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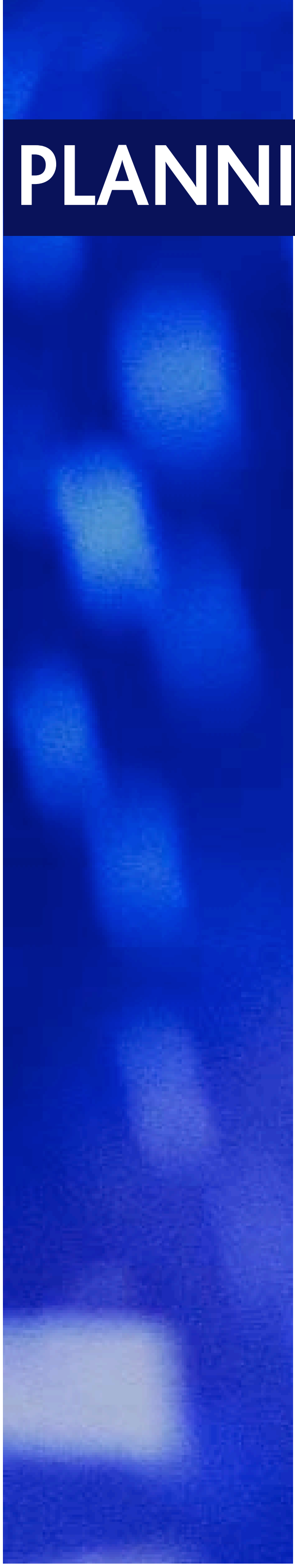

PLANNING: THE BRIDGE CONNECTING GENERATIONS IN A FAMILY BUSINESS

At AICC's Spring Meeting in Orlando this year, Eric Capra of the Comeca Group described how his father-in-law wisely prepared the company he had founded for the next generation of leadership. As company founder, Victor Mesalles had many of the characteristics of a first generation owner, Capra notes. These included, Capra says, "entrepreneurship, perseverance, a sense of urgency, discipline, a high level of involvement, high energy and the ability to lead by example."

Comeca's second generation was comprised of three family members, including Capra. "At the beginning we were managers in different activities, then we were promoted as general managers, again in different activities. Today, we are directors of three very different sectors [of the corporation], but at the same time, we all play a role in the strategic decisions of the entire Comeca Group."

As Comeca's second generation became the group's leaders, they developed a corporate feel to the company, hiring a human resource manager and measuring the performance of management. It may not have been easy for Comeca's founder to accept these new ways. Capra says, "The person who had to change more in this process was the visionary leader. We helped him to redefine the vision and mission of the group, but we had to promise him that our leadership model would guarantee the continued success of Comeca.

"Even if the younger generation ultimately sells the business, I want that to be an informed and educated decision, one that is reached after other options have been considered," says AICC President, Steve Young.

"Our founder's dreams and character, together with the professional orientation of our generation, has provided us with significant success," Capra says.

Next on the agenda for Comeca, about a half-dozen years away, is the third generation beginning to enter the business. With the possibility of 11 family members joining the three-member second generation, Comeca's directors are already at work planning "how [the next generation] can be involved in the business," Capra notes.

Where Circles Intertwine

This November, AICC, in partnership with the Family Enterprise Center of Stetson University, will present a Next Generation Executives Forum in Orlando, Fla. The objective is to help attendees develop a succession plan to guide companies through the inclusion of the next generation of leadership. John Morgan, AICC's director of Education & Training, outlines the reason for the course, "The question that AICC member organizations need to be asking themselves is whether the next generation of independent box plant owners will be ready to assume the responsibilities of running box companies successfully in a few years."

AICC's President Steve Young adds, "It all started when I saw young people in our industry selling the business. It was sad to see a business built up in one generation, only to be sold in the next. I hope that this course will enable both the older generation and the younger to prepare for the future. Even if the younger generation ultimately sells the business, I want that to be an informed and educated decision, one that is reached after other options have been considered."

Young estimates that 85-90% of his association's box making members operate family businesses.

"In this course, we will talk about two circles: the family circle and the business circle," says Mario Fidanzi, director of the Family Enterprise Center at Stetson. "It is where the two circles intersect that we will focus on." The program that Stetson and AICC will present will result in a call to action for executives and management teams to take a proactive approach in planning for the future of the business, Fidanzi hopes.

"The major causes of failure in family businesses are the lack of succession planning and mismanagement of the overlap between the family and the business," says Fidanzi. "Leadership at these companies must formulate a strategic plan for the business. This business plan should complement the long-term plan for the family, including the critical issue of succession.

"The timing of succession, developing the successor's skills, and implementing the plan in a manner that it is embraced by the leadership team as well as other family members are aspects that must be addressed," he adds.

Kim Nelson of Royal Containers and her family hired an outside firm to help deal with succession issues.

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The Accident of Birth

Aron Pervin, owner of Pervin Family Business Advisors, terms family businesses an "accidental partnership,...where partners are thrown together by circumstances and a common gene pool, not by choice."

In an article for a Toronto newspaper, he wrote, "making the partnership a happy accident and not a tragic one is really a matter of recognizing it for what it is. Your family connection got you in, and you now must find ways to develop a different relationship, a relationship that is accepting, trusting and dignified."

Pervin's firm helps companies to:

- manage the 'accidental partnership';
- manage inter-generational change; and
- preserve and improve business family life.

"I celebrate family businesses," Pervin says. Contrary to impressions that one might have of the clients who come to family business consultants, Pervin's clients are not at each other's throat or desperately trying to keep a family business afloat.

"I'm working with companies that are good and want to get even better. Families that I confer with want to keep the business going for generations and have adopted a stewardship attitude toward it."

Pervin says he works with one family business into its fifth generation that is comprised of 68 people. Perhaps, most significantly, "all are involved in the company in some way, but none operate the company," he adds.

He notes five factors that can destroy a family business. These include:

- the skills of the family members don't keep pace with the needs of the business;
- poor communication among family members (or no communication at all);
- conflict (opposing views);
- inability to plan (the founding generation may be able to run the business on its vision; the next generation has to plan); and
- inadequate estate planning (there must be an integrated approach combining legal, banking, accounting and other elements).

Tough Decisions

In his decades of work as an accountant and a financial advisor, Mort Ackerman of Ackerman Consulting has seen the pitfalls of family succession issues within a business.

"The basic problem is that every member of the family feels that he should be the next leader. The family member who has control of the business at the time has to make some tough decisions."

Even making a decision that is right for the business can have grave consequences for familial relationships, Ackerman notes. "In one case, the first generation decided that the younger son should run the company. The younger son also got 51% of ownership, giving him control of the company.

"In my view the father made the right decision, but the older son never forgave the father," he remembers. "Their relationship was horrible."

"I would never do a family business," says Mike Sime. Though his father was one of the original owners of Creative Carton, Sime had to buy out his father's partners, a process, he says, that lasted for almost a decade and was filled with "bitterness and angst.

"Consider this: say 20% of family businesses work out wonderfully, 60% are pretty good, and 20% end up destroying the family," Sime says. "Though I feel that final 20% number should in fact be higher, would you even take a one in five chance of engaging in something that might destroy your family? I wouldn't."

Sime's plan for Creative Carton? "I would love to transition it to a company that is owned by its leader-managers," he says.

At The Crossroads

For Mark Mathes, the turning point in the family succession issue at Vanguard Packaging occurred not this year, when he purchased the Kansas City, Mo., sheet plant from his father, but 12 years ago, when the company faced a crucial decision: should it continue making brown boxes or should it move into high graphics.

"WITH THE POSSIBILITY OF 11 FAMILY MEMBERS JOINING THE THREE-MEMBER SECOND GENERATION, COMECA'S DIRECTORS ARE ALREADY PLANNING HOW THE NEXT GENERATION CAN BE INVOLVED,"

says Eric Capra.

Paige Burgess says she had one major factor on her side when she and her brother took over Ferguson Box,

"WE HAD A VERY EXPERIENCED MANAGEMENT TEAM."

"My father's entire career was selling brown boxes, but I thought the industry was moving in another direction," Mathes remembers. "We had a blunt and heated conversation, but we also realized that one of us had to run the company and lead it in the direction that that person thought it should go. We finally decided that we would move towards graphics. With that decision, my dad stepped down as president, and I got the freedom to run the day-to-day operations. He stayed with the company, but let me run it."

Mathes has one sibling, a sister who isn't employed by the company. Still, he made sure that there were no hard feelings when he purchased the company earlier this year, "I made sure that she was comfortable with it.

However, when Mathes purchased Vanguard, he did jettison one member of the family, his mother, from the payroll. "Boy, did I hear about that from other people when I went shopping in town," he says with a laugh.

Like Mathes, Cindy Baker and brother Mike Flinn benefited from their father's decision to have an orderly transition of leadership at Scope Packaging. "We hired an attorney who walked us through the important succession issues. Our transition was easy, probably because my dad, Bill Flinn, was so supportive of the Next Generation movement within AICC and believed in preparing our generation to take over," Baker says.

The transition between the two second-generation members has been smooth. "Mike

Mark Mathes tells AICC delegates

"12 YEARS AGO VANGAURD PACKAGING FACED A CRUCIAL DECISION: SHOULD IT CONTINUE MAKING BROWN BOXES OR SHOULD IT MOVE INTO HIGH GRAPHICS."

wanted to be president and I wanted to be a mom, but also involved in the company," Baker explains. Still, the company relies on outside help. "Mike is involved in The Executive Committee (TEC), a group of executives from manufacturing companies in the area. They meet once a month to discuss common issues; the TEC Director runs our company board meetings," Baker adds.

One of the speakers at the Stetson-AICC seminar will be Geoff Jollay, himself a Stetson grad. Jollay will speak about Ohio Packaging, the company his father founded; the experience of the family as it grew its sheet feeder business, which became CorrChoice; the decision by Geoff and brother Dean to sell their stake in CorrChoice to Greif in 2003; and the tax implications of the sale.

The decision to sell, he emphasizes, came from planning. Jollay recalled that AICC hosted a talk on family business issues by consultant Leon Danco, a pioneer in the field in the 1970s and 1980s. "It remains an important subject for independent businesses," Jollay says. "I wish we had a program back when I was going to Stetson like the one the university now offers its students."

An important key for the generation coming into the business is to gain experience outside the business, Jollay adds. "After college, I worked for PCA for three years. It was a good thing to do. I established credibility both internally and with my family. Ohio Packaging gained an employee with industry experience, and I had the confidence that if going in the family business didn't work out for me, I would be able to make it on my own."

Aron Pervin agrees. "It should be mandatory that family members coming into the company have worked outside the firm."

At AICC's Spring Meeting, Kim Nelson of Royal Containers provided a memorable framework to the association's 2007 spotlight on leadership issues when she delivered a personal anecdote that highlighted how important the orderly transfer of power in a family business from one generation to another is.

Though the orderly succession of the family business had been an issue ever since Kim and her brother Steve expressed an interest in joining Royal Containers, the discussion grew more serious as the second generation began to take a bigger role in leading the company. This prompted family members to hire an outside firm to guide the process.

"It has definitely helped," Kim says. "It's enabled us to place our attention on putting the best interest of the company first. We're now focusing on six major areas and working through these issues with the consulting firm."

Paige Ferguson Burgess faced succession issues after her father got sick. Though her father lived only a few months after the issue was first raised in April 1994, Burgess had one major factor on her side, "We had a very experienced management team in place, one that was excited that the company was going to stay in business," she explains.

Burgess saw moving into her father's business as a "tremendous opportunity." She adds, "We've been able to hang on to our experienced managers and add fresh blood." The business she and her brother Chip Ferguson now lead has doubled in space and tripled in sales in the last dozen years. Even so, the family business is in the midst of a strategic planning session that will set the vision for the company into 2012, Burgess notes. On the horizon, she says, is succession planning.

"I WOULD NEVER DO A FAMILY BUSINESS,"
says Creative Carton's Mike Sime.

"Alive and Well" But...

"Family-owned businesses are alive and well in 2007" is the opening statement in a report by Laird Norton Tyee titled Family to Family, Laird Norton Tyee Family Business Survey 2007, a national survey gleaned from 788 respondents. Among the results of the survey, were the following:

- More than 96% of respondents anticipate that their business will expand or at least remain the same size over the next year.
- Nearly 60% of majority shareholders in family businesses are 55 or older and nearly 30% are 65 and older, yet less than 30% have succession plans and fewer than 40% have a successor in line and preparing for the transition.
- Many smaller family businesses seem to avoid accepted business practices in running their enterprise. Only 56% have a written strategic plan.
- More than 64% of respondents don't require family members entering business to have the qualifications or related experience necessary to be successful, and 25% think the next generation is not competent to move into leadership roles.