Research conducted by:

Columbia Business School
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Eugene Lang Entrepreneurship Center

TRANSFERRING OWNERSHIP CASE STUDY: AN EXCERPT FROM *THE OWNER'S JOURNEY*

Experiences shared and lessons learned from entrepreneurs who successfully sold or transferred their businesses to family members

U.S. Trust was inspired to commission "The Owner's Journey" to address what we observed to be a critical need: better preparing business owners for the eventual transition of their companies. Our advisors, in conversations with entrepreneurs, investment bankers, family business consultants, CPAs, attorneys and others were hearing a consistent and passionate message that early planning and enhanced education about exit options and the exit process were in great need. In our quest to focus on this issue, we came across an earlier Columbia University white paper on exit planning that shared personal stories and insights from owners dealing with reinventing their lives after the sale of their companies. We found their personal journeys to be highly instructive and recognized the opportunity to add to this knowledge base by approaching Columbia[1] to author a follow-up paper to study the exit process from the beginning, to capture how entrepreneurs approached the decision and navigated the transition. The power of their first-hand experiences and the corresponding lessons learned are now captured in this paper and can be accessed by those who have yet to embark upon this journey.

The following case study chronicles Deirdre and her journey of taking over her family's company. She learns the necessities of being the CEO of a large firm while still maintaining the "heart and soul" of a small family business. Initially hesitant to play too big a role in the four-generation-old company, she eventually found her place and worked her way up, following in her father's footsteps. During a time of tough transition and family discourse, Deirdre is thankful that her parents put so much effort into estate planning where they focused on making things financially equitable between Deirdre and her brother despite their different roles in the family. Later, when she took over the firm, she applied that experience to her leadership. She runs the firm with a strong emphasis on the future. There is never any secrecy or uncertainty about what may happen to the business or its employees. ■

Deirdre

Age 51, CEO of a prominent industrial services firm

Transferring ownership from father to daughter

A few years ago, Deirdre became the fourth generation CEO of a well-known, medium-size industrial services firm. The firm has over $400 million in revenues and is a significant presence in its industry.

Deirdre's great-grandfather and several friends founded the company in the Roaring '20s. His wife funded the startup with her savings. The company prospered during the boom years, finding a lucrative niche in New York City and nearby areas, capitalizing on the region's light manufacturing activity. With the crash, the firm struggled, but survived. In the 1930s, when one of the first partners died, the great-grandparents bought controlling interest in the business.

World War II triggered a significant increase in the company's services, particularly for defense production, which further enhanced growth. After the great-grandfather died, the great-grandmother, and then her son, took over the business. The son's death in the late 1960s left the company in the hands of a trusted financial professional as executor. For a while, no family member was directly involved, and the company was heading into serious economic difficulty. Ownership of the company eventually was given to a remaining son — Deirdre's father.

Deirdre's father proved to be a gifted leader. He viewed the company not as an impersonal investment or a stock listing, but an important part of his growing up. He knew almost every employee by name. By then, Deirdre's father had married a business woman and Deirdre and her brother were young children. Realizing that something had to be done fast to protect the family's investment, the parents ran the company together.

For most of the 1970s through the 1990s, the company grew slowly under the parents' management. By 2000, they had built a healthy and vibrant organization. From 2006 to 2009, its revenues doubled.

Initially, Deirdre's interest lay elsewhere. She studied the arts in college and wanted to pursue that as a career. But she also studied economics. She remembers a persisting side of her that enjoyed studying finance and economics: "When one is part of a family business, one is intrigued to learn more about it."

Her father supported her artistic ambitions, but insisted that she get a "real" job when she graduated from college. Her first position was at a large investment bank as a marketer. After four years, she quit and secured a position in marketing, public relations, and fundraising with a major arts organization. A few years later she married, moved west, had two children and completed an MBA, as well as serving on the boards of both her family business and the arts organization.

In the 1990s, her father asked her to move back to the East Coast to help run the company. Her parents were approaching 70 and felt they were due for serious discussions about what would come next. Deirdre agreed to move back to the East Coast. As she describes, "It was the weird, messy time, which comes in every family business, when neither my brother nor I knew precisely what our future roles would be in the company or the long-term strategy. It was time for the difficult conversations and planning that every family business must go through." Soon she was immersed in the company, eventually becoming head of sales and marketing.

At the time Deirdre joined the company, her brother was still working as an engineer and designer on the West Coast with no intention of coming into the company. Then, in the mid-1990s, he had a change of heart. He moved east and was given the role of starting a new division devoted to sustainability-related products.

The parents undertook several planning and succession measures. In the early 2000s, the family's team of advisors — including an estate attorney and life insurance specialist — was assembled by a young wealth manager who had impressed the parents and who remains a key advisor to Deirdre today. It took the estate attorney about three years to understand the complexities and to set up appropriate trusts. The timing proved advantageous, since most of the company's strong, recent growth has now been pushed into the trusts.

Deirdre became president in 2008. Her brother's involvement in the company did not work out, and, eventually, he sold his shares back, left the company and went back to his former work.

Her brother's departure prompted more active estate planning. Deirdre is very appreciative that her father took the lead in this role, looking for a fair outcome for both her and her brother. The majority of the company was transferred into a trust for Deirdre's benefit, and she was made CEO. To balance this, a large life insurance policy has been put into a trust for her brother. In Deirdre's mind, this is financially equitable, although she does note her added responsibility of running a large company.

A trust company was hired as cotrustee with Deirdre for these trusts. From Deirdre's perspective, her goal is to have the cotrustee become fully engaged in the business and ask her more about her business and her needs.

Looking to the future, she does not expect any of her three children to work at the company, though she would be thrilled if any expressed interest. She believes her oldest, who just completed a degree in film and business, would be great for the company, but he is fully absorbed in a film-related career. Deirdre believes she is the last family member who could run the business because the company has become "too big for nepotism."

Her goal is to build a stable company that can weather any future. She has built a professional, actively engaged board of mostly nonfamily members. Deirdre and her father are the only family members on the eight-member board. Succession planning and strategy are the board's key tasks. Every year, the board has a two-day retreat to review the current leaders across the company and their possible successors. All leaders must present their plan for their succession, and this has created a culture of thinking about the future. Everyone working in the company knows who the next leader is, no matter what. Moreover, this depth of management adds significant value to the business in case of a sale. Deirdre imagines that in the future she will become chair of the board and will hire a professional CEO to run the company, ideally a woman.

> You must always have your company ready for a sale. It is just good business practice.

The company is doing very well under Deirdre's leadership. She believes that her father taught her the analytical and strategic way to run a company, and her mother taught her how to run a business with "heart and soul." Still, she does mention the sacrifices she has made for her own life and her children's lives as the CEO of a multi-million-dollar company.

Asked about her challenges running such a large family-owned business, Deirdre states, "Our family is terrible at communicating about the financial and business sides of our lives. We put the money back into the business, so there is some stress with some family members that they do not see the benefit of keeping the company." She adds that "an outside, professional, neutral family business coach can be very helpful in the stickiness of family business dynamics."

If something were to happen to Deirdre, her shares would go to her oldest child. She imagines that the company would then be sold. Her key advice to all is "that you cannot count on a world which will let your business go on forever. You must always have your company ready for a sale. It is just good business practice." ■

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