THE COMMERCE BANK OF WASHINGTON

FAMILY BUSINESS newsletter

From the Football Field to the Family Business

Teamwork Drives Old Trappers' Success

Outside the lush river valley of Tillamook, Oregon, an area once roamed by trappers and explorers, Dennis and Melinda Evenson began smoking meat in the back of their country store in 1969.

It became a favorite stop for motorists along the Wilson River Highway, who would pause for a hand-cut slice of old-fashioned beef jerky as they traveled along Oregon Route 6.

As word of the tender, savory meat spread, a snack food distributor approached the Evensons about selling their popular product to local stores. That conversation led to a new factory outside of Forest Grove in 1984, the beginnings of Old Trapper Smoked Products.

Today, the company operates out of a new 80,000-square-foot processing facility, not far from the original factory, to keep up with growing demand for its products. Its thick strips of lean beef are seasoned with a blend of spices and brown sugar for just the right hint of sweetness, then smoked for hours with real wood.

Brothers Eric, Hans and Ole Evenson are carrying on the family meat-smoking tradition. From the football field to the factory, the three brothers learned to work together at an early age. Growing up in the family business, they spent summers doing odd jobs for their parents. All three excelled in football and became decorated athletes at Linfield College, where their time on the football roster overlapped.

During the brothers' college football success, tragedy struck the family. Their father, Dennis, died unexpectedly in 1998, leaving behind the family and the business. Working beside their mother, the brothers ushered in a new generation of family ownership.

In more than two decades since, they have expanded the company from 15 employees to more than 500, with annual sales growth consistently in the double digits. Distributing their packaged meat products nationwide, Old Trapper ranks as the country's second-largest beef brand and third-largest meat snack brand.

The Evensons' formula for success?
"It's the old cliché: Make a very consistent quality product and market it well," Eric Evenson says.

***Left to right:** Ole Evenson, "Trapper," Melinda Evenson, Hans Evenson, Eric Evenson*

Beyond its signature smoking process, the family business's recipe for success also involves a tight-knit family dynamic, where each family member brings different strengths to the table.

"Sometimes you say things to a family member that you wouldn't say to an employee or someone else," Evenson says. "Everyone in the family works really hard, and we understand we're in the same boat rowing together."

The brothers have modeled their operating style on the example learned from their parents: To conduct business with integrity and treat everyone with respect.

"We say what we do, and we do what we say we're going to do," Evenson says. "My father, no matter what challenges were going on, believed in honoring his word and to some degree he embodied the American dream."

Old Trapper Smoked Products marked its 50-year anniversary a few years ago and looking back on the past decades the brothers believe their father would be proud.

"We didn't start it, but we have grown it to what it is today," Evenson says. "There's pride in that."

The Value of Diversity in Governing Family Enterprises

By Kelly Lecouvie, Ph.D.

You may have one or more governing bodies in your family enterprise: a family council, an owners council, a corporate board, perhaps a foundation board or other groups that represent the larger family. You depend on these governing bodies to make decisions that reflect constituent expectations. When you think about that objective, what are the circumstances under which you can maximize the chances of fulfilling expectations for the broad group of extended family members? The short answer is it is not easy to create those circumstances.

Typically, the low hanging fruit in terms of creating the most harmonious decision-making group is simply to seek out like-minded individuals. And why not? When you are sitting around the table with people who think like you do, idea generation is easy, discussions are not typically drawn-out, and decisions get made. It is efficient. That said, is it optimal? Does it represent the diverse opinions you witness across the large family? Will your decisions reflect multiple opinions and preferences? Will you be able to defend your decisions?

Strength in Diversity

Any important decision made by a governing body must be vetted based on input from a representative group that asks the right questions, investigates the assumptions made in data gathering, and embraces the challenges associated with distinct viewpoints. How do you help to ensure that the governing body can do just that? Throughout 2020, we have seen many of our clients pay close attention to the real value that diversity brings. And while diversity within the same family may not appear to be obvious at first glance, it exists; and diversity should be sought out.

Diversity builds strength and increases effectiveness within governing bodies that are composed of either all family members (often family and owners councils) or some family members (corporate boards). Hopefully something here will help you to consider ways in which the composition of those decision-making groups will sustain and strengthen stewardship among your family, key nonfamily management, suppliers and financial partners.

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In the last few years, a number of social movements have brought concerns of diversity to the forefront of business activities. Corporations like Pepsi, for example, announced huge investments into their goals of achieving gender parity in their workforce, as well as racial diversity in both their workforce and their supply chain as a response to the social activism in 2020. The response to campaigns like Pepsi's has been somewhat lukewarm: Social justice activists question whether such investments can lead to real change, while business academics question if such investments can lead to positive financial performance. Diversity continues to be a topic of inquiry for publications like the Harvard Business Review, particularly in response to increasing legislation mandating gender diversity on governance boards.

Expanding the Meaning of Diversity
It is helpful to clarify what diversity entails and to consider the recent data regarding diversity when giving suggestions for how diversity can improve the performance of governance systems. We define diversity more broadly than gender or racial lines: While a diverse board should include female members (indeed, this has been a legislated requirement for publicly traded companies in California since 2020, while countries such as Norway, Spain, France, and Iceland all require that women comprise 40% of the board), the concept of diversity should be expanded to include racial, sexual, educational and generational diversity.

Expanding the definition of diversity beyond gender equality is well-founded: A 2015 review of 140 research studies found that the relationship between female board representation and performance found a positive relationship with accounting returns. In a 2019 HBR article, authors interviewed 19 board directors in response to such data, working with the chairman of the board at Deloitte to develop recommendations on diversity in governance. Their first recommendation? Expand the view of diversity; many of their interviewees suggested that both social and professional diversity would be helpful for increasing the diversity of perspectives on the board.

This recommendation for diversity of perspective is equally well-founded. Several studies on decision-making have suggested that developing a positive culture around dissent is essential for strong judgment in a leadership capacity. Dissent comes from diversity; specifically, differences in several areas:

- Educational backgrounds,
- Professional backgrounds,
- Generational gaps, and
- Elements of social diversity.

Valuing Diversity of Thought
Jared Landaw, in his 2020 HBR article on diversity in boardrooms, focuses on cognitive diversity as a requirement for improving financial performance. For his study, he interviewed 18 directors of underperforming firms who had been subject to shareholder activism by the Barington Capital Group, an activist investment firm that assists publicly traded companies in designing initiatives to improve long-term value. His findings were that cognitively diverse boards were more likely to challenge the status quo, which then led to improved financial performance. Cognitively diverse directors also helped with changing the culture in the boardroom.

As one of the interviewees stated, "The new directors [on our board] brought not just a diversity of opinions and perspectives, but a diversity of behavior — a willingness to openly challenge management and other directors, which was missing from the boardroom. By having more open debate, it created an environment where others saw it was good and healthy to have frank discussions regarding important decisions. When members of the board began challenging each other — and listening to each other's viewpoints — it led to positive outcomes. Good healthy disagreement led to good decision-making."

Embracing Family Diversity
Landaw recommends that boards recruit racially, ethnically, and gender diverse directors who can bring new professional backgrounds, skills, and experiences in areas relevant to the company's strategic and operating needs, and who can introduce new views, perspectives, and approaches to problem-solving. In a family-owned business, this definition needs to include a multigenerational, and multibranch board that can represent the many generations dedicated to preserving the familial legacy.

Boards that promote open communication or are egalitarian instead of hierarchical in their decision-making style, are more likely to benefit from social and professional diversity in the boardroom. It is not enough to simply add diverse voices to the board or council; the governing body needs to adapt to support the diversity of opinions in order to experience the benefits from diversity in decision-making. And studies have provided evidence that a culture that supports dissension, while sometimes challenging, will typically result in decisions that are of higher quality.

If you seek continuity through generations, it cannot be realized without strong stewardship in the family. Stewardship is not innate, it is developed over time, as well as earned by the groups responsible for steering the ship. Those groups discuss, debate and make important decisions, and must be equipped for those critical responsibilities.

Homogeneity Is an Illusion

Understanding our family isn't easy. How could the siblings I grew up with be so different? What does this new generation really think, believe, want from life? Add to that, the need to understand the optimal composition of family governing bodies that will best serve the collective, the community, that is our family. What we know is that homogeneity will not accomplish that goal; and that a governing body that is made up of members who bring diverse philosophies, experiences, education and opinions will likely in the long run, equip us with true representation; with recommendations and decisions that can be made with confidence, on behalf of the people we love.

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Planning for Continuity in Family Business

Where, Oh Where, to Begin?

By Amy Schuman

"We have wills and trusts in place, thanks to our attorney and accountant. But, it's been quite a while since we signed those papers. I know we need to do more to get ready for the future, but I'm not sure what to do or where to start. Can you help us plan a path forward?"

If this sounds familiar, you're not alone. Experienced CEOs are skilled in making investment decisions and building leadership teams, but they often find family ownership-related questions daunting. The following are some common questions to consider:

- How — and when — do we begin educating the next generation of owners?
- What's the best way to build stronger family relationships and clearer communications?
- Should we involve spouses?
- How do we create "rules of the road" for family employment and set realistic financial expectations for future owners?
- What's the best way to ensure that merit and qualifications guide business decisions?
- What should be the role of our parents in planning for the future that will not include them?

It is our job as family business consultants to help families identify their tough questions and then help them formulate answers that support their continued success. Although every family business is unique, proven governance practices exist for the family, the owners and the business that have tremendous value in helping them prosper across the generations.

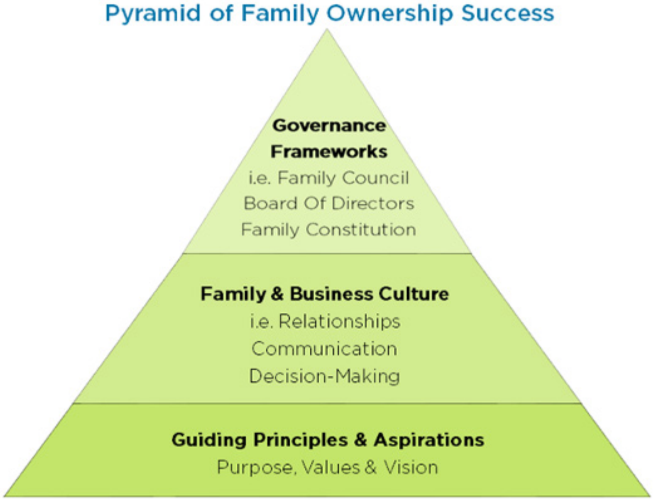
For example, a family council is often the ideal way to provide education and participation for the wider family. A family constitution, with participation policies, can be the best way to clarify rules of the road for next generation employment. A board of directors with independent members is the optimal vehicle for creating objective, expert accountability for operations. Although these governance practices can make the difference between success and failure, they are often frightening and foreign for family members.

Proven governance practices exist for the family, the owners and the business that have tremendous value in helping them prosper across the generations.

The Pyramid of Continuity
To help families feel more confident and safe as they implement these approaches, I've refined a very simple approach: The Pyramid of Family Ownership Success (see corresponding diagram). This pyramid draws from my work with successful family firms as well as family business research and collaboration with clients and colleagues.

The idea behind the pyramid is that successful governance must be built upon a strong foundation. The base of the foundation is ownership clarity regarding purpose/values/vision of both the enterprise and the family. The middle of the pyramid is a healthy family and business culture. Governance practices finally rest at the top of the pyramid. A strong foundation provides assurance that the governance practices are meaningful and will be successful. A weak foundation will provoke predictable problems when implementing boards, family councils or other mechanisms for decision-making and accountability.

Pyramid of Family Ownership Success



A Firm Foundation Fosters Success
Peabody's Petcare Products (an actual, but disguised case) knew it needed more formal governance practices in the transition from the second to third generation of family ownership. However, they were hesitant. The handoff from founders to siblings went smoothly without any formal policies or meetings. The business grew nicely under sibling leadership, providing generous financial benefits for the wider family. The Peabodys knew they had to do things differently to manage the increased size and complexity of the ownership group in the cousin stage. For example, they knew they needed written guidelines about family employment. They knew that a board with greater experience would be needed to keep up with the competition. They suspected there were other practices and approaches that would be required, but had no idea how to get started. The family also worried that discussing these subjects would raise disagreements and conflicts. Although it seemed daunting and even dangerous to take a different approach, they knew something different was required.

When I met with the Peabody family leadership, I advised them not to start right away with implementing governance structures. Instead, I recommended beginning at the base of the pyramid with values and vision:

- What is their purpose for continued family ownership?
- What did they want to create, together?
- What guiding values did they turn to when making difficult decisions?
- What was their shared vision for the future of their enterprise?

Although initially hesitant about engaging in such a "touchy feely" process, they soon saw the benefits and actually enjoyed exploring this together. Once the siblings had agreed upon their purpose/values/vision, they held their first-ever, all-family meeting to share and discuss with the entire family.

A quick review of some of the most admired family firms in the world shows that they credit their values and vision as key to their enduring success. The Vermeer family, when speaking about their continuity over three generations, point to the "Four P's" (principles, people, products and profit) as a key source of their success. Other model family firms — including Wegman's, SC Johnson and more — place their guiding values and vision in the center of their success.

Building a Strong Core of Family and Business Culture
Culture is often defined as "How we do things around here." Family business culture is a key part of family business superior performance ("The Competitive Advantage of Culture in a Family Business", LeCouvie and Rhodes).

Rather than speaking abstractly about culture, it's best to work on relationships, communication and decision-making while working on real tasks and solving concrete problems. For example, deciding on a purpose/values/vision statement provides a great opportunity to experience the family culture of communication and relationships.

Also, there are specific questions that can be explored to better understand your current – and desired – culture:

- To what extent are relationships supportive, open, trusting?
- How are decisions made?
- Does the family base business decisions on merit rather than emotion and family status?

- How is conflict resolved?
- How does the family and business approach change and innovation?
- Is there calm and flexibility in the family as it goes about its business?
- Is time taken for joy, celebration, generosity and sharing?

Good Governance at the Peak

The Peabody family found this to be true. As they discussed and debated their purpose/values/vision statement, they realized that they tended to hurry through conversations in a way that shut down and excluded some of the quieter family members. They also had a habit of interrupting each other and speaking over each other when disagreements surfaced. This resulted in decisions that were not fully supported by the whole family, leading to problems later on.

As facilitator, I was able to slow down the process and allow everyone to participate. Upon reflection, the family liked this approach. They liked hearing from everyone. They implemented several approaches to make it easier for the entire group to participate in discussions, such as deliberately going around and hearing from everyone more formally.

It can take a full year to build the pyramid's base. In the process, the middle is strengthened. Spending time together, in a relaxed, facilitated environment, allows families to build stronger relationships and more effective communications. Then, the family can proceed to implementation of governance structures with confidence.

The Peabody family took the following time to create a family council, and the council facilitated the process of creating a family constitution. The constitution laid out policies and guidelines for family employment, joint investing and managing conflicts of interest.

Also during this time, the Peabodys made a gradual transition from an informal, family-dominated board of directors to an advisory board with several outside directors. The planning process had demonstrated to everyone the importance of making business-related decisions from a place of financial understanding and professional competence. Eventually, they evolved to a fiduciary board with three nonfamily directors. There were bumps in the road regarding director selection, and there were some significant tensions in the evolving board/management relationship. However, when faced with difficulties or tough decisions, the family consulted their underlying purpose/values/vision statement, and each time they were able to find a path forward that all could support. If they had not invested in the base of their pyramid, it is unlikely that the disagreements would have been resolved as effectively.

Continuity Planning Begins and Ends Here

Looking back at several years of meeting, planning and implementation, the Peabodys realized that their measured, careful approach to implementing governance structures had paid off handsomely.

If you've been meaning to implement formal succession planning and governance, but haven't yet gotten around to it, you are not alone. A recent study of Western Michigan family firms paints a surprising picture. Although 80% of respondents intend to hand the business down within the family, less than 20% have a formal, written succession plan. (Study conducted by Grand Valley State University and Western Michigan University.)

I believe that many family businesses hesitate to implement these practices because they worry about creating more problems than solutions. They rightfully recognize that they lack the foundation for success with these practices. Whether you are just starting formal continuity planning, or have been planning and meeting for a period of time already, The Pyramid of Family Ownership Success can offer reassurance and guidance to your efforts. Consult the pyramid and determine which part of the continuity planning process needs attention. By starting with a strong base, you will be able to enjoy and appreciate the benefits of governance policies and practices with minimal disruption.

Amy Schuman is a senior adviser of The Family Business Consulting Group and a founding facilitator of the Next Generation Leadership Institute at the Chicago Loyola University Family Business Center.

"Didn't I just give you money for a start-up last week?"

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