



Family Business Whitewater

Practical strategies
for governance
and transition of

successful family businesses

A WORKSHOP
Presented by
Donald J. Jonovic, Ph.D.

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DONALD J. JONOVIC, Ph.D., an advisor to business owners since 1973, focuses on the unique issues related to management development, growth and ownership transition in the successful owner-managed business. His professional consulting practice has included industrial and agricultural clients throughout North America, ranging in size from \$1 million to \$1 billion, with an emphasis on companies transitioning to management teams, including those with a significant proportion of non-family key managers.

AREAS OF SPECIALIZATION. Dr. Jonovic's expertise covers a range of areas, including:

- Development and management of shareholder communication processes
- Establishment of owner/partner policies, including risk and return standards
- Creation of comprehensive shareholder and partner agreements
- Transition of management to successors related or unrelated to current owners
- Development of key management teams
- Design and implementation of shareholder value-directed compensation systems
- Formation and management of boards and advisory teams
- Leadership of business planning and strategic positioning projects

BOARD SERVICE. He has helped to create, and serves on numerous advisory and formal boards in closely held businesses. In his board service, Dr. Jonovic chairs a number of compensation committees, and has been instrumental in the creation and implementation of incentive and growth-participation compensation plans for key managers. He also serves on strategic planning committees, frequently acting as facilitator of management, strategic planning, and positioning sessions.

CONSULTING/TRAINING ACTIVITIES. He has worked with manufacturers, banks, professional firms, farm bureaus and insurance companies, designing and delivering client and advisor training programs to help these organizations assure business growth and continuity for their customers, clients and members.

PUBLICATIONS/BOOKS. Founder of Cleveland's Family Business Management Services, and President of its publishing division, Jamieson Press, Dr. Jonovic is a frequent contributor to the business press. He has written seven books about business ownership, family business transition, and the management of change in the closely held company. His books include:

- **The Ultimate Legacy:** How Family and Closely Held Businesses Can Achieve Their Real Purpose.
- **Someday It'll All Be Yours ... Or Will It?** How to Survive—and Enjoy—Succession in a Family Business
- **Passing Down the Farm:** The OTHER Farm Crisis
- **Planmaker:**[™] A Growth and Succession Planning Workbook for Family Companies
- **The Second-Generation Boss:** A Successor's Guide to Becoming the NEXT Owner-Manager of a Family Business
- **Outside Directors in the Family-Owned Business:** Why, When, Who, and How
- **Someday It'll All Be ... Who's?** The Lighter Side of the Family Business

Dr. Jonovic's management column in *Successful Farming* reaches more than 1 million readers every month, and has been one of the most popular features in that magazine since the column's inception in 1984.

EDUCATION/ACADEMIC AFFILIATIONS. He holds a B.S. in Mathematics from Marquette University, and received his M.A. and Ph.D. in Communication at the University of Wisconsin-Madison. He is Director of the Ashland Institute of Private Enterprise at Ashland University, Ashland, Ohio, and is an adjunct assistant professor with the Communication Science Department of Case Western Reserve University. Dr. Jonovic has been a visiting lecturer at universities throughout the U.S. and Canada.

Dr. Jonovic and his wife, Pamela, live in Shaker Heights, Ohio. He can be reached at Family Business Management Services, P.O. Box 201400, Cleveland, Ohio 44120. PH: 216/752-7970; Fax: 216/752-4100; email: djonovic@familybusinessmgt.com.



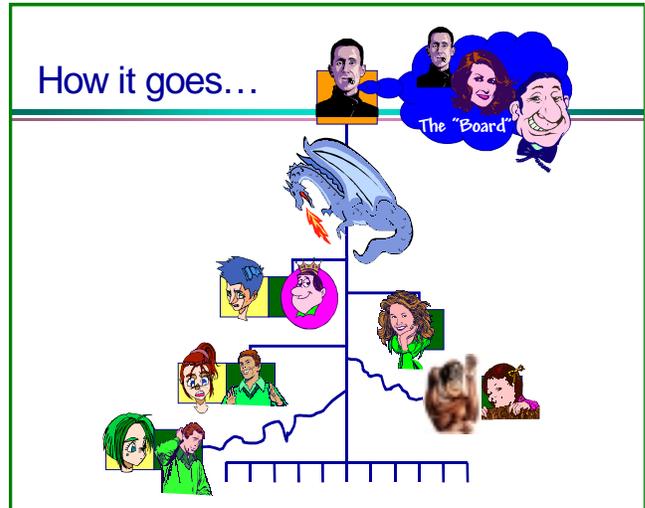
Donald J. Jonovic, Ph.D.

Workshop outline:

Donald J. Jonovic, Ph.D., is a professional advisor to owners of family and closely held businesses. He has worked with businesses in most phases of American industry and agriculture as a consultant, educator, author, and corporate director since 1973. His columns on business ownership and management are read annually by millions of readers. His approach to business ownership issues and solutions comes from a breadth of experience that is rare among specialists in his field. In his own words: *“These are challenges with no definitive answers, only a state of the art we adjust with experience.”*

He focuses on issues that are critical to family-owned businesses:

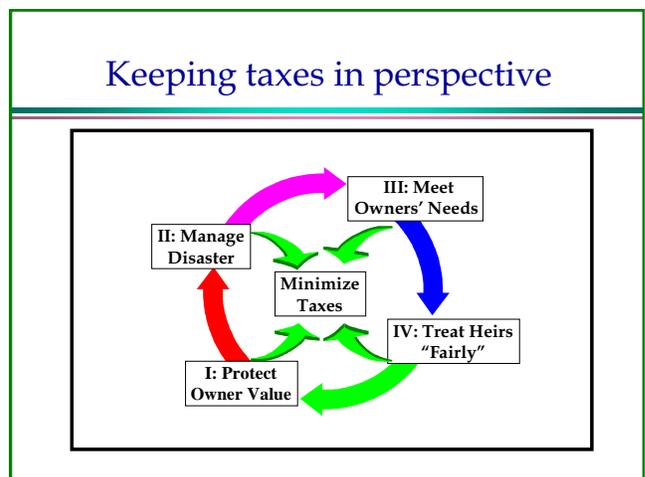
- ❑ **Who are we?** How to define the causes of stress and disagreement in family business, and develop the tools to build a successful partnership
- ❑ **Why are we here?** How to build an owners’ “investment strategy” that drives success—and defines the REAL purpose of the family business
- ❑ **Winning the fight against anarchy.** How to create a successful process for discussion and decision as owners—and keep it going year to year, generation to generation
- ❑ **Cracking the hermetic seal.** How to work with the best professional advisors—effectively and economically
- ❑ **Preventing procrastination.** How to break the logjams delaying effective estate planning—and accomplish a lot more than simply saving estate taxes
- ❑ **Avoiding the semi-retirement scam.** How to create and manage a retirement that actually “beats working”—and actually works
- ❑ **Compensating strategically.** How to use compensation to point managers at building owner value—and, in the process, be sure we’re paying for what we *want* instead of settling for what we *get*



An Example Investment Strategy

XYZ Co. Investment Strategy

The owners of XYZ Co. expect a minimum annual ROE of w% on combined operations, and believe that the business should be able to provide a rolling, five-year average target return of x%. We expect to grow owner equity by at least y% per year maintaining an average leverage of z/1, and will reinvest earnings as necessary assuming achievement of the above targets.



What “whitewater” looks like...

Mike Jensen looked up at the frayed Christmas banner above the door to his office. An edge curled where the tape had lost its hold, dried out from the old building’s hyper-heated air.

The headache still sat on his shoulder, probing his knotted muscles. Thirty years of work. For this...

His son, Jenks, had just stormed out, ranting at Mike’s insensitivity to his righteous complaint, whatever it was. Mike couldn’t remember—there were so many.

The real issue this night, the source of the headache, was a major customer, ABL Industries, who accounted for 20% of Mike’s sales volume.

“We got a quote from one of your competitors,” ABL’s VP/Purchasing had called that morning to tell him. He was sincere. Even regretful (*right!*). “You guys were Supplier of the Year, excellent quality, good service. We’ve had a great relationship. Goes back 20 years.

“But,” he added, “their price is 15% lower, Mike.”

Mike knew he’d keep the business. No question of that. But now the groveling began. Service. Quality. JIT. All those great fantasies airbrushed in *Fortune* management fold-outs usually boiled down to margin shavings on the controller’s floor.

Mike looked around his office. The picture of him with Reagan — maybe the guy was a little vague, but Mike could never avoid smiling in his presence. Next to Reagan, the family pictures. The grandkids, all eight of them. He couldn’t stop *that* smile, either.

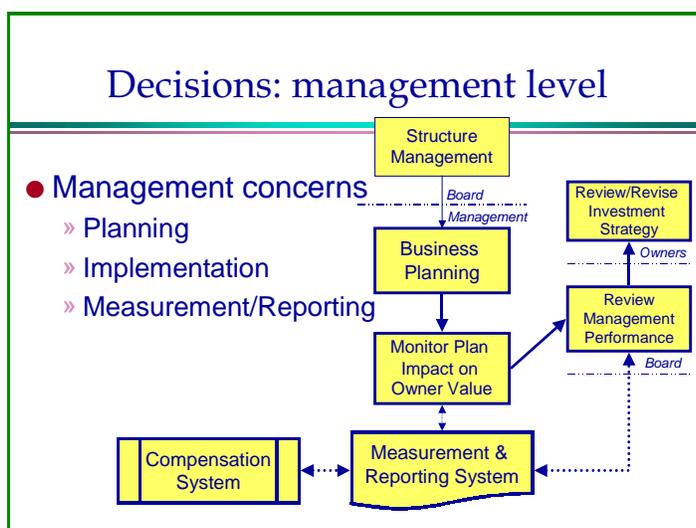
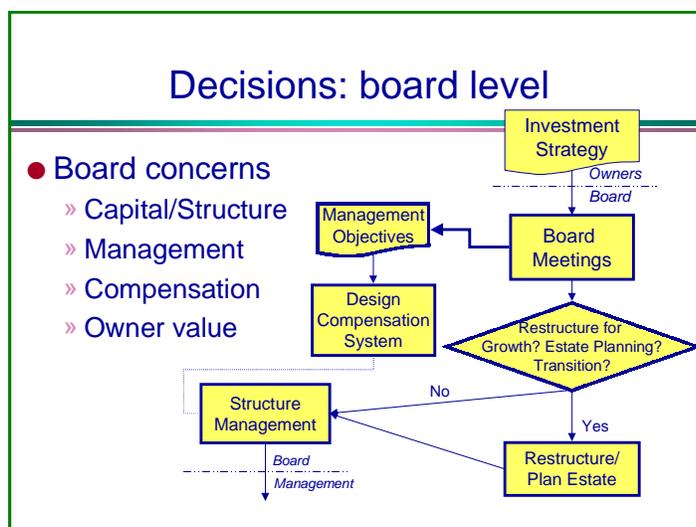
He looked at the old, framed certificates, AMA “Strategic Management,” that sort of thing, and an empty sense of loss washed over him. Only yesterday, the colors were sharp and fresh. He and his two brothers had left the GM plant full of enthusiasm, naiveté, guts and a touch of stupidity, certain beyond anything that they could stamp parts better and cheaper than anybody.

We did more than any of us ever expected. But what did we really gain...?

From “The Ultimate Legacy” by Donald J. Jonovic, Ph.D.

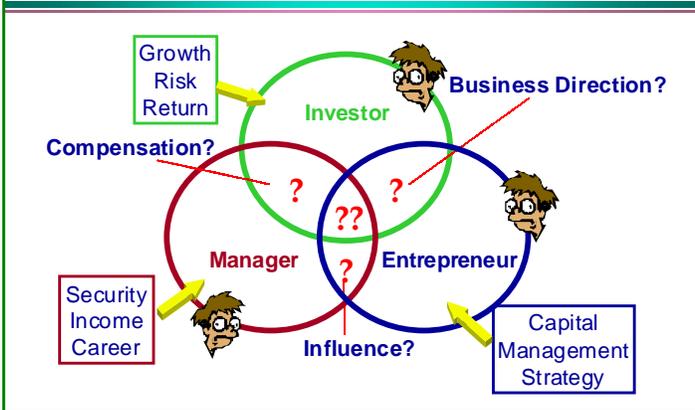
Workshop themes:

1 “Effective Governance” which is basically managing responsibilities of decision-making, particularly where transition is an issue, there are multiple owners, or more than one generation is involved. Many, if not most, family companies are structured ad hoc and informally. Shareholder decisions are confused with management actions, and “board” meetings are either non-existent or characterized by anarchy. The suggestion here is that shareholder/investors step up to the plate and accept their responsibility for overseeing their investment, while delegating strategic and tactical decision-making authority to an advisory board and to the management team, respectively.



Workshop themes (cont'd):

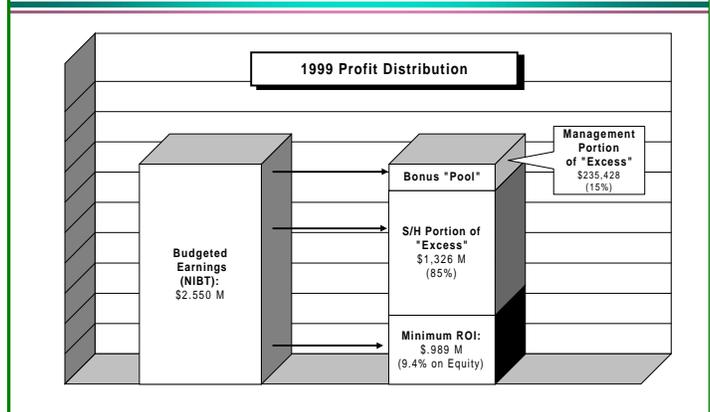
We MUST separate perspectives...



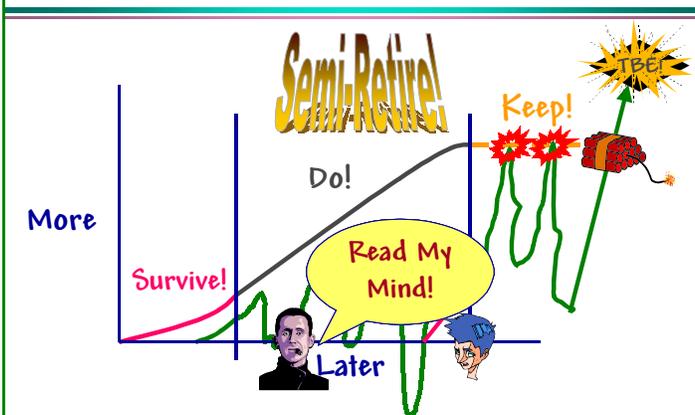
2 “Effective Communication,” which is a critical need in most family businesses. A principal cause of dissention and indecision in family companies is the common **failure to separate “levels of discussion.”** One person in a conversation could, for example, be approaching an issue as an investor, thinking primarily in terms of risk/return. Another could be approaching that same issue from a management point of view, thinking in terms of increasing market share. Both perspectives are valid, but, not knowing they are speaking on different levels, these individuals can get into heated arguments about the appropriateness of a given investment. This discussion describes a more effective meeting process and introduces the concept of a shareholder-developed **Investment Strategy**.

3 “Strategic Compensation,” or tying pay to owner value. Family companies are typically mired in a **socialistic approach to compensation**, taking from each according to ability and rewarding each according to need. This section discusses how compensation systems are hobbled by secrecy, lack of vision, and confused responsibility structure, and ultimately ties the critical importance of owner value (as defined in the “Investment Strategy”) to goals and incentives for the management team. This discussion covers issues related to base salary, performance **incentive philosophy** and design, and concepts of long-term **growth compensation** programs, such as phantom stock.

A shareholder value-based bonus...



The past is prologue...



4 “Managing the Myths of Succession.” Management and ownership transition are frequently predicated upon the retirement of the current owners. On a theoretical level, this is sensible. On a practical level, It’s a near impossibility. **Retirement and semi-retirement** are discussed at length, from the point of view that most successful people don’t wish to retire, ever. After examining alternative approaches to the “renaissance” each of us must plan for and manage, this discussion moves into estate planning issues. Tax planning is put into a role that’s secondary to both building owner value and meeting business and individual needs. Various **“myths” that hold up estate planning** are also explored.

Workshop objectives:

Participants in this workshop will leave with a better understanding of the **responsibilities they have as shareholder-partners**, both to understand what their investment actually is—and the need to **communicate** and agree on the returns expected. The dangers of **secrecy** will be more difficult to ignore. Creating **outside review** and a “board” process will be more understandable, and seem more achievable. Accounting will have value as more than a simple tax tool, the real role of **budgeting** and **compensation’s** relationship to shareholder value will be more clear. Most importantly, participants will leave with **tools they can use immediately and easily to begin structuring more effectively for the future.**

If we did it right . . .

- Investment Strategy defining “owner value”
- Ongoing Board review of
 - » Management performance
 - » Effectiveness of business strategy
 - » Impact of strategy on owner value
- Timely, accurate management information
- Competent management driven by, and compensated for, building owner value
- An extremely disgruntled IRS

Reactions of sponsors...

...and participants:

“Very good and lively presenter. A lot of old ideas presented in a new way which catches your attention. One good idea, too, on basic board structure.”

“The practical approach, there were always examples you could relate to. Also the humor injected which kept it interesting. The presentation was well done and very professional.”

“Very well organized and precise about solving family business problems.”

“Great visuals and equipment. Excellent knowledge base of speaker. Definitely hits home. Great sense of humor and presentation skills.”

“This was the best presentation yet. Also liked the format vs the usual ‘case study.’ Very practical.”

“Probably the best seminar I have been to.”

“Clearly—the presentation was a winner! You did a terrific job with both content and presentation skills. No surprise—but always reassuring, especially with this demanding crowd.”

Paul Karofsky

Director, Northeastern University Center for Family Business

“Your presentation on “Surviving Family Business Whitewater” (and more!) was magnificent. Everyone thoroughly enjoyed you and your sense of humor, not to mention the fact that your message hit very close to home.”

Ann Johnson

Director, Indiana Family Business Forum

“It felt a bit like Comedy Night at a local club, as Don Jonovic kept Family Business Center members rolling in their seats with one quick one-liner after another. But underneath the laughter were some very important messages. [H]e focused on setting the core agenda for a business: the overall goals that will inform every decision every day. And, he pointed out, many business owners go about this all wrong.”

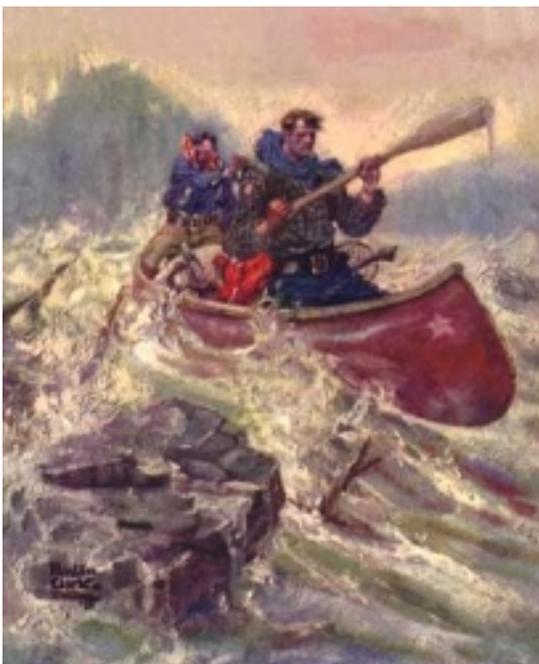
Shel Horowitz

UMass Family Business Center



Sponsor references:

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- ASHLAND UNIVERSITY**—Paul A. Sears, Ph.D., 401 College Ave., Ashland, OH 44805 (419/289-5212)
- BAYLOR UNIVERSITY**—Nancy Upton, Baugh Center for Entrepreneurship, Box 98011, Waco, TX 76798 (817/755-2265)
- FAMILY ENTERPRISE INSTITUTE**—Olga Staios, 11709 Bedivere Ct., Cincinnati, OH 45241 (800/388-8802, ext. 2435)
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- KENNESAW COLLEGE FAMILY BUSINESS FORUM**—Craig E. Aronoff, P.O. Box 444, Marietta, GA 30061 (404/423-6045)
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- NATL. ASSN. FOR SPECIALTY FOOD TRADES**—Ann Keusch, 1450 NE 123rd St., North Miami, FL 33161 (800/327-3736)
- NORTHEASTERN UNIV.**—Paul Karofsky, Center for Family Business, 370 Common St., Dedham, MA 02026 (781/320-8015)
- OREGON STATE UNIVERSITY**—Patricia A. Frishkoff, College of Business, Corvallis, OR 97331 (503/737-3326)
- ST. LOUIS UNIV. FAMILY BUSINESS FORUM**—Robert Brockhaus, 3674 Lindell Blvd, St. Louis, MO 63108 (314/977-3850)
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- SUCCESSFUL FARMING/MEREDITH CORP.**—James Cornick, 1716 Locust St., Des Moines, IA 50336 (515/284-3000)
- TEXAS A&M UNIVERSITY**—Danny Klinefelter, Dept. of Ag. Econ., College Station, TX 77843 (409/845-7171)
- UNIV. OF CONNECTICUT**—Diane Mitchell, Family Business Program, 368 Fairfield Rd, Storrs, CT 06269 (860/486-5740)
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- UMASS FAMILY BUSINESS CENTER**—Ira Bryck, 358 N. Pleasant St., Amherst, MA 01003 (413/545-1537)
- UNIVERSITY OF NEW HAVEN**—Paul L. Sessions, 300 Orange Ave., West Haven, CT 06516 (203/932-7421)
- UNIV. OF VERMONT FAMILY BUSINESS INITIATIVE**—Michele Rose, Kalkin Hall 219, Burlington, VT 05405 (802/656/5897)
- WEATHERHEAD SCHOOL OF MANAGEMENT**—Prof. Ernesto Poza, 37300 Jackson Rd., Cleveland, OH (440/247-6300)



For more information:

This workshop is available in varying lengths, depending on desired depth and audience interactivity. For fee and schedule information, please contact:

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