

GROWING KNOWLEDGE

Series content is coordinated by Dr. Jay Pscheidt, professor of botany and plant pathology at Oregon State University in Corvallis, Oregon.



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Hiring the right family business adviser

BY SHERRI NOXEL

AS DIRECTOR of the Austin Family Business Program at Oregon State University, I often hear from family farm owners about the concerns they share.

At a recent workshop, many said they were concerned about passing the daily management responsibilities to the next generation. The perfect activity to start this conversation was a family business-inspired version of “The Newlywed Game.”

Each generation was asked a series of questions to answer with a response they expected the other generation would give.

One of the most enlightening questions for the incoming generation was “Who will your parents say is their most trusted adviser?” It was a challenging question for some seemingly close family partnerships. The responses acknowledged the critical role that advisers played in the success of the enterprise.

The game also illustrated that families were far apart in their expectations for the future success of the business. These deeper issues were opportunities for more



C and D Landscaping, based in Dayton, Oregon, was recognized as a finalist in the 2016 Excellence in Family Business Awards and have been involved with the Austin Family Business Program at Oregon State University. Pictured (left to right) are Isaac, Caleb and Josh Kearns, all second-generation siblings working in the business.

family conversation.

Guiding their next steps thoughtfully requires an outside adviser with expertise to manage the family’s process of building the business.

Unique business issues for multigenerational businesses

Without hesitation, family business leaders seek business advisers for accounting, regulation compliance and production issues. Building a company that will last for generations, where large families must function as a united team at the highest levels, often demands additional investment.

These six business and ownership issues are particularly challenging for family companies:

1. **Planning and communication** to educate family owners, particularly if the ownership structure is large or includes minority shareholders;
2. **Structuring education and development programs** for family members selected for company leadership;

3. **Financing a buyout** as one generation exits and the next generation renews the business;
4. **Planning timelines that span generations** with higher commitment to employees, customers and the community;
5. **Managing risks** of a single operation that provides income for multiple generations; and
6. **Estate planning** to transition business assets within the family.

Separately, family relations also impact a multigenerational business and cannot be overlooked.

Family issues for multigenerational businesses

The saying “a pot of coffee is worth three lawyers” captures the potential of informal gatherings to build unity among shareholders. Family harmony, trust and a clear separation of business and family roles can reduce or avoid the following conflicts: »

Hiring the right family business adviser

1. Dominance of the business in parents' work/life balance that drives spouses and children away;
2. Treating all heirs equally rather than defining business and family roles among children;
3. Incumbent generation leaders who are unwilling to retire and fully transition business operations;
4. Disengaged family members who are not willing to sacrifice for the legacy business when necessary;
5. Confusion about roles for step-relatives in blended families; and
6. Misgivings about the younger generation's commitment to meeting the demands of the business.

Is the family ready for the adviser?

Discord in family businesses frequently emerges when the second generation is preparing to exit the business. At that

time, the family has branched out from the first generation.

Typically, the business grew organically and became large enough with separate divisions run independently by second-generation family members. The third generation is now tasked with unification to build a more efficient and integrated enterprise that can succeed and grow strategically in today's competitive industry.

Consultants can best serve a family at this stage by creating forums for positive dialogue and planning that differentiate family functions from business functions.

A retired family business executive described the process as the "untangling" of the root ball of family and business issues. Successor selection and leadership development, shareholder agreements, family employment and compensation policies, succession or long-term strategic plans are outcomes of effective consultations.

Assessments and private individual interviews are often used to diagnose areas for development. Families wanting to start the process themselves can use a variety of tools.

The Austin Family Business Program (AFBP) Excellence in Family Business Award application is available to any family business as a way to benchmark effective practices. Every year, new families discover the value of this tool as a starting point to guide family conversations about the future of the business.

Succession workshops or experiences can highlight potential problem areas. This information gives more focus to the family's search, and benefits the adviser candidates. Keep in mind that as the consulting engagement progresses there may be new or related issues that emerge.

Finding an adviser

Most families connect with advisers indirectly through professional networks. Building a diverse list of consultants facilitates comparison of backgrounds and approaches to the work. Avenues for finding an adviser include:

1. Ask the professionals who currently advise you for their recommendations for a family business consultant. Bankers, attorneys and accountants are particularly helpful in targeting succession and family issue consultants.
2. AFBP's Advisor Search webpage lists a variety of business professionals submitted by past honorees of the Excellence in Family Business Awards.
3. Search professional associations that support family enterprise professionals. Attorneys for Family Held Enterprises, Family Firm Institute, Wealth Counsel, and estate-planning councils are larger organizations that provide member directories.

Engaging an adviser for a productive outcome

When meeting the candidates, inquire about their approach to the work, availability and expectations of you. Key fami-



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ly members should be part of the selection process. Request referrals from other families who have worked with the adviser.

Be prepared to make a meaningful investment, of both funds and time, in advising to move forward. Billing schedules vary, but professionals will charge rates that are commensurate with their experience.

The fees and payment structure should be discussed before the engagement. Regular billing can make it easier to manage progress and make adjustments as needed. Thoughtful planning and family commitment improves the return on this investment. Even an experienced consultant needs a family champion to deliver great results.

Good advisers are willing to end the engagement by showing progress, meeting milestones and helping a family develop the tools to confront and organize on their own going forward. Empowering families to build their own solutions will set clients on a path to lasting results.

Enduring rewards

It's important to keep in mind that problems and complicated situations emerge over decades of operating a business; accordingly, they may take years to repair.

For example, the CEO of a third-generation organic vegetable farm dedicated 10 percent of his work hours last year to develop the governance structure for his family's business. He chose to invest two days each month to help his growing family establish structures for strategic decision-making.

The payoff of investing in yourself and in outside expertise is the shared confidence among the family and business leaders in the future of the company. Clarity of roles, expectations and future opportunities in both the business and in the family are benefits that will serve the enterprise for generations. ☺

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