's collective view of "success" through the generations
- Values:
  - The qualitative, ethical and moral guidelines of the family
- Mission:
  - What the extended family group intends to do in order to realize their vision

Six Critical Transitions

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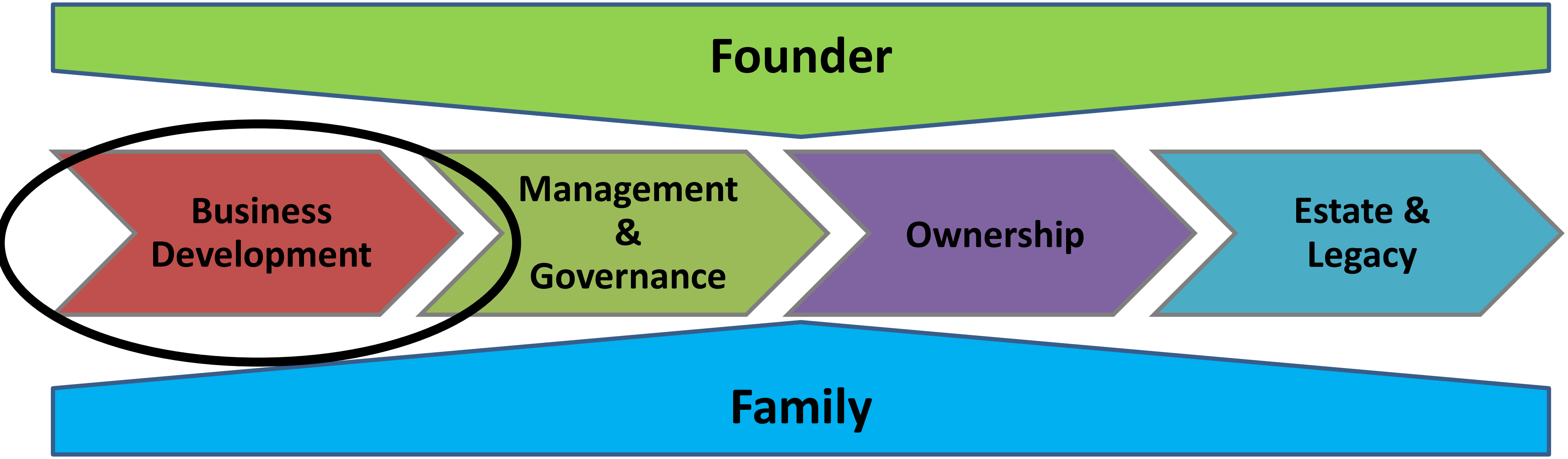
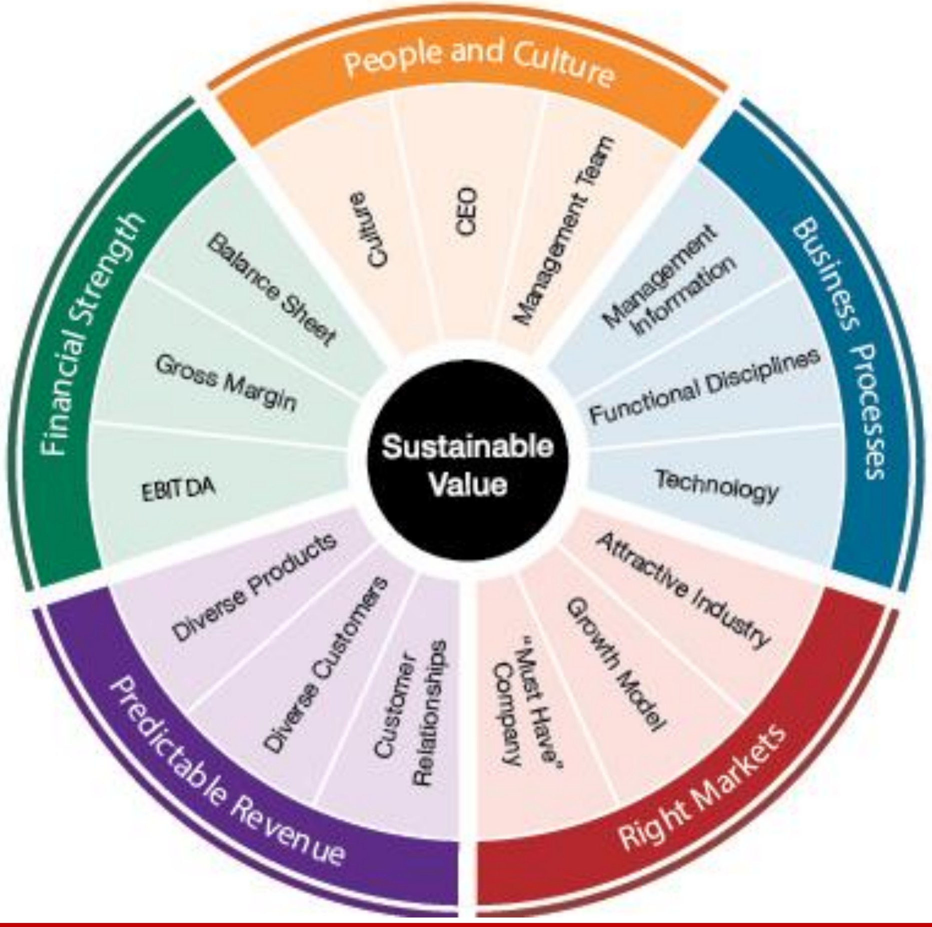


Value Creation Factors



If You're Going to "Hold"

The Value Building Team

Disciplines that Drive Value

- Strategic Plan
- Operating Plan
- Compensation Plan
- KPI's and a Dashboard
- CEO
- Mgmt Development
- Financial Information
- Management Info
- Transparency
- Alignment
- Communications
- Ethics
- Engagement
- Accountability
- Risk Levels
- Decision Making
- Board Effectiveness
- Owner Contentment

Strategic Positioning

"If you don't know where you are going, you might end up someplace else."

Yogi Berra

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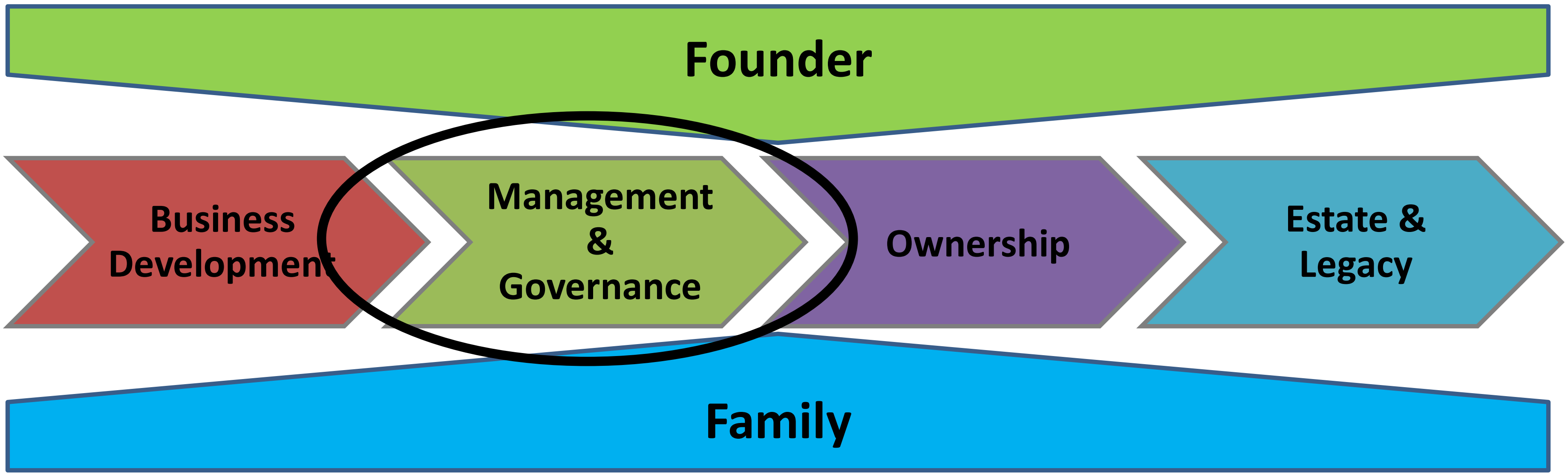

Well son, how was your first day working with your cousins, now that Uncle Harry and I are retired?

Management Transition

- Consider Your Options
  - The "ideal" candidate may, or may not, be in the Family
- The New Management Model
  - The management model will change … and it will be planned or not.
  - Decision making will be different
- Leadership and Team Building
  - The leadership model will change

Role Of Advisors

- For the Business <u>and</u> for the Family
- For Advisors to be valuable
  - Make them a member of the “Brain Trust”
  - Make sure they possess the Technical Expertise
  - Are outsiders, and not a member of the club
  - Are great communicators …no Techno Babble
  - Know how to Facilitate
  - Can be a great mentor

Transparency

"In the absence of true information ….

they will make it up!"

RJ Mayer, Gen 2

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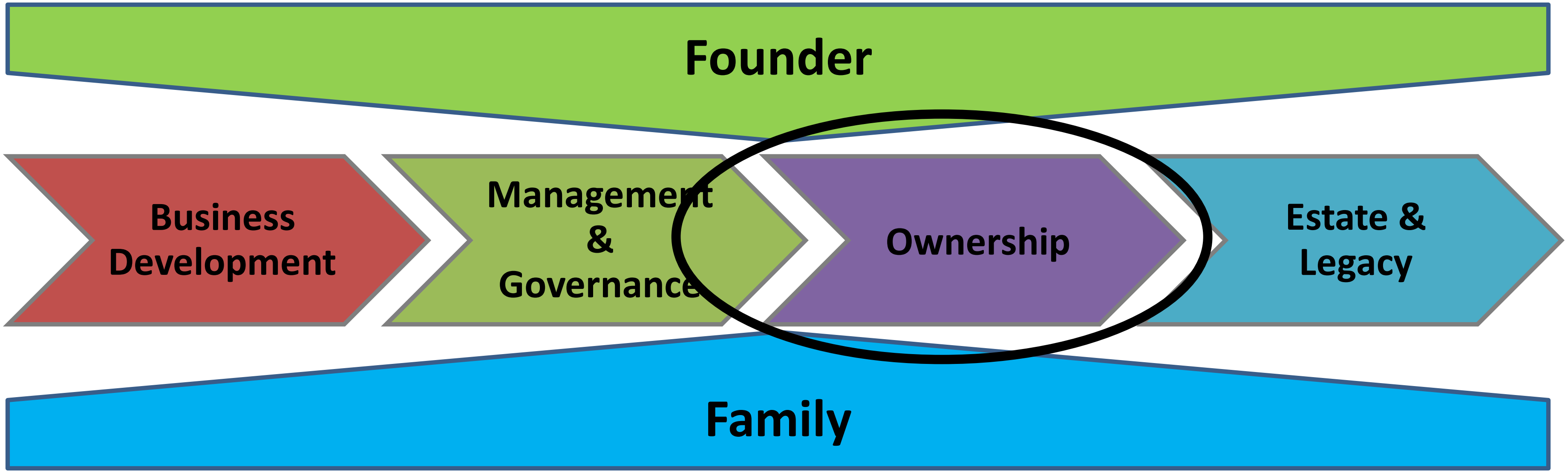

Someday son, this will all be yours … assuming that I can get my father to give it to me.

Ownership Issues

- "Hold" or "Sell"
  - Consider all options
- Who will Control the Business?
  - Challenge the assumptions
- "Fair" May Not be "Equal"
  - and "equal" may not "fair"
- Put It in Writing
  - Competent Owners + Informed Owners = Responsible Owners

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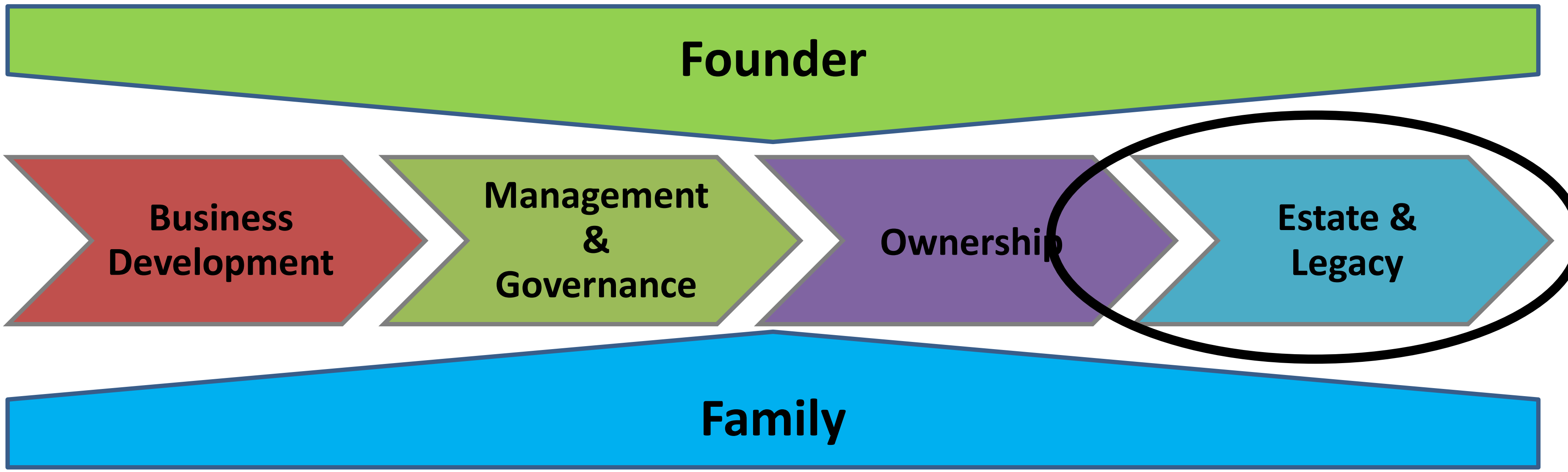

Quite frankly Mr. Smith, nobody's even listed "Dad's vague, evasive, unfulfilled promises" as a personal asset before …

Importance of Estate Planning

"You can work hard all year for an improvement of a few points of margin, but you can save millions through sophisticated estate planning."

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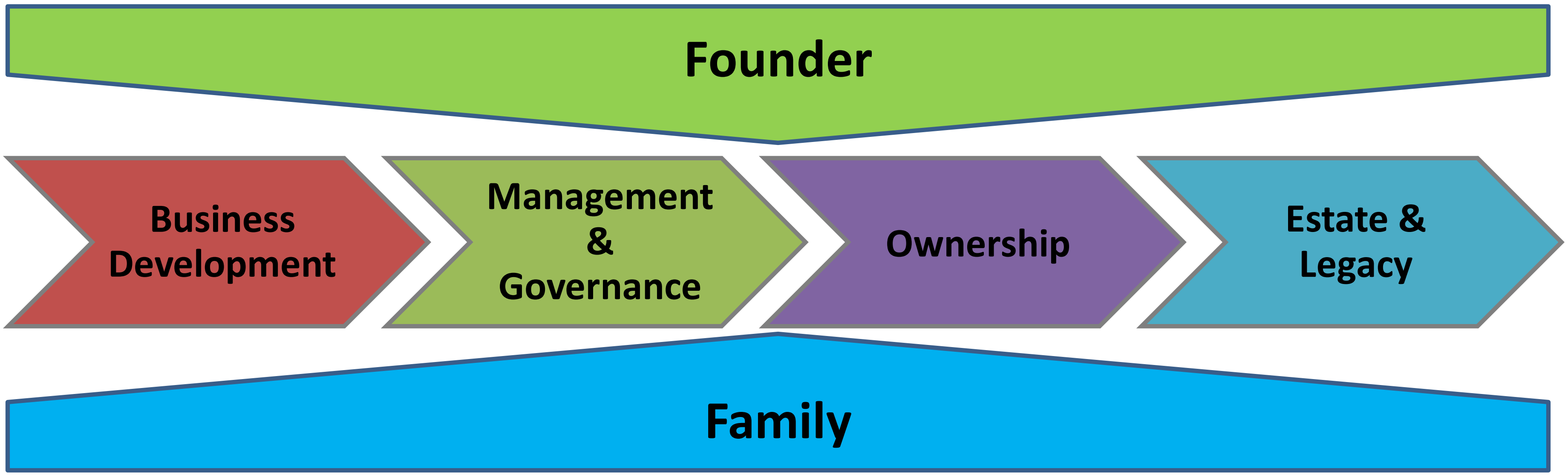

The Foundation for a Strong Family

- Vision:
  - The family's collective view of "success" through the generations
- Values:
  - The qualitative, ethical and moral guidelines of the family
- Mission:
  - What the extended family group intends to do in order to realize their vision

25 Best Practices of Mulit-Gen Families

- Family Cohesiveness
  - History & Culture, Mission, Values, Teamwork, Commun, Well-Being
- Strategic Planning
  - Understanding, Objectives, Planning
- Mentoring
  - $ Ed, Parenting, Entrep, Support, $$ Smarts
- Governance
  - Family, Mtgs, Policies, Conflict Res, Succession
- Philanthropy
  - Support for, Shared, Strategic
- Trusts & Estates
  - Comm Intentions, Mentoring, Selection, Training, Relationships

12 Rules for Success

1. Create a Vision …. Share the vision
2. Change …. Willingly
3. Know when and how to let go
4. Promote good family relationships
5. Keep your values in balance
6. Build the family business team

12 Rules for Success

7. Take care of your Culture!
8. Optimize your resources
9. Build long-term sustainable value in your business
10. Provide for tomorrow's leadership, today!
11. Plan to transfer ownership
12. Keep some financial eggs in other baskets

Tools and Resources

Email Ken.Ude@marshall.usc.edu

- Copy of this presentation
- Links to several Profile Tools
  - Family Assessment
  - Personal Well Being Profile
  - Six Transition Profile
  - Sustainable Valve Wheel
- Copy of ‘Hats Off To You ~ 2’
- Copy of ‘25 Best Practices of Multi-Gen Families’
- For additional information on the

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