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FAMILY BUSINESS newsletter

Built to Last: Sabey Corporation

Sabey Corporation is a privately held real estate development and investment company specializing in mission critical and other technical space for the data center, medical and life sciences, education, government and military sectors. In a recent conversation, Founder, Chairman and President Dave Sabey and son and CEO John Sabey described how the company is "built to last."

Family Business Newsletter: What does Sabey do?

Dave Sabey: Over the past 40 years, we've designed, constructed, and operated more than 30 million square feet of space and count among our valued customers some of the nation's iconic names. I think of us as a fully vertical company that is focused on next generation real estate. We're long-term investors in technology-oriented real estate.

John Sabey: Our holdings are about 40 percent data centers, 40 percent health care and 20 percent other.

FBN: You've built the company on Built to Last (BTL) principles. How has BTL influenced your company's culture?

DS: *Built to Last* is a book by Collins and Porras, a couple of Stanford professors. They wanted to understand why some companies thrive and why others don't. Why some companies are good but others excel in every way. On a macro level, they found that the best companies focus on building the team around a set of core values, purpose and vision that keep everyone in alignment. Most people would say that we build buildings and rent space, but what is important to us is to be the architects of our business, continuously designing to our core principles. We spend an enormous amount of time educating our people, and we provide platforms for them to ask questions, learn more, do more from concept to production.

JS: The book also details how successful companies have a set of values that they incorporate into the organization and adhere to them. We're always looking for ways to drive awareness of these values more deeply into the team—it's an interesting challenge when there are several locations and with two as far away as New York City and Ashburn VA; but in BTL terms, we're building a clock to build a homogeneous culture.

John Sabey and David Sabey pictured here with Joe Sabey, youngest son and Vice President of Development, Life Sciences and Technology.

FBN: Dave, what steps are you taking to prepare for the transition for your retirement?

DS: The No. 1 job of the CEO is to provide the transition. Succession shouldn't be an event, it should be a comfortable, logical, organic process.

JS: If you have a culture that resonates with the members of the team, that is authentic to the company's purpose and its values, then much of the transition will take care of itself over time. We're doing things to ensure that the foundation is solid. For instance, we recently launched the Sabey Leadership Institute to help inculcate in all our people, at every level, the principles of good leadership as it aligns with the core values. Succession doesn't just happen at the very top but all the way through the organization.

FBN: Any thoughts of a third generation?

JS: I have a 15-year-old, and I am starting him out on the progressive cleanup crew. He is going to sweep, pick up after the construction guys, paint and get his hands dirty—just like I did! And we'll see if he ultimately wants to get involved in the business.

DS: I like the idea that it's performance and passion that define who should play.

FBN: What's your advice for other family businesses?

DS: All my experience and study tell me that great businesses are created through intelligent and unwavering commitment to a vision and a purpose—yes, you have to make payroll on Friday! But no one builds a great company with money as the key driver. The generations that follow must discover for themselves the joy of continuing to develop and lead the team—I'm looking forward to seeing where my sons will take it.

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.

Family Wealth Continuity

By David Lansky, Ph.D.

Many wealth creators and business owners share the dream of perpetuating family relationships and family wealth for many generations to come. That's no easy task. Despite numerous structures, plans and processes designed to ensure the sustainability of a family's wealth, many estate plans and business succession plans fail to achieve a family's desired outcomes.

Family Wealth: Assets and Relationships

In my recent book, *Family Wealth Continuity: Building a Foundation for the Future*, I define family wealth continuity as success at preserving both a family's material assets (such as a family business, a family foundation or other financial assets) and good family relationships.

It is certainly possible to create financial or legal structures that are likely with a high degree of probability to preserve financial assets over time. They can be locked up in trusts, family involvement can be minimized, and long-term growth can be emphasized without regard for short-term benefits to family members. This approach may be good for the assets, but it's probably not good for the family! When families do take this approach, I imagine family members sitting around a conference table with "The Money" at the head of the table demanding: "Grow me! Grow me!" as though that was the most important immediate task for all to accomplish. When "The Money" has such a significant role in the life of the family, family members may see little purpose in spending time together, may lose positive feelings about a legacy they share, and indeed may even come to resent the role of "The Money" in the life of the family.

On the other hand, families might do everything necessary to ensure peace and harmony among family members and to secure good relationships across generations, but an emphasis on "peace at all costs" can prevent relevant matters from being discussed openly, and may thereby lead to a breakdown of both wealth continuity plans AND family relationships.

Aligning Dreams and Reality

In my view, the key to successful wealth continuity (i.e., preserving both family relationships and family assets) lies in ensuring that the structures created to preserve family assets are aligned with the hopes, dreams and capacities of family members.

Preserving family relationships and wealth across generations must start with a dream — a dream of wealth preservation and family engagement. But that dream must not be a fantasy — that is, it must be rooted in the reality of the family.

> *An entrepreneur in his late 60s requested my advice in establishing a family office. He and his sister had inherited significant wealth from their parents, and he was intent on keeping their money invested and growing together, and on securing the entire family as active partners. He viewed a family office as a vehicle for achieving both goals. Further, he thought his 35-year-old son would be a natural leader of the family office.*
>
> *"This sounds like a good idea. What is your son doing now?"*
>
> *"Well, he's unemployed. But he's studying for his MBA."*
>
> *"Oh. How much longer until he graduates?"*
>
> *"He hasn't quite started yet."*
>
> *"And what does your sister think of this plan?"*
>
> *"I'm not sure."*
>
> *"Why not?"*
>
> *"We had an argument a year ago, and we haven't spoken since."*

The entrepreneur I describe above dreamed of wealth continuity, but he lived in a fantasy world. He wanted to preserve something that may never have existed!

While a family office might have been an excellent structure for preserving this family's wealth and keeping the family together, the absence of any meaningful communication between the two principals, and the lack of preparation of the anointed leader of the family office are clear indications that this man's dream of wealth continuity may not be properly rooted in reality.

Although somewhat extreme, this is not an uncommon scenario. Wealth creators and family members dream of continuity and are frequently advised to create structures such as estate plans, dynasty trusts, family offices or family foundations. However, the family itself — the family culture, family history or family capabilities — may not support the financial structures.

Is Wealth Continuity the Right Choice?

The vignette above illustrates the need for a fundamental first step in developing a plan for family wealth continuity: deciding whether in fact continuity across generations makes sense for the family. Because sometimes the best path for a family — and this may seem anathema to some family members and their advisers — is to NOT pursue a plan of continuity for the family as a whole, but to separate individuals and their assets.

> *The second-generation leader of a 75-year-old family business had hoped to keep the business in the family for at least another generation. The business was financially successful and two cousins were active in the company. But historical conflicts in the family, divergent careers of the third-generation cousins, and geographic dispersion (some lived in the U.S., others lived in the UK) led him to the conclusion that the family would be better served if the business was sold and family members were free to deploy their wealth individually, rather than on a communal basis. Although some family members initially objected because they valued the legacy of the business, they all eventually agreed to this plan. Today, most family members enjoy comfortable lifestyles and continue to attend annual family gatherings where their only tasks are to discuss joint philanthropy and enjoy their time together.*

Is family wealth continuity right for your family? This decision should be one that is carefully considered, over time, with all options — staying together, divesting or some combination — on the table.

Here are a few questions that should be addressed in considering the viability of a wealth continuity plan for your family.

What is the purpose of our wealth?

Preserving wealth and family relationships across generations is a noble undertaking, but not necessarily the only or the best undertaking for a family. Supporting future generations is one possible purpose of a family's wealth, but it's not the only one. And even if supporting future generations is the purpose, there are different ways to get there.

A recent article discussed the observation that an inheritance of $1,000 could be made to last in perpetuity, providing annual distributions of $100 a year, rather than being spent all at once. The author

> Preserving family relationships and wealth across generations must start with a dream — a dream of wealth preservation and family engagement.

concluded "… given the choice, … a lot of grandparents would prefer that scenario compared to the check and oblivion." Although these are modest sums, the implication is clear: Money that lasts a lifetime is preferable to a one-time gift. That may be true in some, or even many scenarios, but is that always the case? Is a budding scientist really better off with annual $100 distributions than having the capacity to purchase a $1,000 microscope one time? Indeed, a one-time gift of a microscope to a young beneficiary might one day result in the creation of far more wealth than yearly distributions — and bring far greater satisfaction to the life of the beneficiary.

There is really no "one-size-fits-all" when it comes to family wealth continuity. If you are planning to perpetuate wealth over generations, you should have a deep understanding of the plan's purpose and goals and to be able to communicate these expectations to the family members affected. A good way to do that is by asking questions and getting to know one's beneficiaries.

In one family, two brothers who were second-generation owners of a successful business were convinced that their children would be happier and better off if the business was sold. "After all, only one of our kids is working in the business," one brother said. "Even though we don't need the money, a sale could enrich everyone." So, they decided to hold a family meeting and the first question they asked their children was: "What's the purpose of an inheritance?" To their surprise, the cousins all agreed that keeping the business in the family would be the greatest gift they could receive. The brothers voiced their utter surprise at how little they understood the goals of their children!

Whose dream is it?

As discussed above, wealth continuity begins with a dream. But if it's only one person's dream, then there is relatively little likelihood of the dream persisting over time.

Some time ago, the owner of a $500 million company asked whether I might assist with business succession planning.

"Of course," I replied. "What's the situation?"

"Well, our company has been a wonderful success. Our customers and employees love us. Our family have grown rich both financially and spiritually and I want this to continue after I am gone. I've been planning and preparing and dreaming for years that my oldest son will take over after me. He is terrific."

"That sounds great. What's the problem?"

"He just quit to become an investment banker."

In the above scenario, the son had his own dream that the father neglected or was unaware of. Wealth continuity is most likely to be successful if the dream is shared by others – among members within a generation, as well as across generations. There are many ways to share this dream, here are a few:

- Regular and open communication about individual and family goals.
- Sharing stories about the origins of family wealth.
- Asking questions of family members and inheritors about their dreams and wishes for the future.
- Identifying areas of joint interest across the family where the wealth can be deployed through philanthropic giving, investment, etc.

Do family members have any choice?

I worked with a fourth-generation, multibillion-dollar family business where multiple trusts had been created providing distributions to five cousins. The distributions were held in individual investment accounts and the family patriarch had made it very clear that the only acceptable investment for the cousins was in the family business. The cousins were responsible beneficiaries and were concerned about concentration in the single stock of the family business. However, they understood their grandfather's view of diversification — not OK! — and were reluctant to raise the issue with him personally or in family meetings. Nevertheless, they talked about the issue among themselves at great length and this led to significant unrest in the family.

I have seen this many times. The lack of choice often leads people to crave freedom of choice, resulting in displeasure and opposition.

> *When, finally, family advisers encouraged the cousins to put this issue on the agenda at a family meeting, their grandfather surprised everyone by agreeing to the principle of diversification!*

CartoonStock.com

Perhaps not surprisingly, once the cousins knew they had a choice, the issue went away and they all continued to purchase stock in the family company. However, by reaching an agreement about a wealth management approach, the family could arrive at a joint purpose that was inclusive within and between generations. The process of collaborating in managing financial assets in turn strengthened family relationships. It created buy-in and ownership of the outcome and generated a feeling that all contributions were valued and respected.

Many wealth continuity plans lock people together providing few options for how money is to be managed, by whom and with which co-beneficiaries. While there are of course certain basic requirements of any effective financial structure, to the extent that options are available — to make personal financial decisions, to align with certain others or not, or even to exit — the structures will be strengthened and relationships enhanced. This increases the likelihood of preserving both, family relationships and financial assets.

[1] The vignettes are based on real families, with identifying information disguised.

[2] Martin, Scott. *Easy Come, Easy Go: Why 35% of Americans Squander Their Inheritance*

David Lansky, Ph.D., is a principal consultant with The Family Business Consulting Group, Inc. He is well-known for his expertise in the psychology and family dynamics of multigenerational wealth.

Getting Unstuck

By Christopher Eckrich, Ph.D.

In a family business, it is not unusual for a junior generation family employee to become stuck in a job where he is under-performing. When this happens, it can be difficult for family management leaders to talk openly with the younger family employee about the situation. Although folks working with the family employee are well aware of the situation, no corrective feedback is given.

This can be even more difficult if it is a sibling or cousin that is observed to be in a rut. Commonly, the junior generation family employee feels strongly that there are artificial limits placed on what he or she is allowed to do in the organization, perhaps because of age, experience or unhealthy family dynamics that are playing against them. Often, nothing is said as speaking up may create tension and nobody wants to hurt loved ones.

This is not a healthy situation. For the company, the business is robbed of a family employee who could either excel and add much more value to the company, or exit and make room for a nonfamily employee who would be more successful in the position. For the junior generation family employee, being in a stuck position creates frustration as valuable time is being spent doing something that is perceived as either not meaningful or lacking direction.

When this happens, the status quo can continue for months or even years if neither side speaks up. Once the pattern is entrenched, senior generation leaders may form judgments about the junior generation employee's motivations and assume that they are lacking. The junior generation may form judgments about the senior generation's typecasting and form judgments as well. Both sides begin to see each other as the problem and a decline in mutual respect sets in. A better model is needed.

If you see yourself in this situation, don't settle for the status quo. You and your organization are much too valuable to settle for this no-win scenario.

Christopher Eckrich, Ph.D., is a senior adviser of The Family Business Consulting Group specializing in building leadership excellence and maintaining family unity in enterprising families.

Here are some actions you might consider:

What the "stuck" family employee can do:	What the senior leader can do:
Quit complaining about things not being the way you want them to be. It does nothing to help you.	Quit labeling the junior employee as ineffective and commit yourself to helping him or her develop into a better person and employee.
Identify a resource that can coach you to clarify and state your desired goals and roles.	Work with ownership to develop a comprehensive family employment policy that addresses an expected family work ethic and identifies career resources available.
Communicate your hopes to your supervisor or HR director, asking what specific training or behavior changes you could make that would increase your chances of reaching your desired goals or roles.	Speak with the younger generation employee about his or her desired goals and roles, listen to what is shared and write it down. (If he or she has no future goals, request HR assistance or outside coaching as a way to help the person gain clarity.)
Create an action plan to develop the specific skills or experiences needed to reach your goals, even if it will take time (like furthering your education).	Once goals are clearly stated, work with HR or appropriate supervisors to identify behavioral, educational and experiential requirements that will be needed for the person to advance. (Request coaching for this person through HR or outside resources, if it is needed.)
Talk to senior family leaders about your hopes and what you intend to do to reach your goals, asking them for further input on what you can be doing to become more valuable to the organization.	Determine what corporate resources are available to help the junior generation employee achieve his or her stated goals, and what strings are attached (e.g., the company will pay for courses in which a B or better is earned).
Use your coach or another person to serve as a support resource to help you stay on track.	Clarify what role senior family leaders and immediate supervisors will have in providing guidance and feedback to the junior generation employee.
If you realize that your needs cannot be met inside the company, don't be afraid to pursue your career outside of the family business. You may end up developing a stronger skill set that will allow you to reach your goals in the family business at a later time.	Affirm progress towards goals and expect setbacks, but don't fall into the trap of labeling. Be honest in providing feedback that will help the junior generation family employee get back on track.

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