ADVERTISING SUPPLEMENT TO THE MINNEAPOLIS/ST. PAUL BUSINESS JOURNAL

TABLE of EXPERTS

FAMILY-OWNED BUSINESS

Moderator

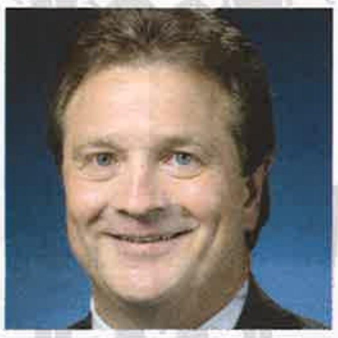
Tom Hubler
Hubler for Business Families

Tom Hubler is owner of Hubler for Business Families, a Minneapolis-based company that addresses family-owned business needs in the United States. He has helped colleges establish family-business institutes and works directly as a family-business consultant for hundreds of clients. He helps families develop a shared vision for the family and business, identifies individual talents, tackles any unspoken issues, and creates individual and organizational strategies to ensure a personally and financially rewarding business. He also assists families with wealth preparation plans.

Panelists

Frank Harvey
Larkin Hoffman

Frank Harvey is a senior lawyer in Larkin Hoffman's corporate practice group. Over the years he has represented entrepreneurs and business owners in diverse industry groups, including medical devices, plastics, packaging, biotech, banking, leasing, financial services, manufacturing and real estate development. He acts as outside general counsel for businesses ranging from startups to those with hundreds of millions of dollars in revenue. His expertise includes financing, raising capital, employment, distribution and supply, and corporate governance.



Jerry Bremer
CBIZ MHM

Jerry Bremer is a managing director at CBIZ MHM. He has over 40 years of business, financial and tax consulting. He is an expert in forensic accounting, business valuation and economic damages in financial litigation. Additionally, he is highly versed in mergers and acquisitions transaction consulting, structure and due diligence. Bremer has worked with a variety of family-owned businesses — small to large — helping them succeed and grow to their full capacity.

Andrew Steiner
AmeriPride Services Inc.

Andrew Steiner is a fourth-generation family owner of AmeriPride Services, one of the largest textile rental and supply companies in North America. Steiner is responsible for all marketing and customer operations functions for the company. Prior to joining AmeriPride in 2001, he was the founder and owner of Blue Link Innovations Inc. He has an MBA from the University of Chicago-Booth School of Management and a BSE degree from Princeton University. He also serves on the boards of Quetico Superior Foundation and Minnesota Center for Environmental Advocacy.

Thomas Losey
Boulay

Tom Losey is a partner at the Boulay accounting firm. A former CEO of a national energy consulting firm and partner at a national accounting firm, he has 30 years of audit, tax and business advisory experience. Tom leads client engagements for privately-held, family-owned and owner-managed companies in the professional services, retail, manufacturing/distribution and construction industries. With his financial and operational expertise, he helps clients face challenges and grow the value of their businesses.

From left: Andrew Steiner, Thomas Losey, Jerry Bremer, Tom Hubler and Frank Harvey

NANCY KUEHN

BY ELIZABETH MILLARD
Contributing writer

The *Minneapolis/St. Paul Business Journal* held a panel discussion recently, featuring five expert panelists to explore topics about the issues and opportunities within family-owned businesses.

Panelists included Frank Harvey, shareholder at Larkin Hoffman; Jerry Bremer, managing director at CBIZ MHM; Andrew Steiner, owner and vice president of marketing and customer operations at AmeriPride Services Inc.; and Thomas Losey, partner at Boulay. Tom Hubler of Hubler for Business Families, served as moderator.

Hubler: To start, I want to hear about the key challenges involved with being in a family business. What have you noticed?

Harvey: The main challenge is succession planning. In my experience, a company is founded by a matriarch or a patriarch, and when they ease out or pass, there's an issue of who's going to take over, what's the corporate governance and how is that going to fit in with the family and the wealth that's created by the family. The other key issue is, once the succession plan is underway, the implementation of corporate governance. My experience is family businesses are often benevolent dictatorships rather than democracies, and that next move to an entity with corporate governance is sometimes a challenge for the family.

Bremer: Regarding governance, the patriarch or matriarch was likely the sole governance. With second-generation family members involved, governance becomes more consultative to align their interests with business interests. Third and subsequent generations trend toward committee approaches with voting on strategic direction of the business. There tends to be more committees as the number of family governance members increase.

Steiner: We have a fourth- and fifth-generation business, and one of the key challenges is around coordination and alignment of shareholder expectations. We've spent a lot of time discussing expectations within our family, so that the managers of the business can be aligned with those expectations. It's a long-term approach that people need to think about. If you don't have that approach, then you get into short-term decision making.

Hubler: So, Andrew, what has your family business learned over the past 125 years? Maybe some key lessons that others could use to be successful?

Steiner: A couple of lessons as we've looked back, maybe in the past 25 years, is to have patience and persistence. Back in the early 1990s, the third-generation leaders started a process of bringing family shareholders together on an annual retreat, and we have continued that tradition every year. That's been helpful to understand patterns of communication, and to keep people close and aligned. We spend three days somewhere different every year, and it's about making sure that relationships are strong. In terms of patience, we think transitions shouldn't happen quickly. Whether that's a transition in management or of ownership, we're in it for the long haul.

Hubler: One of the things you mentioned was keeping relationships strong, and I'm curious to hear from other panel members about experiences with that, especially in regard to succession planning.

Losey: Relationships are so key to any business, and the challenges of people working with their siblings or cousins add yet another dynamic. I think one of the most significant challenges in any business is getting the strategic plan aligned across all stakeholders' objectives. So often in a family business there can be one group or person that would like the business to stay largely the way it is. They're most comfortable with that course of action. Yet there's almost always someone else or another group that's interested in what this business could become. They want some significant growth or aggressive change. Those two paths are so different that I think they become the root of conflict.

Hubler: How do you align the interests of the business with the interests of the family?

Bremer: First, it's generational. Usually, the person who started the business is pretty well aligned because they think of themselves as the business. It's the next generation where sibling rivalry comes in, and other issues about strategic planning come up. If they were rivals growing up, they become even bigger rivals when they get into the business world. There has to be a decision tree where the matriarch or patriarch will be trying to align the desires, and find out if second generation wants to be in the business. But in general, there's no magic answer about how you do alignment.

Harvey: I would much prefer to be in a dispute with my worst enemy than with a family member. I've seen some of the bloodiest, ugliest battles. These family wars can be epic. And what causes them? I'll tell you: It's who got the better Christmas gift in 1958. All of the family stuff comes out in disputes. And that extends to who's working in the business and who's not. Once you have a business the size of Cargill that's professionally managed then you're out of the woods, but not before that. Just because you have the last name of the founder doesn't mean there's a spot for you in the business. And that can start disputes.

Bremer: I agree that we're dealing with deep-rooted history, but there's also the current situation of direction and compensation. For example, what if one sibling is the president and the other is operations? Should there be difference in compensation? Obviously, that ends up being a rivalry. Each family will have a set of issues that cause a controversy.

Losey: I think another source of conflict is that siblings know each other so well, and can have less patience for their differences. One sibling may like to spend money and show their financial status, and another is more frugal and understated. These lifestyle differences can be an irritant, that might extend to differences in management style, as well.

Hubler: From my perspective, one of the biggest obstacles for succession planning is lack of an expression of appreciation, recognition and love. It seems that people love each other, but they take each other for granted. How does that affect business?

Bremer: There is the emotional effect that cooperation or validation has, and if the ruling generation makes a statement that only mentions one person in the next generation, then there's the perception of favoritism. The parents need to recognize the different qualities of their children. Some are meant to lead, some are meant not to even be in the business. That recognition of not trying to force a square peg into a round hole is important. There's a lot of hurt feelings and animosity created among the siblings because of those issues.

Harvey: Kind of a corollary to that, one of the key problems of a family-held business is if you allow the children to come late to work, take time off, and generally not meet the standards to which you hold other employees. Where non-family members feel like they can't advance. Sometimes, it goes the other way, where the parent is extra tough on the child because they want to show they're not playing favorites, but then that son or daughter doesn't feel appreciated. I've seen that a number of times, where the children just can't relate to the patriarch or matriarch because they feel they can never satisfy them.

Hubler: Andrew, as a representative of the younger generation here at the table, I'm curious about your perspective.

Steiner: A couple thoughts. Back to appreciation, if you think about family members in a business, most folks have joined the business at a pretty young age, and if they're working toward succession, appreciation would definitely come with that. How could you work your whole career and not want that feedback? You're probably doing this for the betterment of your family, so it makes a lot of sense. With regard to points about favoritism or pushing the children extra hard, I think the latter comes with the territory. If you're joining the business as a family member and you don't have the expectation that you're going to have to work 120 percent harder than everybody else, you're mistaken. You should come in with that expectation. Because there will always be other members of management who wonder if this kid is getting promoted because he's a family member.

Hubler: How have you dealt with that?

Steiner: One of the things that occurred to me is that if you can get to the point where you have a board that's independent and you get away from it being a father or mother promoting a child, the favoritism issue becomes easier. When it's a family member making a decision about other family members, that's difficult.

We're lucky to be mature enough in our governance that we have an independent perspective assisting with these decisions.

Hubler: Let's talk about training and leadership development. I'm curious about what you've observed with your clients about training family members. What's the best system to do that? How do you prepare the next generation?

Bremer: I've seen in at least two instances that it started before they got to be an adult. When the kids were in their last years of high school, they would be sent to educational programs where they were instructed on these issues. They were given ideas to help manage those. That worked pretty well in knowing how to succeed their parents in the business, but it didn't eliminate the sibling rivalry.

Harvey: What I've seen is successful family businesses would never put a family member in a situation where they're unqualified. If you're going to be in management, you need to know about it. Typical business training is important. My clients have actually shown diverse ways of getting there. The children might start in the business at 12 years old, sweeping the floor, then at 16 they're doing something else, and they've lived the business. Then I've seen where they send the kids out to work for other companies, where they can learn discipline, and in my experience that's been very successful. They spend five to seven years with a corporation, learning management and governance and bring that to the family business.

Steiner: I think that's a great model. If a young person can see success in another organization and have some wins, I think it verifies for the rest of the family that this person is a good candidate to bring into the organization, rather than straight out of school.

Losey: I agree that giving a family member exposure to other businesses is extremely helpful. I think experience outside of the family business allows them to think about whether they want to be in the family business. Maybe they get exposure to other companies, and then feel like they have a choice about whether to be part of the family business. Feeling like they have a choice can be powerful, as opposed to having it be assumed.

Bremer: I think there's a benefit, too, because they bring fresh ideas that if they were to incubate in the family business, they might not have.

Hubler: That brings up an interesting point, about incubating new ideas into the family business. I've seen many situations where the younger generation comes back with all these ideas and they're ready to use them. But that brings up the whole issue of risk. What are your observations about how you manage that threshold?

Losey: I think there's a generational risk element here, in that the very patriarch who had to take a lot of risk to get the business started sees his appetite for risk diminish as he's becomes more comfortable. They can be concerned when younger generations want to leverage the business, and they do a couple acquisitions to get this thing growing. Certainly, there are also differences between siblings or cousins because they may have different ideas. To deal with this, I've seen family-business consultants be very helpful. It may just come down to talking to the patriarch and asking him to remember the need for taking risks. Maybe there needs to be a compromise. Outside consultants can be effective, in getting issues on the table so family members can talk about them.

Harvey: I have seen an 80-year-old business destroyed by a family member who took over and killed it in less than a year. He bought a bunch of equipment, because they were going to meet the future, but the business wasn't there and the company went under. A more common scenario is to get stuck in a rut. Dad's been dead for 30 years, but people are still running the business the way dad did.

Hubler: That brings up a good point. How do those in the younger generation emancipate themselves from the myths and stories about their parents, and develop themselves in their own right? How do they stay out of the rut and develop their own sense of leadership?

Bremer: I think a successful transition from one generation to the next has to be mutual. The senior generation has to understand it might not be how they did it. I think it has to be a collaboration. That is the most successful.

Harvey: Another way to get out of the rut is to have an independent board of directors that is knowledgeable about the business. Seek outside advice. It's sometimes tough to get interested people to serve on the board of a family business, though.

Steiner: Back to the risk discussion for a moment, I think one place a business can start is rather than getting to the point where we're arguing about a specific proposal or a specific deal, is to talk about how much risk are we willing to take on in general. Then, we can have a framework to use that's helpful for when we're evaluating an acquisition or a major initiative, rather than focusing on the individual deal or proposal.

Bremer: That is really important, the preparation, presentation and background information about a strategic decision. That framework of quantifying the risk is also quite important. Also, if we reach our risk tolerance, what would be the exit strategy? Not all deals go well, so having the framework and an exit strategy is the way to go.

Hubler: Let's talk about the complications of a founder or owner letting go of the business. I've had founders say to me that they know they should do it, but it's the hardest thing for them. What advice would you give for that transition?

Harvey: I see it and deal with it every day. It's a key issue. This is their baby. They gave birth to this, and also, they love what they're doing. They love going to the office or factory, it's what they've always done and they can't imagine life without it. But it's like when my mother got into her late 80s and still wanted to drive. I had to say, "Mom, you're going to run into a family and hurt someone. You have to think about others." And she stopped driving. So, I think you have to convince the entrepreneur that if he or she isn't prepared to keep the company going, they should sell.

Bremer: Unfortunately, if that planning wasn't done prospectively, they may have lost value in the business or not gained the full value of the business, because of the risk of management not being deep enough or structurally sound. By not making a decision either to pass it on to family members with a plan or by selling it, you may not have been maximizing the value of your business.

Losey: I find that the family can sit in a room and decide it's time for the son or daughter to become the president of the organization, and everybody can make a logical decision about that. But if the founder or owner is in the office, and starts taking the reins again by answering questions for management, instead of deflecting them to the new president, this can be damaging to the whole process.

Steiner: One of the things that could help is role definition. The departing founder or owner should think about, "If I'm not leading the company, what is my role as a shareholder versus that of a day-to-day manager." It's important to really delineate those responsibilities up front. My experience is that when a role is written down on paper, it serves as a strong guideline.

Hubler: What would you recommend or suggest for family businesses?

Bremer: I think education and communication are the two key issues in having a successful transition from one generation to the next in a family business.

Losey: Another idea I might suggest, is we have been talking about the family business like it's one business. But I've seen families that have dealt with appetite for risk and growth by having multiple ventures, and it has worked well. Someone wants to move the business in a new or different direction, so they create a new entity to do that, as opposed to all initiatives having to be done inside the original entity.

Harvey: What I've taken from this discussion is the importance of planning and education, and I want to add the emotional quotient. Expressing appreciation, acknowledging the emotional baggage, that's what I've learned.

Steiner: I attended a seminar recently where one thing I took away was "plan for the inevitable." People are going to die, they're going to retire, and unfortunately there may be a divorce. You have to plan for it, so get started early and plan as much as you can.