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FAMILY BUSINESS newsletter

Epic Landscape Construction: *The next generation is prepared*

Gary Paris' succession strategy for his highly successful, family-owned landscape care and construction business doesn't include a formal plan, solemn meetings around a conference table or whispers of "I hope this works."

When the time comes for passing the baton — decades from now — Gary, owner and CEO of Epic Landscape Construction in Phoenix, will know without a doubt that his two daughters and son-in-law are completely ready to assume a leadership role, because they already are working in the business.

"The kids came to the company after college and were willing to learn every aspect of the business," Gary said, referring to daughter Stacy Davies, the director of operations; daughter Misti Tesar, the account manager; and Stacy's husband Rob Davies, a project manager, all of whom have worked there for several years now. He said this second generation has been instrumental in helping the business grow and expand education and training for the company's 100-plus employees. More than half of Epic's employees have been with the company for more than 20 years.

"I love what I do so much that I don't have an exit plan," Gary said. "But if I were to decide to go play golf full-time right now, I could walk away without any reservations, because the kids understand everything about this business."

Success right from the start

Gary and his wife Jan launched their landscaping business in 1983 with the idea to deliver superior service to residential clients. They soon reached out to apartment complexes and that remains their focus today. The company has diversified itself to provide large multifamily properties with landscape maintenance services, landscape installations, street sweeping, tree trimming and power washing.

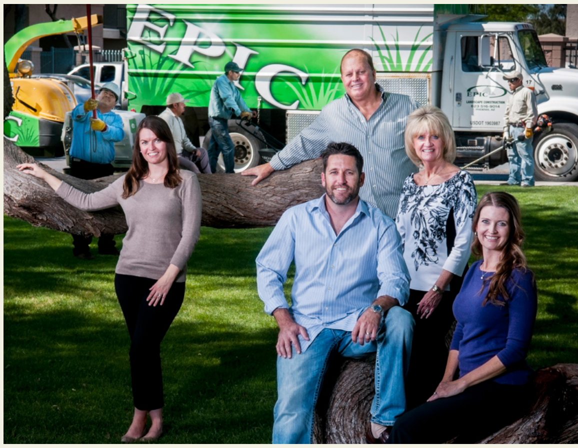
"In 30 years, we've never had to advertise," Gary said. "We've grown through referrals and repeat business, and through Stacy, Rob and Misti's knowledge and understanding of how technology can help us expand and operate more efficiently."

The future looks bright

When the time comes for a transition, "we will stick to the basics of the business and continue to diversify at the same time," said Stacy, who has worked at Epic for 15 years.

"We've built the company so we have the proper management where needed, with the right foremen and supervisors in place," Gary said. "And the kids spend more time with our clients than I do. They are becoming the face of the company and that's the way I want it."

"We try to do everything right," Gary and Stacy said, almost in



Gary and Jan Paris with their daughters, Misti Tesar, Stacy Davies and and son-in-law Rob Davies

unison. "Banking smart, using smart accountants and never saying no to a client are vitally important to our success," Gary said.

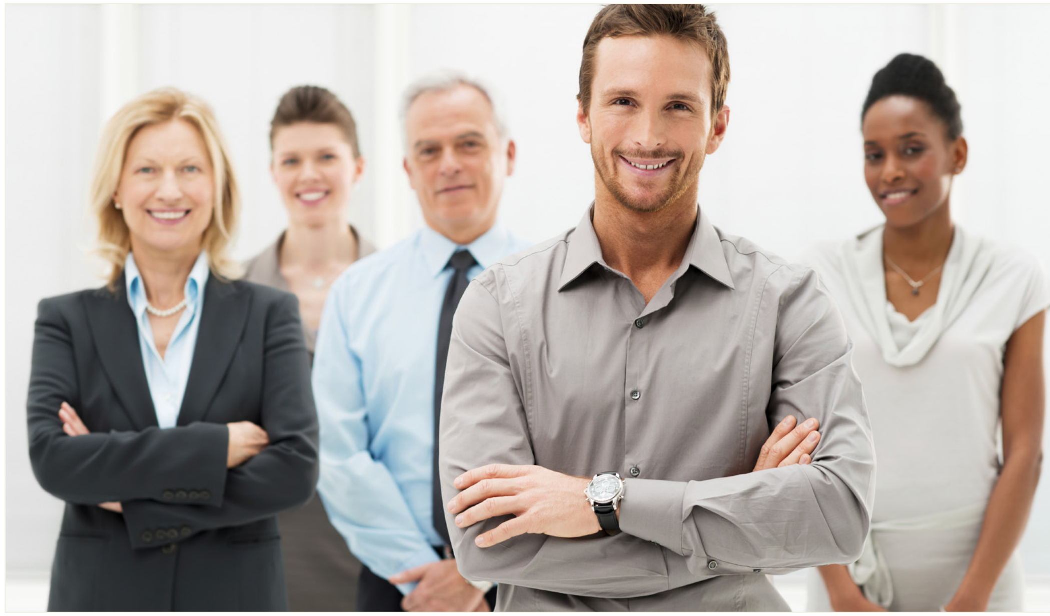
The hallmark of the business is "always trying to accommodate clients, even on short notice," Gary said, citing an example of a client needing the company's services immediately to clear away bushes from exterior walls in time for a painter to arrive.

"I have all the confidence in the world that my two daughters and son-in-law are going to manage this company even better and stronger than I have," Gary said. "Because we all have a common vision, it will be easy for me to step out and have them step in. They'll probably grow the company to twice or three times its current size because they've learned this business from the ground up."

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.

Develop the Next Generation with a Mentor Team

by Stephen L. McClure



For next-generation family members aspiring to leadership in a family business, career development can be quite challenging. One of the biggest obstacles is providing these individuals honest feedback on their current job performance and objective advice on making it to the next level in the business. Family leaders in the business may be uncomfortable or unable to give impartial feedback to a family member, and non-family executives may also struggle with being entirely objective with the boss' son or daughter.

Quoting from "*Nurturing the Talent*," a book from the Family Business Leadership Series: "A mentor is an older, more seasoned person who wants to share his or her experience with someone younger." A mentor is also a resource to whom the mentee can turn with a question or concern—a trusted advisor. In addition, the mentor can point out when the mentee needs to adjust something in his or her work performance and can give the mentee insight on opportunities he or she should pursue.

"I understand it's family-owned and run."

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Finding a person who can adequately fulfill this role can be a challenge. As a result, some family businesses have developed a mentor team to give the next-generation family member access to a broader range of perspectives and to give mentors a little cover so they can be more honest in their feedback to the family mentee. On the mentor team, include a long-term employee who can provide insight on fitting into the culture and another member who might provide industry insights or deeper knowledge in an area of business appealing to the mentee. In addition, if suggestions and feedback come from the "group," it can defuse tension or concerns executives might have in being honest about the limitations of a person who is related to the boss and who could one day become their boss.

So how can a company go about setting this up? First, a mentor team may be appointed by either the board of directors or through consensus among the ownership group (if there is no functioning board). This team is accountable either to the board (or owner group), and in larger firms, the head of the HR department may coordinate the mentor team. In some firms, the mentor team provides an annual report on its objectives and general progress. When practical, this team could include executives from outside the company—either members of the board who are willing to take on this developmental role or business leaders from other companies who can be uniquely objective.

Mentor contact does not need to be with all mentor team members simultaneously; one-on-one contact is encouraged when practical. Mentors might provide practical and conceptual recommendations to a family member as well as providing reading suggestions or introductions to other resource individuals as deemed appropriate. As it is expected that next generation family members have access to the knowledge and experience of their senior relatives in the business, a mentor team's existence should not prohibit contact nor replace learning through family relationship channels. A formal mentor team can also help provide reliable oversight of the successor's professional development for the ownership group or the board.

In order for this process to be taken seriously by all players, many mentor teams use contracts that engage all parties in the commitment. Specifically, such a document sets mentoring objectives and clarifies how the family member(s) to be mentored will make progress on objectives and how often the mentor team will meet with the individual. A contract also provides a means to maintain the effectiveness of

Here is an example of what the content of the contract can include:

Mentoring Contract

The term for this agreement is one year, beginning ______________. At the term of this agreement, we will mutually decide to terminate, change, or extend it.

The items below outline the mentoring arrangement between ______________________ and ____________________.

1. At any time, either party may opt out for any reason by giving notice to the board of directors, who will/may facilitate a new mentoring arrangement. It is understood that the mentor team and others in the business who may become aware of this change will regard it as seeking to better accomplish the mentoring purpose rather than as a failure of the parties involved.
2. The mentoring or learning objectives for the period beginning ________________ and ending ________________ will be as follows:
   a. ______________________
   b. ______________________
   c. ______________________
   d. ______________________
3. The mentoring process may proceed after there is agreement on the following:
   a. Objectives—discussion of and documenting the objectives to be accomplished and how they will be measured
   b. Regular contact—agreement on how much contact and how it will be accomplished
   c. Postmortem—following significant projects, activities, or steps, the mentor team will conduct a review discussion, first without, then with, the mentored family member present
   d. Evaluation—agreement on how evaluative assessments by the mentor team will be shared, or not shared, with others
4. The mentoring relationship is not exclusive. The mentored family member is encouraged to seek advice and resources from any member of the business or from outside sources.
5. At least once per six month period, the mentored family member will report back to the mentor team, and the mentor team will provide feedback to the mentee, on the effectiveness of the mentoring relationship, along with any ideas on how it might be improved.

the arrangement, and if it is not working, a way out.

Many firms choose to be less formal in setting up a mentor program in their family businesses. It should be noted, however, that a well-designed and -implemented mentoring program may be the only way next-generation family members gain objective feedback on how they handle their responsibilities in the business. Mentor's involvement to non-family employees can help build commitment outside the family for a positive succession process. A formal mentor team can also help provide reliable oversight for the ownership group or the board.

In summary:

Value to the next generation entering the business:

1. Provide objective, honest, and constructive feedback.
2. Provide multiple resources that supply a variety of experience, skills, and style.
3. Provide impartial resources offering counsel and listening that is both supportive and challenging.

Value to the owners or board of directors of the business:

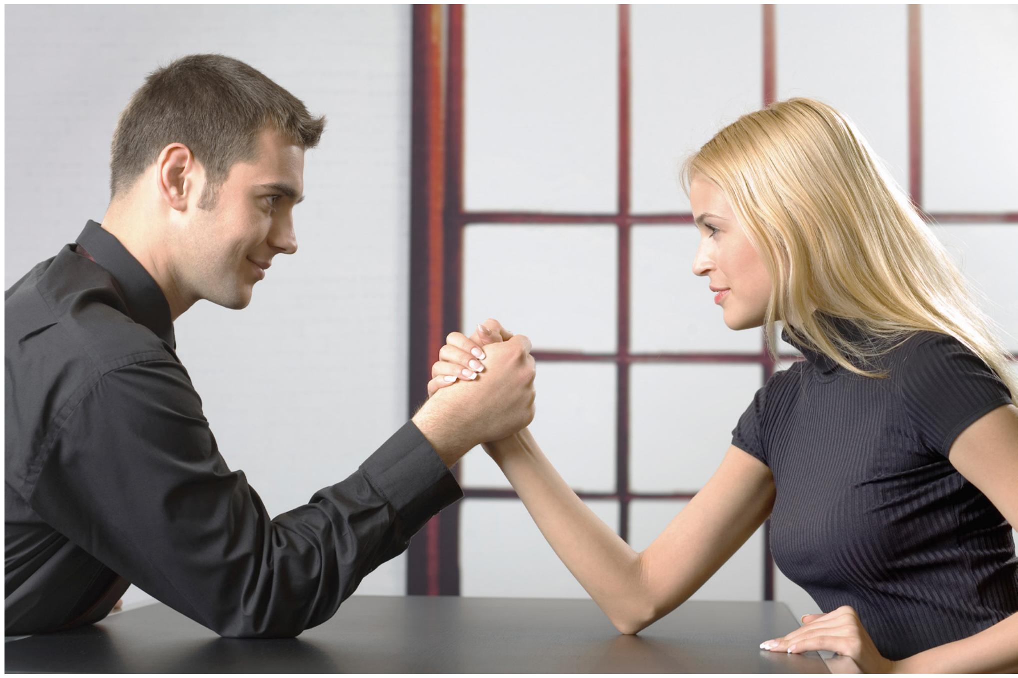
1. Assurance that the next generation is being provided with dedicated support toward their success in the business.
2. Regular communication regarding the progress of the next generation in meeting their developmental goals.
3. Objective resources to help with the development of the next generation of family business leaders. ■

The involvement of mentors not in the family can help build commitment outside the family for a positive succession process.

Stephen L. McClure, Ph.D., is a principal consultant with the Family Business Consulting Group, Inc., specializing in family communications and decision making, succession planning and implementation, and governance and management in family firms.

How Successful Business Families Get That Way

by Otis Baskin



Most successful business-owning families have a common fear: "How do we keep the next generation from fighting over the business?" This fear is well founded, as the survival rate for family businesses from founding generation to second generation and beyond is low. Further, most of us know tragic stories of ruined family relationships and lost fortunes because a group of siblings or cousins—who were to be the beneficiaries of a wonderful blessing—could not get along. "Shirtsleeves to shirtsleeves in three generations" is a common refrain that haunts the dreams of great entrepreneurs around the world.

The Root Cause of Family Conflict in Family Business

While there are many reasons why family members do not get along, the issues that surround conflict over the family business are often predictable. When heirs of a family business feel that they are not being treated fairly or respectfully tensions will mount and frequently explode into conflict. Ultimately, it is important to remember that the experience of "fairness" is more driven by the decision-making process than by the decision itself. People can feel as cheated or second-rate when the shares of a business are distributed equally as well as when they are not. I recently heard a story of a family business heir whose response upon being told the size of his inheritance was "only $60 million? I've been screwed!"

The core issue is almost never "how much" but rather, how the decision was made. The power of engaging stakeholders in the decision-making process cannot be overstated. While finding agreement with many voices is hard and can be divisive at times, engaging all affected stakeholders in a decision is critical to buy-in and ongoing alignment. When leaders in a family business seek to avoid the complexity of engaging all stakeholders in decisions they often bring on the very conflicts they were trying to avoid. The reality is, when family businesses succeed beyond the founding generation into subsequent generations of ownership and leadership, the dynamics of decision-making need to change. While there is a natural acceptance of decisions made unilaterally by the founding generation, when the elder members of the family are no longer able to make such decisions, previously compliant next-generation family members may explode in conflict over even minor decisions if they feel they have no real voice at the table.

Family trust and harmony are keys to preserving patient capital. All shareholders need to have confidence that their interests are being considered in decisions that involve their capital. When one sibling attempts to make unilateral decisions about the future of the company—the way a founder might, without consulting all owners—resentment may result regardless of quality of the decision itself.

The Cure Can Be the Disease

In their efforts to prevent family disharmony many business owners actually exacerbate

The core issue is almost never "how much" but rather, how the decision was made.

the problem by taking actions that remove family from the process. Often with the best of intentions, the decision-makers in one generation will set a future course that seeks to avoid complexity but results in negative consequences. For example, some owners will sell a business with a great future so that the proceeds can simply be divided up among heirs equally. While this solution is reasonable because each heir can get an equal share of funds to do with what they want, it may be shortsighted. Immediate access to cash may deprive generations to come of a great family legacy and an economic engine that could continue to generate wealth for many generations. More often than not, when wealth is divided up into smaller portions to be invested in the stock market, it does not last beyond three generations.

In another approach to limit complexity, rather than sell the business, some owners attempt to promote family harmony by having one member of the next generation buy-out the other members of their generation to achieve sole ownership. Entrepreneurs often struggle to imagine how a business can be effectively run if the leader does not have full and total authority of ownership. While this logic is appealing on one level, it comes with serious risks. First, because the business is strapped for cash, either due to leverage or the use of free cash to buy out other family members, it may underperform or ultimately fail. Alternatively, if it does succeed and grow, those who sold at the time of transition (typically at a minority shareholder discount) will feel cheated because their shares would be worth much more had they kept them. Finally, when the business is transferred to only one family branch it may create a perceptual "gulf" between the owners and their cousins in future generations.

Some other measures to head off conflict attempt to legally "tie the hands" of future generations with regard to the business they are supposed to own. This is a near-guaranteed prescription for failure because no business leader or advisors today, no matter how successful and smart, can predict the business needs of the future. Good businesses must remain flexible and adaptive to thrive in the future. Any attempt to construct a trust or use other legal tools to put a business on "auto pilot" is on a likely path to failure.

Any formula to prevent future conflicts among family members by removing them from any say in the enterprise, while making them beneficiaries of the success of the business also mostly fall short. One common approach is to give one or more heirs working in the business control while making those heirs who do not work in the business beneficiaries of dividends or other distributions. This effectively puts different family members into roles of "makers" vs. "takers." Such an approach often opens the next and subsequent generations to bitter disputes over the salaries and benefits of those who run the business. Also, beneficiaries who may have legitimate questions about the dividend policy set by their relatives with voting rights will run the risk of being labeled greedy. Mature adults tend to chafe at the idea that a significant portion of their wealth is entirely outside of their control.

Good Governance Makes Good Owners

While there are businesses that successfully choose to concentrate the ultimate decision-making authority into one or a few hands, in our experience all affected stakeholders want to feel they have a voice (even if they do not have a vote) in the process. In addition, by the time a family business has multiple owners it needs to have policies and processes established for good governance that represents the welfare of all owners and the enterprise as a whole. This is the point when the Board of Directors needs to actually meet, create advance agendas and be structured to represent all owners effectively. This does not need to be an overly bureaucratic process but it should be a time when owners who work in the business and those who do not sit and consider major strategic issues together.

If the ownership group is large enough, or the business requires a professional board that does not include all owners, it is important

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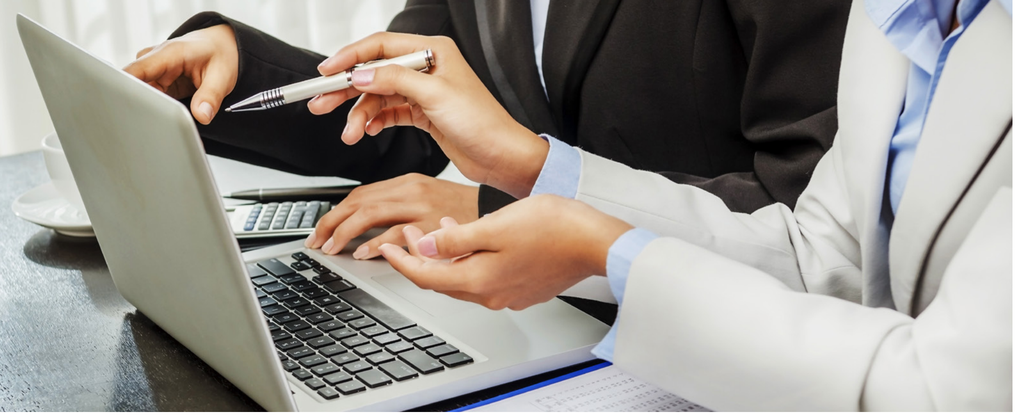

Tool of the Trade: *Ownership Recordkeeping*

By Chaitali Patel

The saying, "The customer is always right" recently came into action when a fourth-generation client came forward and requested a service typically only provided for public companies. The company — originally a mom-and-pop startup that now involves more than 100 family members — needed a tool that could keep its business records organized.

Zions' Ownership Recordkeeping service became the perfect tool to satisfy this client's needs. After 50 years of providing accurate and regulated ownership recordkeeping services to publicly held companies, Zions Bank's Corporate Trust Department — an affiliate of The Commerce Bank of Washington — custom designed its Ownership Recordkeeping service for private companies. February will mark the one-year anniversary that this tool has become available to private businesses.

Ownership Recordkeeping offers numerous benefits to today's family business owners looking for affordable and convenient record keeping. While it tracks the owners of the company and their respective proportional ownership, it also delivers accurate processing of dividend payments, tax reporting and stock options.

Having records stored in an off-site location is often an afterthought until disaster strikes. In fact, one company stored its records in its basement, assuming it was a safe location until the neighboring building went up in flames. After all the commotion, the company realized the full impact of the fire. The water that extinguished the flames ran into the neighboring basement and left the records soaked and completely destroyed.

By contrast, a company with a record keeping service has the peace of mind that sensitive records are safe, accurate and accessible, with automated system backup and regulated disaster recovery procedures.

When security is key, a third party can function like a deadbolt lock. For example, one client kept all shareholder information — very confidential information for a couple hundred family and employee shareholders — in a simple spreadsheet on one employee's computer. This left shareholder data inaccessible when that employee was out sick, and vulnerable to fraud, computer viruses, crashes and hacks.

Ownership Recordkeeping is a great idea for any new startup company. An affordable option, the service lowers operational risk by providing absolute privacy and accurate tax reporting — exactly what investors, or maybe just mom and dad, want to hear. Even a company with two shareholders can find the service compelling. A third party like Zions follows SEC regulations when transferring shares, leaving no gray area in legal matters.

And, it's not just the family in a family owned company who will appreciate hiring a third-party record keeper like Zions. It also benefits shareholders with a vested interest in the company's success. Nonowner executives can rest assured their company's liability is reduced through the use of a third-party record holder, preventing conflicts of interest. A third party can keep the records in order as shares are passed from founders to siblings, cousins, in-laws, ex-spouses and beyond. As an acting moderator, a record keeping service can help in conflict resolution, maintaining both family harmony and the company's legacy.

When any company can use more accuracy and organization — and a lighter load — an ownership record keeping service is the place to start. Find out more about Ownership Recordkeeping by contacting your local Commerce Bank of Washington relationship manager. ▪

Chaitali Patel is Senior Vice President, Corporate Trust, Zions Bank.

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to develop a process where all shareholders can have their voice heard. Many families will convene an annual shareholders' meeting or may develop a shareholder's council that meets quarterly to discuss ownership issues. Whatever forum you use, it needs to be a process where all shareholders can be brought up to speed on the business and have their concerns and priorities heard. These meetings are often held in conjunction with family meetings that focus on broader family issues and offer an opportunity for younger next generation owners to learn about the role of being an owner before they take on the mantle of leadership as governing owners or business executives.

In our experience, the progression of governance often follows a pattern of the senior generation forming an advisory board of outside business experts that meets with the fiduciary board representing the owners of the business. Over time, perhaps as the CEO role transitions to the next generation, the senior generation will focus on the role of board chair and integrating next generation owners into functional board roles. As good governance progresses, the board will transition from its advisory board to appointing outside independent directors that are trusted by all owners for their business acumen and decision making.

When the practice of good governance has matured, all owners will have the necessary transparency into their business to trust that those who are running the enterprise are competent, fairly compensated, and accountable for the good of the whole. When this is the prevailing perception, owners are aligned around strategy with management and a family business reaches its true potential for success. ■

Otis W. Baskin, Ph.D., is a consultant with the Family Business Consulting Group, Inc., and a former dean of Pepperdine University. He is an expert in helping business-owning families develop plans for leadership development and succession, and family ownership structures.

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YOU AREN'T THE BOSS OF ME

Thursday, March 5, 2015
9 a.m.