Summer 2019

THE COMMERCE BANK OF WASHINGTON

FAMILY BUSINESS newsletter

Layton Construction founder Alan Layton Sr., left, stands with his son David Layton, far right, and an employee at a job site in Reno, Nevada

Constructing a Quality Family Business

'The Layton Way'

When Layton Construction founder Alan W. Layton sold the family business to his sons in the mid-1980s, he offered two warnings: First, never buy any computers — because they're a waste of money; and second, never let ownership go outside the family.

"While my brother and I followed much of the advice of our father, in this case we disobeyed both pieces in a huge way," said David Layton, who succeeded his brother, Alan S. Layton, as company president in 2004.

In the ensuing decades, the brothers would bring on dozens of employees as part owners in the company, while becoming early adopters of innovative technology in an industry often slow to adapt.

But even now, with more than 100 employee owners — 10% of its workforce — and 11 offices from coast to coast, Layton Construction is still very much the family business their father began in 1953.

A decorated World War II veteran, Alan and his wife, Mona, ran the business office out of their basement in the early years. Their 10 children would be some of their first employees, working on job sites, paying bills and helping with receptionist duties.

David Layton remembers sweeping and picking up debris on job sites as a young child, sorting used construction materials that seemed valuable to his 7-year-old eyes but were ultimately meant for the trash.

Construction projects were a frequent topic of nightly dinner conversations and regular family stops on weekends and school holidays.

"The nature of our family business and personal life were so intermingled they were inseparable," he said.

After completing his engineering studies in 1972, oldest son Alan Jr. returned to the company to learn the ropes of management, becoming president in 1979. David, the youngest Layton son, followed a similar path, also completing an engineering degree before taking an active role in that company and its management in 1988.

Now as its president for nearly 15 years, David is proud of the company's impressive project portfolio that spans prominent sports stadiums, theaters, hospitals, data centers, retail spaces and office buildings across nearly every state. Layton Construction has emerged from a Utah-focused firm to a national corporation with current projects in 26 states.

Meanwhile, business-related banter around the family dinner table is as inevitable as it was a half-century ago. At his mother's 99th birthday party, for example, or at a Utah Jazz basketball game with his son, David frequently finds himself drawn into conversations about

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The featured family businesses are clients 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. All other images are stock photography.

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the company's latest projects. And though being always on-duty in the family business has it challenges, he wouldn't have it any other way.

"It's who we are, and it's been a part of us all since dad founded the business 66 years ago," he said.

Central to that identity is a philosophy of doing business — what has come to be known as "The Layton Way" — that defines and guides the company.

In a letter to his sons in 1985, then-retired Alan Sr. distilled years of wisdom into 12 principles that have become the foundation on which the organization operates. "The company hallmark has been and should always be quality," he wrote; and "Get involved with all employees. Let them know you care about their well-being."

Alan Jr. and David took this advice to heart, building a company culture that encourages and empowers employees to make decisions based on those values of hard work, thrift, honesty and fairness. At times that has meant passing on a job or requiring a subcontractor to redo work until it meets the company's core focus — predictable outcomes for customers.

Since transitioning from a small, family-held enterprise to a regional construction company to a national corporation, Layton Construction remains a family business — but now with a much bigger family (nearly 1,000 employees).

While David Layton knows he will likely be the last member of the Layton family to lead the business, he continues to code his family's values into Layton Construction's DNA and preserve its legacy into the future.

Defining What's Right for Your Generation

By Deb Houden

"We're doing it that way because that is what dad wanted. And for as long as he is alive, that's how we're going to do it. It was dad's dream, he built it, he gave it to us, and that's what's important. We have to honor dad."

The statement silenced the rest of the siblings who were trying to have a discussion around the development of a shareholders' agreement. The agreement was a "last man standing" contract where upon the death of the shareholder, their shares were retired and the remaining owners had a larger stake in the company. The sibling group of eight were in their 50s and 60s and contemplating their own future. Some of the siblings worked in the company but most did not. One of the siblings had been diagnosed with a chronic illness that had the potential to shorten her life, and she wanted to understand the consequences of her ownership for her children. She understood the children were to receive the financial gain for the sale of the stock back to the company, but one of her children also worked for the company and hoped to become part owner one day.

While there were many facets to the discussion, I stopped the conversation and asked all of the siblings to step back a bit. Why would their dad want the agreement to read like that? What would be the purpose of formulating such an agreement? The fourth child answered, "Because he wanted the decision making to be consolidated so no one who was running the company would have to ask anyone else for permission to do something."

I asked the remaining siblings if that was true. They all nodded in agreement. I proceeded to ask why their dad would have felt so strongly about consolidating decision making. Then another sibling told me the story of their dad, his father and his uncles. It was a story of destructive work habits and entitlement that strapped the company and angered the siblings' father. He eventually bought everyone out and turned the company around. Their father had a very compelling reason to have the shareholders' agreement written in the way that it was. However, it was now time for the siblings to come together to decide what was right for them as a group and their families going forward.

Each generation must navigate their own waters. Each generation must decide what is right for them, and what to pass forward. Each generation must face the tension of what is right for their nuclear family, and what is best for the whole and come together to negotiate a decision. And the successful negotiation can only happen through communication.

Often as consultants we are asked to speak or write on best practices. We are asked to give advice on what works best. The problem with those answers is that in order to be a best practice we must answer, "It depends." The best answer is that each group must come together to review, to communicate, and to decide together a path that moves the family and the business forward in a constructive way. What is best for one family enterprise may not be the best for another.

I was reminded of this the past week when I listened to a webinar on the next generation and how they need to individuate and differentiate from the family. They need to become their own person and understand their own identity, their own strengths and weaknesses. When they can stand on their own, make their own decisions in a healthy way, these children become adults who can bring a lot of positives to the family and the business, regardless if they work there or not. It is the same with each generation of a family business. They must understand where they came from and appreciate the hard work of the older generation, but decide what their own strengths and weaknesses are, what they need to do for each other and as a whole in order to put their own stamp on the family and the business.

The next time you are in a family meeting, work in individual generations to decide:

- What are our strengths as a group?
- What is a potential area that could make us unravel?
- What do we want our generation to be known for?
- What happens if we do nothing?

Honor your past and hope for the future, but don't forget to make (as a group) your own impact on the family business.

Deb Houden, Ph.D., is a senior consultant with The Family Business Consulting Group, Inc. specializing in helping family-owned businesses with family communication, transition and next generation development by providing resources, tools and knowledge that are needed to navigate their specific issues.

'That's Not Fair'

Creating Compensation and Employment Policies

By Dana Telford

A common anecdote told by family business advisors quips that the first three things a baby learns to say are: Mama, Daddy and "That's not fair." After working with family business owners for more than 15 years, I can understand why.

One of my client families consisted of four siblings and their mother who each owned 20% of a large logistics company in the UK. In their last shareholders' meeting, an argument erupted about whether Anne, the third oldest, had the right to borrow 5 million Euros from the company, even though the family loan policy clearly forbade it.

As tensions increased, I noticed how quickly the arguments for and against Anne's loan started marching back through time. Remarks about who got what money last year turned into a heated discussion about the cost of a particular grandson's college tuition. This was rebutted by a comment about who paid for another sibling's divorce.

In an attempt to restore calm, I asked Anne why she believed her request was valid. She identified an opportunity to invest in raw land in her neighborhood. I asked again if she felt that her circumstances superseded the family loan agreement. After more exchanges, the truth finally emerged: "Because daddy always gave more to them. I deserve this money."

Siblings and Money: A "Fairly" Complicated Relationship

The clear metrics of compensation (wages, bonuses, retirement, benefits, options, fair market value, etc.) would suggest that complications around family compensation are grounded in finance and accounting. However, I have found often at the heart of this emotional issue is the early-formed and long-standing quest for fair treatment among siblings.

We compare resources received from parents and grandparents with that of our siblings, even into middle age. Our children keep score in the same way. This dynamic lasts throughout the sibling relationship, which on average is the longest of our lives.

An analysis of 70 of my most recent client engagements revealed that many of them struggle over family members' compensation. A few interesting facts:

- 34 of the companies are controlled by one owner (49%), 31 by sibling partners (44%) and five by cousin groups (7%).
- In 60 of the 70 family companies (86%), siblings work together on a frequent basis (at least one day per week).
- Of those 60, compensation is a major issue in 54 family companies (90%).
- Of the six family companies that do not have compensation issues, three are publicly traded and three are third or fourth generation, high-functioning family businesses actively managing the relationship between the business and family.
- Of the 70 total companies, family member compensation is a significant issue in 58 of them (83%), regardless of whether siblings work together.
- In summary, 90% of my family business clients in which siblings work closely together have trouble dealing with family compensation.

Socialist at Home, Capitalist at Work

"From each according to his ability, to each according to his need." Karl Marx

Why does compensation in a family business cause so much heartburn? Much of the blame can be placed on parents and the incongruity between how we behave at home and how we behave at work. I call it "split economic personality disorder." By and large, we are socialists at home and capitalists at work. Family compensation tensions can often be traced back to these clashing economic philosophies.

When it comes to home economics, we lean left. Predictably, and for good reason, we give time and money more liberally to the neediest children. At the same time, the child who produces more benefit for the family — helping around the house or earning money to defer car insurance costs — is rarely rewarded.

However, once we pull the car out of the driveway and head to work, we become free-market capitalists intent on productively employing our resources for personal gain — gain that largely results from finding, hiring and retaining skilled, productive and trustworthy employees. We know that our chances of increasing our capital improve if we lead and reward our people based on principles of meritocracy: governance that distributes responsibility, power and resources based on merit and achievement rather than relation, popularity, seniority or age.

It seems logical then, that a child would expect socialistic economic principles to apply on their first day at the family company. "After all," they might surmise, "it's the same boss." Not so, dear child. You've stepped from one economic reality into another. The key challenge is how to help the child understand and respect the difference.

Two Organizations, Two Different Worlds:

Direct Comparison of Family and Business Characteristics

Family	**Business**
Resources doled out based on need	Resources awarded as a result of achievement
Emphasis placed on achieving "equal" treatment	Emphasis placed on achieveing "fair" treatment
Warm and fuzzy success metrics (love, respect)	Hard, quantifiable success metrics
Relationships due to marriage and birth	Relationships as a result of choice
A sense that the relationships are permanent	A sense that the relationships are temporary

Start with the Golden Goose

Before owners need to worry about compensation for family members, they must first create a golden goose: a profitable, growing business. They need to communicate clearly and often that protecting the goose and her golden eggs is a primary objective and family responsibility.

Though simplistic, many of my clients use this golden goose analogy. Protect the goose from the fox (primary competitors) and it will lay golden eggs for its owner. If the owner gets too fixated on the eggs, the fox will kill the goose. Dead geese don't lay eggs, and families miss the profits when they're gone.

A well-managed business provides economic and psychological benefits to the family. In return, when the family is treated fairly and cared for, they provide the same for the business. Each complements, supports and strengthens the other.

Teach Self-sufficiency and the Owner's Mentality

Once the golden goose is healthy and safe, begin preparing the family for entering the business. Following are successful ideas from other client families:

Extol the virtues of self-sufficiency and autonomy.
One client makes time to talk with his children about the satisfaction he feels from earning money and being able to spend it how he wants. He points out that he is also able to control his schedule and attend important family events because he works as his own boss.

Help them find their "thing."
Another client encourages her grandchildren to pay attention to where they are most successful. She suggests they will be happiest in life if they can figure out their "thing" — the unique talent or skill that they can productively and enjoyably apply in order to make money.

According to one of my most successful clients, "The people who cause the most problems in an organization are the ones who aren't good at anything." All people are good at something, but many don't know what it is or how to use it productively.

Encourage the Owner's Mentality.
One of my clients has a life slogan: Make stuff better. He buys businesses, improves them and either sells them or takes them public. He actively teaches his kids this concept by helping them buy, fix and sell things like bicycles, wagons, dollhouses and skateboards. His objective? Show them that owners are interested in increasing the value of what they have.

Next time you are riding bicycles together, ask your child if they would rather own or rent a bike. If your children are older, you might ask them if they would rather own or rent a car. After they respond, ask them why they chose their answer.

Use the discussion to help them see that owners can control and personalize their "stuff." Perhaps they would choose to paint the bike red or put a video game console inside the car. If they own it, they can do with it whatever they want. They can use it, rent it out to others or sell it. If they rent it from someone else, they do not have the right to change it.

Meet as a family council.
Create an agenda that focuses on the interaction between the business and the family and how both should protect, sustain and complement each other. Ideally, the family council should meet for half a day at least twice a year.

Talk about money and wealth.
Share information about benefits family members can expect from the family business such as employment income, insurance, vacations, vehicles, retirement funds and comfort. As they increase in age and maturity, be more specific about dollar amounts.

Define a Family Employment Policy

As children mature and become more aware of socio-economic status, they will hear about worst-case family business scenarios. If they have been appropriately included in family wealth and business discussions, they will understand the need for a family employment policy.

Working together and inclusively, develop a policy that specifies the following:

- Why a family employment policy is important
- What behavior and performance family expects of family employees
- Age requirements
- Formal education requirements: Degrees or technical certifications, Acceptable institutions (accredited universities, licensed training schools)
- Required skills such as technical, financial/accounting and leadership
- Outside work experience requirements (I strongly recommend this)
- The hiring process with specifics about who decides and how

Develop a Performance Evaluation Policy

Take the time to get this policy right. Include family members whose children may someday hope for a job at the family company. Draft a number of iterations before finalizing. Invite family members to voice their opinion and to make concrete recommendations. Keep appropriate meeting notes.

Make sure the message is clear: As owners and future owners, the family wants only the best and brightest business leaders in their company. Others need not apply. Once the policy is completed, remind family members that this policy can only be changed by unanimous vote of the family council.

Reduce Personal Risk Detectors for Non-family Managers

Once the family employment and performance evaluation policies are complete, there is great value in sharing it with management. Non-family managers (NFMs) have highly-tuned personal risk detection systems that constantly scan their work environment for family trouble. If a next-generation family member is approaching the age of full-time employment, NFMs become aware that their risk of being replaced by a family member increases.

Their response is predictable. They begin dusting off their resumes and reaching out to friends and associates in their professional network "just in case." As a result, productivity declines and profitability may dip. If a family employment policy is in place and communicated well, NFMs can stop worrying about unfair job competition and get back to work.

Establish a Family Compensation Policy to Fit the Owner's Mentality

Compensating family members is straightforward once family members understand the concept of the Owner's Mentality. Owners want their businesses to grow profitably and in order to do so, they need excellent managers who make excellent decisions. Owners understand that overpaying under-qualified managers, whether family member or not, doesn't make sense.

> Before owners need to worry about compensation for family members, they must first create a golden goose: a profitable, growing business.

The family compensation policy should clearly outline key guidelines:

1. Any advantage given to family members working in the business will be seen by employees as family socialism superseding free-market capitalism.
2. Family employees will be compensated in the same manner as non-family employees, period.
3. Compensation levels will be determined by fair market value analysis.
4. Family employees are expected to live within their financial means and not encumber themselves with excessive debt or rely on special disbursements for their living expenses.
5. Only compensation that is part of an existing employment contract will be provided through the company.

Piece the Puzzle Together

The question of how to compensate family members in a family business seems technical at first blush. Decisions about fixed and variable pay, benefits and incentives, stock options and perks, retirement and fair market value can seem overwhelming when mixed with the emotional energy of family relationships.

But when viewed from the vantage point provided by the Owner's Mentality, compensation for family members becomes another piece of a puzzle. A colorful, energizing, maddening family business puzzle that is complex and constantly changing and must be handled lovingly, carefully and fairly.

Dana Telford is a principal consultant with The Family Business Consulting Group, Inc. specializing in helping family business owners plan for succession and manage the complexities and opportunities that are inherent to family business.

THE COMMERCE BANK
OF WASHINGTON

FAMILY BUSINESS
newsletter

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