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## Outside Advice Keeps it in the Family

*Bill McCurry*



“Without outside help, our family wouldn’t have been able to do everything we needed to ensure a successful generational transition. There are three brothers and one sister—all in their 60s—who want to retire, plus a new generation of three people who need to keep things going so we can retire. We’ve had helpful and insightful discussions at The Garden Center Group and with friends in AmericanHort, but nobody prepared us like The Goering Center did. Without their perspective we’d still be stuck at step one,” says Mike Berns, a second generation member at Berns Garden Centers in

Middletown and Beavercreek, Ohio.

The Goering Center, including its Next Generation Institute, was founded in 1989 in affiliation with the University of Cincinnati’s Carl H. Lindner College of Business. John Goering’s endowment helped launch the Center. At his family’s hog farm, he observed countless conflicts between his father and uncle. He endowed the Center to help other family businesses.

The Center has both volunteer and paid staff. The advisors and coaches have decades of experience running mostly family businesses. Their perspective is fresh, yet stable.

### What Needs to Happen

The Center’s Volunteer of the Year, David Kiihnl, is owner of David Kiihnl and Associates, a business advisory firm. He says, “If your tax advisor is the first person you call when you consider succession planning, you’ll make the wrong decisions.”

David is also a partner in Wiggy Dip, a mobile ice cream food truck for events and parties. His wise counsel is peppered with the humor of an ice cream peddler. His personality suits his role—helping generations unite toward finding common goals.

David advises, “First, figure out what you want to happen, then decide who is going to do what’s necessary to get you there. Only after that’s accomplished can you intelligently instruct your tax and legal counsels to prepare the paperwork and tax strategies to accomplish your goals.”

Most families don’t know enough about succession planning because it’s relevant only once each generation. It’s no wonder only 8% of companies survive through the third generation. The Goering Center puts its clients through monthly sessions exploring these eight steps to a seamless transition:

- Principles of Succession
- Foundation of a Successful Transition
- Forming the Team
- Goals, Expectations & Contingency Planning
- Strategic Planning & Management
- Valuation & Financing
- Optimizing Legal & Tax Structures
- Developing & Communicating the Plan

Lisa Jonas, Goering's Program Director, says, "At each session, participants begin by being seated at individual generation tables. G1s [owners or generation one] are paired with other G1s so they can commiserate with similar business owners going through the same challenges. At the same time, G2s [the successors or generation two], are seated together discussing the same topics with their peers. For the first time both groups feel understood, find community and realize their problems really aren't unique—just difficult!

"Later families sit together over lunch to discuss the issues of the day with their family guide. We teach them to 'embrace the danger zone'—have those tough conversations they've been avoiding before joining us."

Mike Berns appreciated the process. "By breaking us up at the main meeting, each family member shares with a usually sympathetic peer group what was on their minds. Sometimes they were able to verbalize things they felt, but never clearly stated," he says. "This would have been impossible to do within a family council. It's having someone who's non-judgmental and impartial talk you through things that really helps you focus."

## Continuing the Discussion

There are monthly follow-up meetings for each business. All the involved family members attend many times with a transition leader from Goering Center. They're required to discuss the ideas from that month's meeting and, where possible, reach consensus on their individual company's direction. This process keeps the transition moving forward with all parties participating.

After completing the program, companies can retain Transition Guides to enable the family members to sort through the details unique to their own situation and seriously plan each step of a successful transition.

Carol Butler is the President of the Goering Center, as well as an Adjunct Professor for the University of Cincinnati's Lindner College of Business. Carol grew up in Butler's Orchard, her family's 70-year-old business in Maryland. She understands the dynamics and sometimes hard conversations families need to have.

Carol, Lisa and David all provided some general observations that can help create a successful family transition:

- Contingency planning isn't fun, but it's necessary. Garden centers have many uncertainties—including weather and crop successes or failures—that can severely impact cash flow. What's the plan if that happens?
- Most families know about key person life insurance and why they should have it. However, disability is more common than people dying during their working life. What are the plans for disability payments to the disabled person? What about the economic and workflow impact on the business?
- Family businesses should have a finalized Family Charter stating what's expected and what isn't allowed. This ensures no one feels personally trapped/disadvantaged and decisions are made only in the company's best interest.

- A difficult, but necessary, discussion concerns pre-nuptial agreements. If the Family Charter states that company ownership can never be transferred to a spouse, it saves turmoil in case of a divorce. This policy is easier to negotiate if it's family-wide and adopted before anyone in the next generation has considered matrimony.
- An additional Family Charter item concerns who gets jobs in the family business. One successful model requires the family member to have demonstrated leadership at another non-related company prior to eligibility for family employment. Another criterion can be that an existing family member within the company must act as a sponsor for the individual and be responsible for their assimilation and success. Requiring outside employment before possibly returning to the family business also provides the younger generation the potential of saying, "I'm happy where I am at this time and am not available for work at the company right now."
- Buy/sell agreements need to be clearly written and in place before things move forward. When deals are being negotiated, all parties usually have goodwill and cooperative motives. Now's the time to spell out how ownership can be transferred and at what valuation. If you wait until someone wants out, the discussion becomes personal and often antagonistic.
- A Board of Advisors is strongly recommended. The Center can act as a search firm to match advisors with interested companies. Advisors only offer opinions. Wise owners listen without obligation to follow them. Alternatively, you could have a formal board of directors. Directors have fiduciary duties to all shareholders and management must do what they direct.
- Often the older generation doesn't prepare the younger for the financial business areas. Sometimes the older generation assumes the younger has been around for a decade and "followed in my footsteps," so they've absorbed everything they need to know. If the older generation doesn't share it, the younger can't absorb it. It's critical to answer financial questions when everyone is alive, rather than when there's no one left to ask.
- Some members of the younger generations can't read or interpret financial statements. Owners want the next generation to take over, but shield the operating results from them. This proves fatal to many businesses. The ability to read a company's health through their financial statements is critical for success.
- The lack of financial acumen often appears when neophyte younger generations wish to acquire an ownership stake and the banker asks, "What does your signature bring to the loan application?" In today's lending environment, there must be assets to support the company's financing after the transition. If you're going to be an owner, your signature (representing your assets) must be supportive to the bank loan. Worse, if you have a bad credit rating, you can detract from the banking relationship.
- It's sometimes assumed that without "skin in the game" (personal assets at risk) the younger generation won't have the long-term motivation to stick with the family business through thick or thin.
- Another important strategy that can be led by the G2 bridges the business from what was to what will be. That strategy must accommodate for aggressive growth so the business can sustain the payout of the retiring G1.
- While parents strive to be fair to their offspring, should they pay younger generation members equally when one has a Ph.D. and the other didn't finish high school? One may have earned a very high salary outside the business, while the other has always worked at the family firm earning just above minimum wage. Fair doesn't mean equal when it comes to skills and value to the business.
- What's the talent development plan for the company? What skills does the company require that the existing team doesn't possess? How will the younger generation be educated to meet the company's needs? Typically, G2 has to work harder to earn the respect of other team members. They're held to a higher standard and must prove they aren't entitled.

- Succession plans fail because of a lack of communication and trust. Building respect, communication and trust requires honest, open and understanding dialogue. Usually this is best moderated by an outside facilitator. The Goering Center has all participants take Myers-Briggs personality tests, allowing family members to better understand themselves and their relatives. Improved communication results from addressing comments in a manner others will receive without offense or discord.

The goal of all succession plans is business success so the entire family can look forward to joyful Thanksgiving meals together. Competent outside coaches/advisors facilitate this process. **GP**

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### **Transition Resources**

To find out more about the Goering Center, visit [business.uc.edu/faculty-and-research/research-centers/goering.html](http://business.uc.edu/faculty-and-research/research-centers/goering.html).

If you don't live in the Cincinnati area, you may find family business transition support at [www.johnson.cornell.edu/smith-family-business-initiative-at-cornell/resources/family-business-alliance](http://www.johnson.cornell.edu/smith-family-business-initiative-at-cornell/resources/family-business-alliance).