



# **Making It All Work I: Realities AND Requirements**

Donald J. Jonovic, Ph.D.

# Where this comes from...

- ❑ **Atlanta Belting Co.**, Atlanta, Georgia (*Industrial Belt Distribution*)
- ❑ **4-Oaks Farm\***, Morganza, Louisiana (*Vertically Integrated Agriculture*)
- ❑ **Aim NationalLease**, Girard, Ohio (*Truck Leasing; Dedicated Logistics*)
- ❑ **International Dehydrated Foods\***, Springfield, Missouri (*Food Ingredients Manufacturing*)
- ❑ **Butler's Golf Course, Inc.**, Elizabeth, Pennsylvania (*Public Golf Course*)
- ❑ **Cast Nylons Ltd.**, Cleveland, Ohio (*Sleeve, Sheave and Wearplate Manufacturer*)
- ❑ **Cote Family Companies\***, Minneapolis, Minnesota (*Resort & Golf Course Management*)
- ❑ **E.&J. Gallo Winery\***, Modesto, California (*International Wine Manufacturing & Distribution*)
- ❑ **Edart NationalLease\***, Hartford, Connecticut (*Truck Leasing*)
- ❑ **E. Ritter & Co.**, Marked Tree, Arkansas (*Agriculture, Telephone & Broadband Communication*)
- ❑ **G3 Enterprises**, Modesto, California (*Labeling, Packaging, Logistics & Real Estate*)
- ❑ **Gill Industries, Inc.**, Grand Rapids, Michigan (*Automobile Part Manufacturing & Assembly*)
- ❑ **Kal Tire, Ltd.**, Vernon, British Columbia, Canada (*Consumer, Commercial & Industrial Tire Retailing*)
- ❑ **Lima Ranch\***, Stockton, California (*Dairy*)
- ❑ **Litin Paper Co.\***, Minneapolis, Minnesota (*Paper Converting & Distribution*)
- ❑ **Marous Brothers Construction Co.**, Willoughby, Ohio (*Residential, Commercial, Institutional Construction*)
- ❑ **Medical Service Co.**, Cleveland, Ohio (*Home Medical Equipment, Pharmacy, and Oxygen Delivery*)
- ❑ **Pacific Mutual Door**, Kansas City, Missouri (*Millwork and Window Distribution*)
- ❑ **Plastic Molding Technology**, Seymour, Connecticut (*Precision Electronic Injection Molding*)
- ❑ **Rose Acre Farms**, Seymour, Indiana (*Large-Scale Egg Production & Distribution*)
- ❑ **Rudolph Implement Co.\***, Boonville, Illinois (*Farming & Farm/Small Implement Dealer*)
- ❑ **R.W. Sidley, Inc.**, Painesville, Ohio (*Aggregates, Redi-Mix Concrete, Pre-Cast Construction*)
- ❑ **Santa Energy Co.\***, Bridgeport, Connecticut (*Industrial, Commercial & Retail Energy Distribution*)
- ❑ **Scioto Industries**, Columbus, Ohio (*Industrial and Commercial Cleaning*)
- ❑ **Simmons Foods**, Siloam Springs, Arkansas (*Vertically Integrated Poultry, Food & Protein Producer*)
- ❑ **Santa Energy Co.\***, Bridgeport, Connecticut (*Industrial, Commercial & Retail Energy Distribution*)
- ❑ **Specialty Washer Manufacturing Co.**, Bamberg, South Carolina (*Precision Metal Stamping*)
- ❑ **York Container Co.**, York, Pennsylvania (*Corrugated Container & Packaging Manufacturer*)



# The unconscious assumption...



# Carries an unanswered question...



# “Success” is ineffable and elusive...



**“It was the wildest damn ride you could ever imagine. If only we’d had the same destination in mind.”**

**...and the price of failure can be high**



# The keys to making it all work

- Accept the realities of the adventure
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- Structure (and pay) the crew...strategically

**First...a basic law of nature**

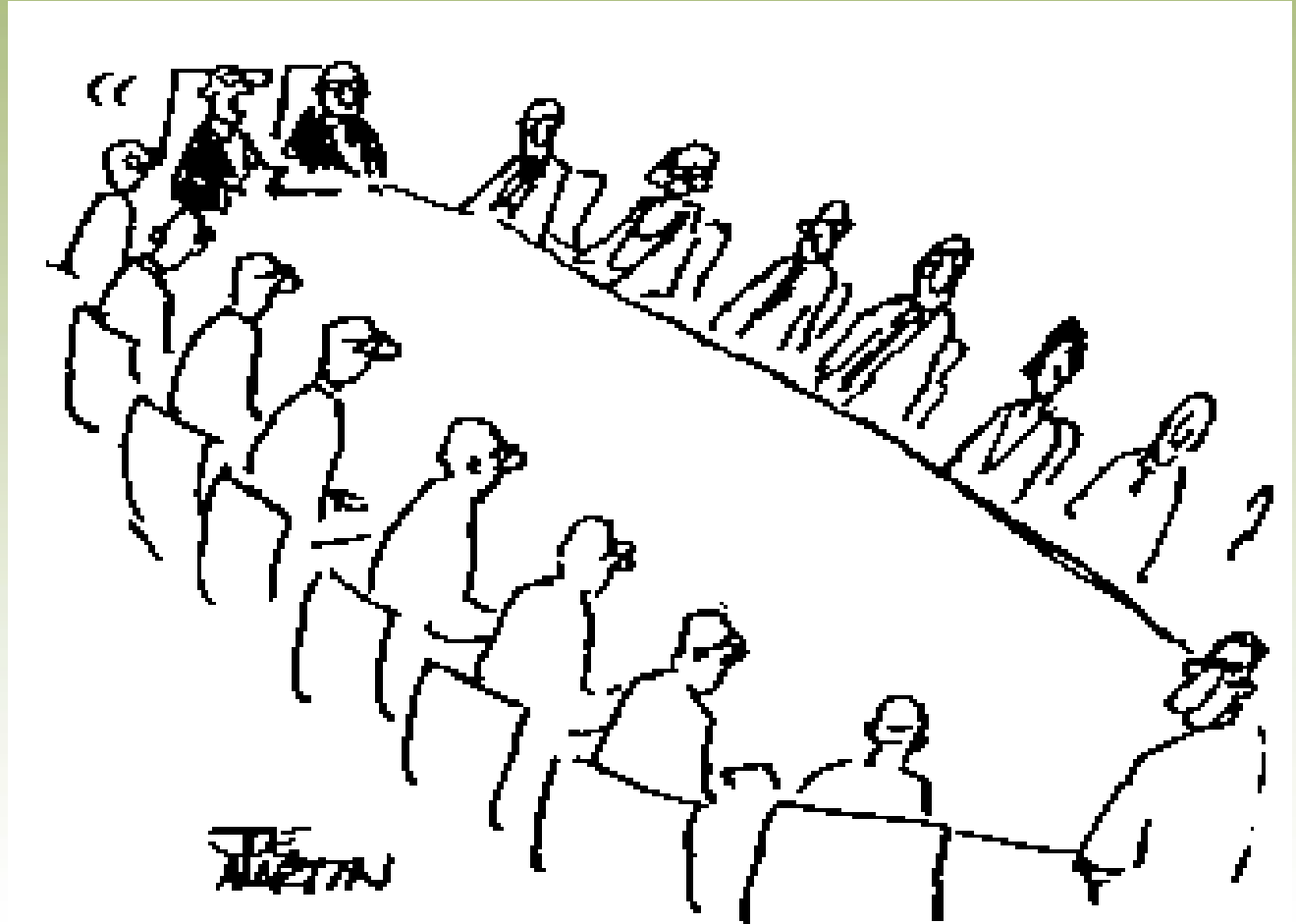
**The most common cause of failure to communicate is**  
**THE ASSUMPTION**  
**THAT COMMUNICATION**  
**ACTUALLY OCCURRED.**



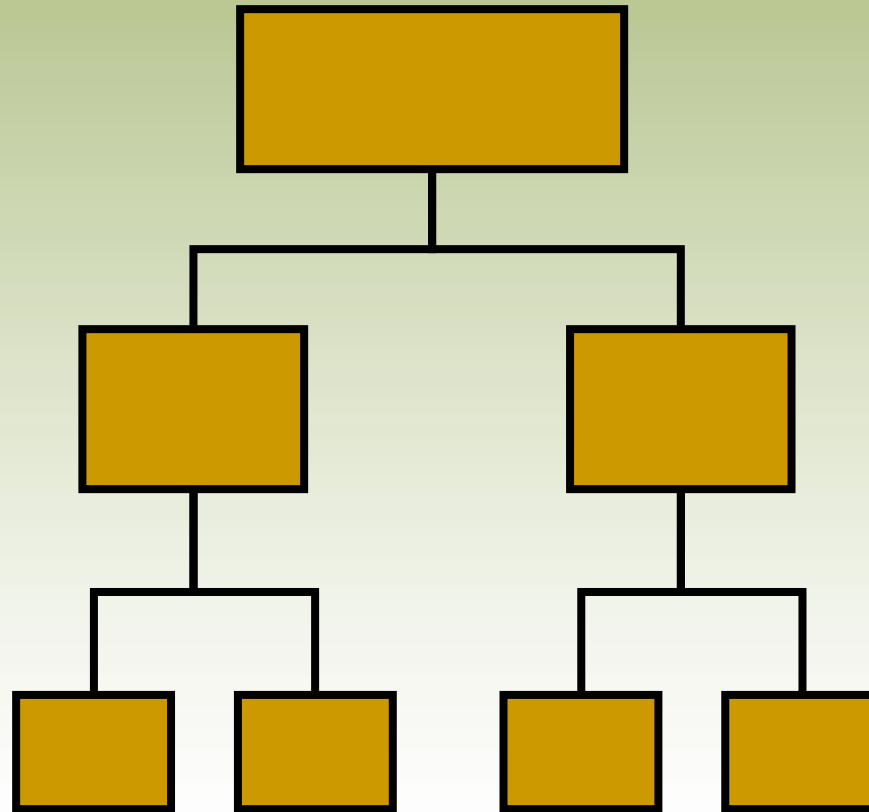


# Reality 1: communication don't happen

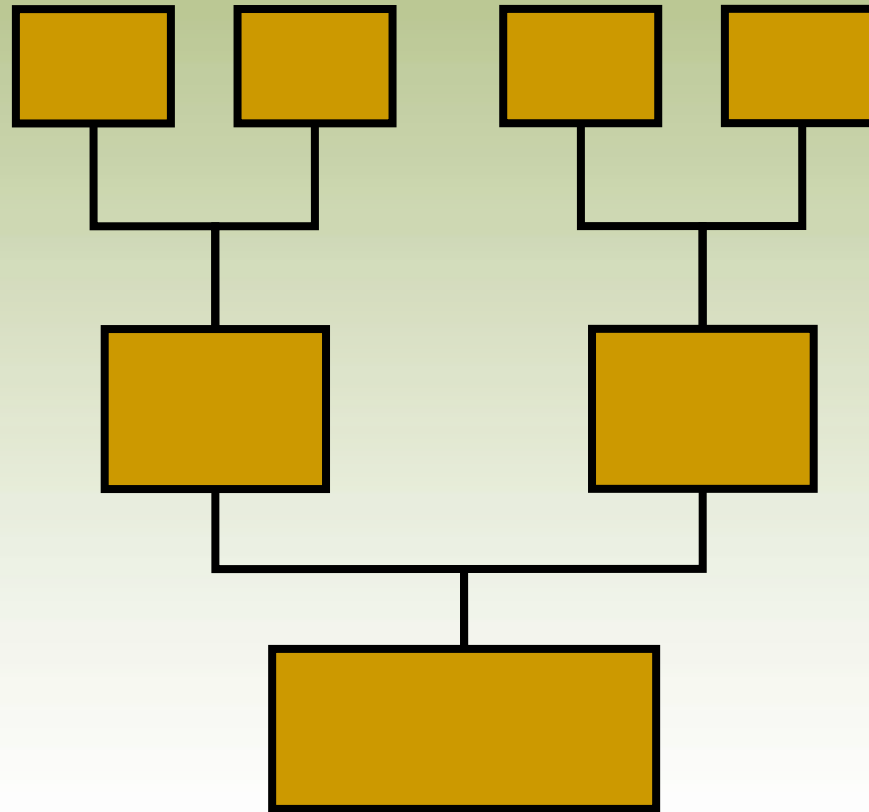
Let's see, that's  
nine "Ayes,"  
one "what are  
we voting on?"  
six "abstains"  
and one  
"Go to Hell!"



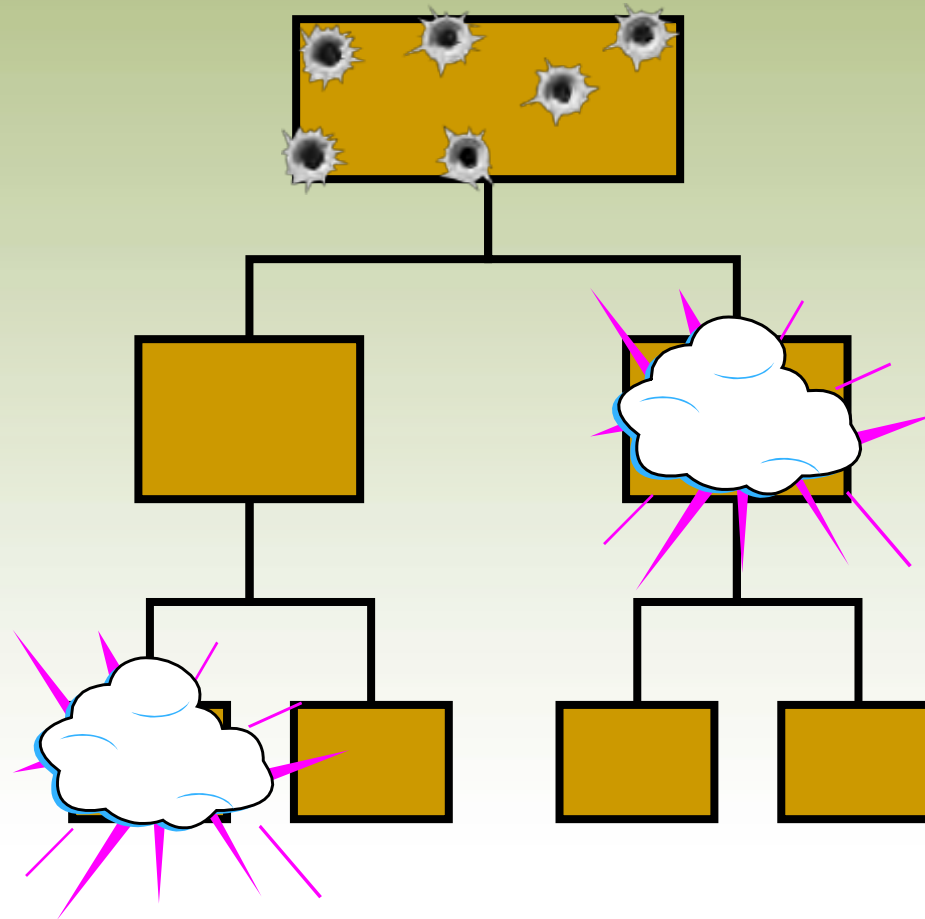
# Reality 2: organization ain't natural...



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Reality 2: ...



The "5"

Book Folder  
AIDEL

# Family Farm Version 1.0



The Help





## Reality 4: A “handshake” is NOT an agreement

Timeless Family  
Business Truth #2:

If you fail to put an  
important business  
understanding or  
agreement in writing, that  
failure not only damages  
trust inevitably...

...that understanding or  
agreement does not even  
exist!



# Realities 5–7: in-laws are a fact of life

5. Every marriage results in one new—and two changed—families
6. In-laws are a necessary condition for producing the successor generation
7. Family membership is a shared responsibility; a career is a personal choice





## Realities #8-11: Facing reality is healthy

### Mom's Note to Our Children:

8. Equality of love does not imply equality of either business ownership or influence
9. "Gift" and "compensation" are different concepts: gift represents love, pay is reward for performance
10. Age difference does, in fact, make a difference
11. Those who won't cooperate and/or work to settle business differences will always have our love and be welcome as members of the *family* ... but will ultimately be asked to leave the *business*



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# Great minds DO think differently...



**“If two men agree on everything, you can be sure that one of them is doing all the thinking!”**

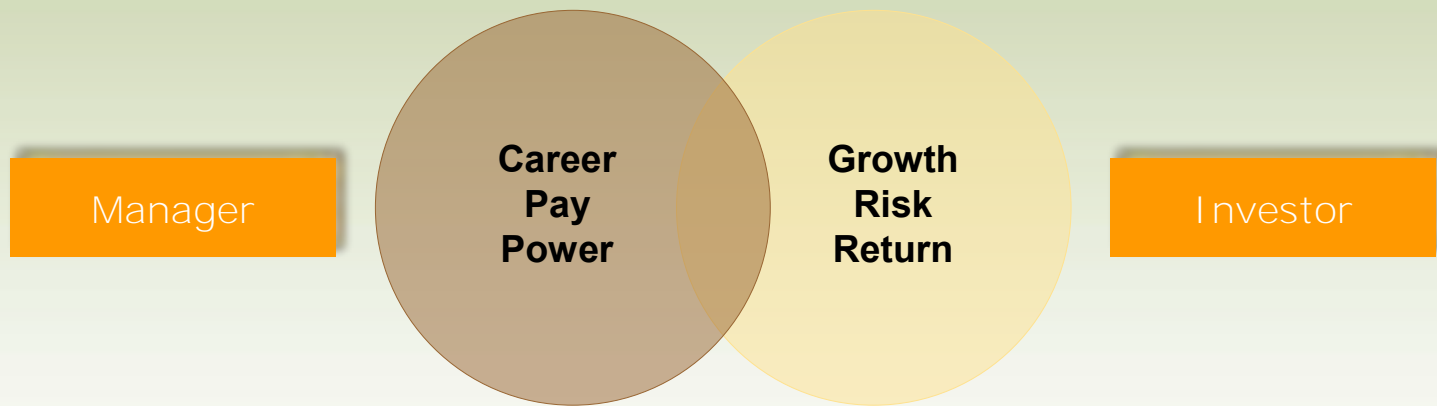
**Lyndon B. Johnson**

# Disagreement is often a matter of perspective

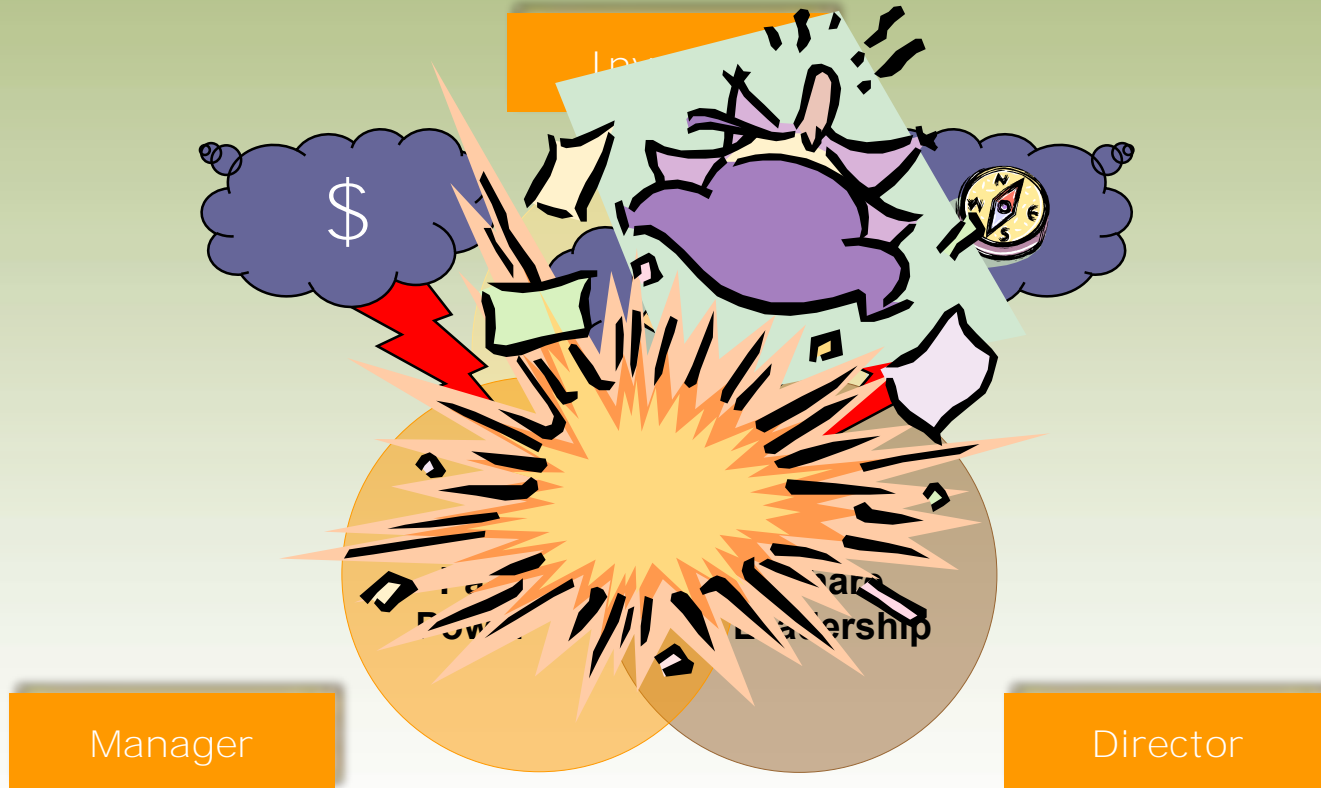
Investor

**Growth  
Risk  
Return**

# Disagreement is often a matter of perspective



# Disagreement is often a matter of perspective



# Competing “why’s” are in our DNA

- Investments???

- Capital
- Time
- Effort
- Ideas
- Reputation
- Heart



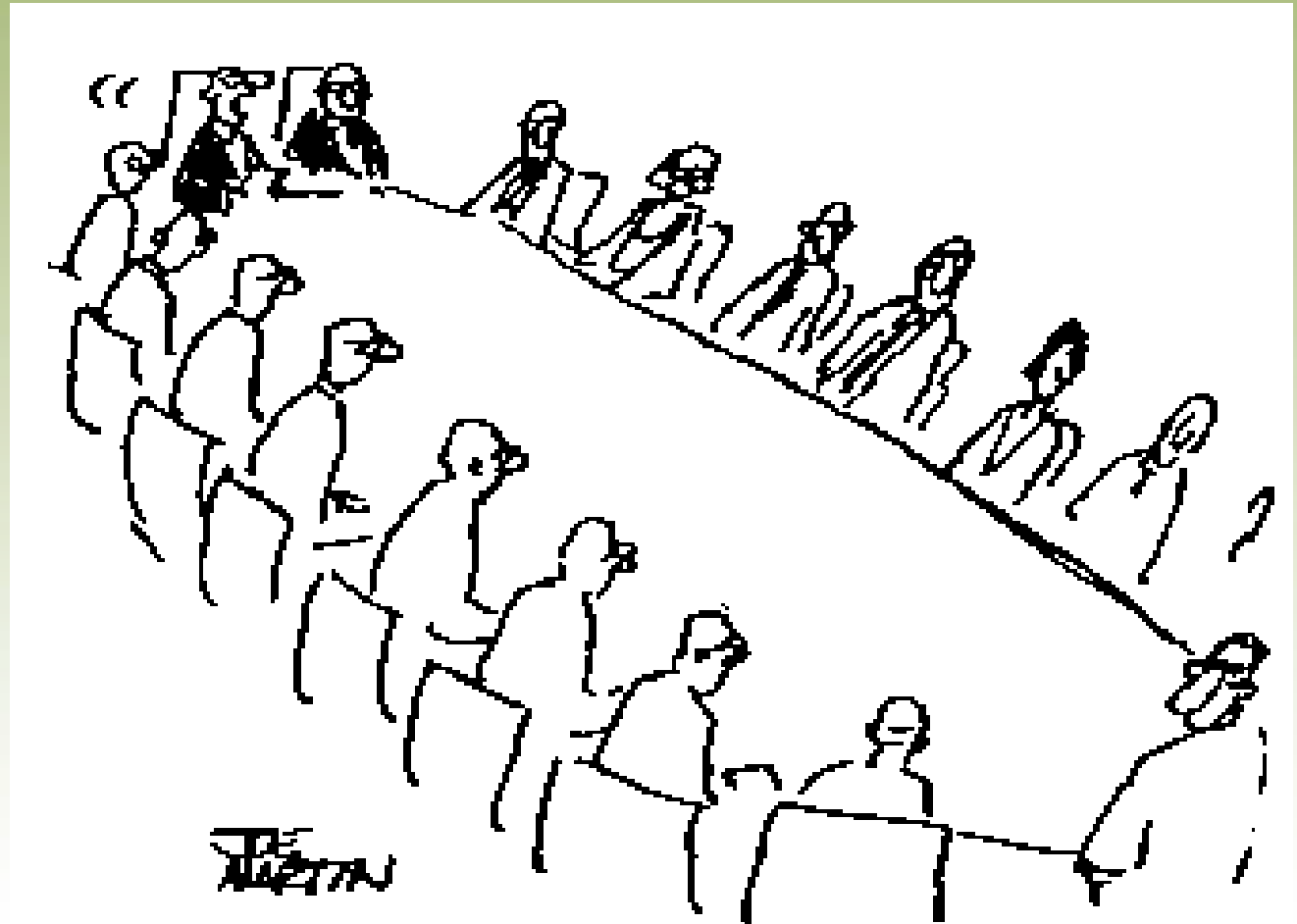
- Returns???

- Net Income
- Growth
- Cash
- Power
- Career
- Opportunity
  - Future Generations
  - Loyal Employees



# And we keep those differences to ourselves

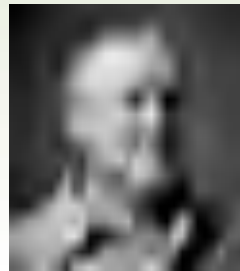
Communication  
just  
**DON'T  
HAPPEN**





**Hence: our rationale for irrationality**

**So the whole war is  
because we can't  
talk to each other.**



*Orson Scott Card  
Ender's Game*

# “Peace” is an endless, expanding discussion

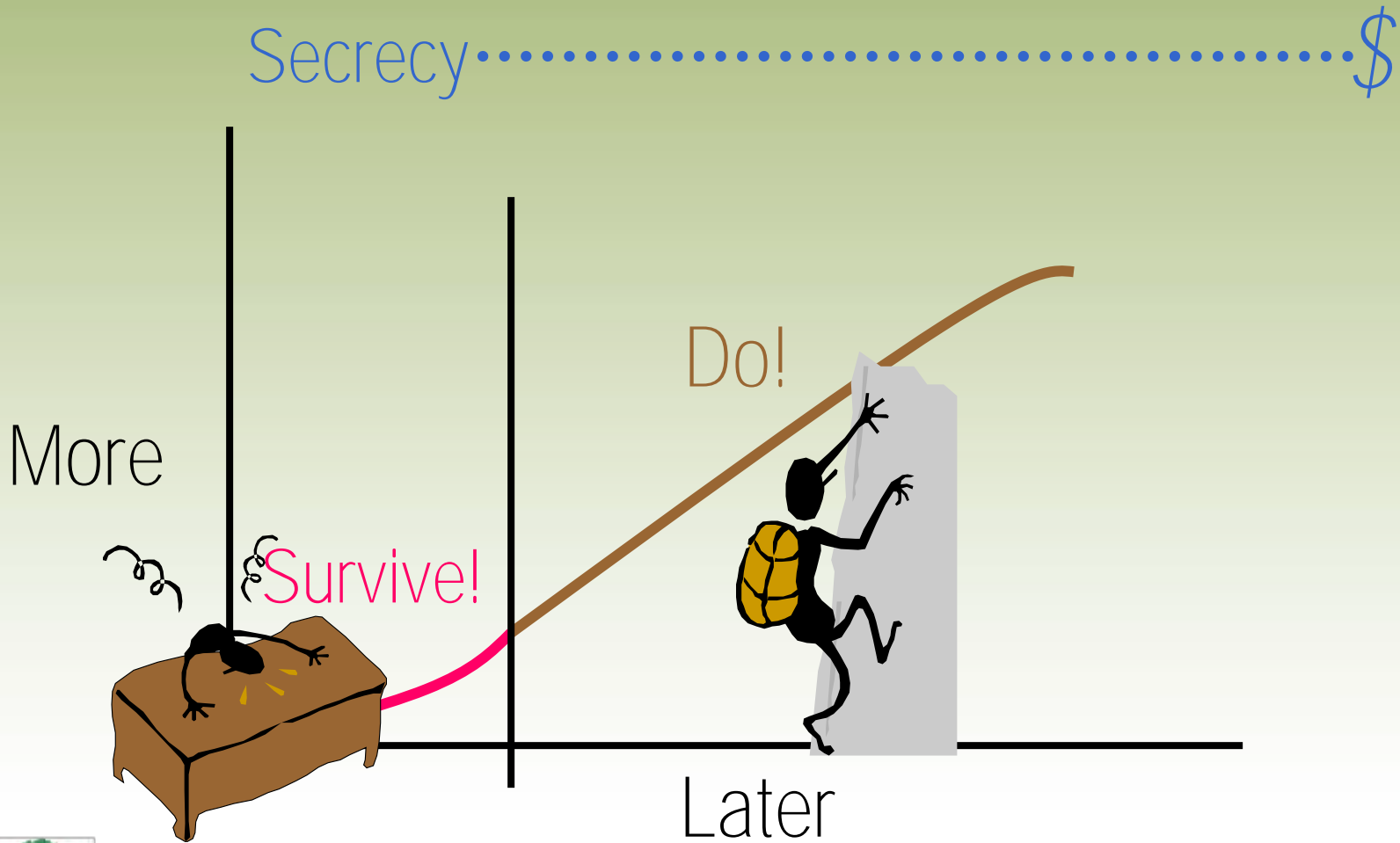
- Reaching a shared understanding of that “non-profit” statement: the Balance Sheet
  - **What is our business “value”?**
  - **What, exactly, are the sources of that value?**
- Reaching agreement with other owners on our investment purpose or “owner vision”
  - **What do we want **for** the business (growth)?**
  - **What do we want **from** the business (return)?**
- “Operationalizing” those agreements in a plan
  - **Defined targets and real pay for the managers**
  - **Specific ROI and “reward” for the investors**



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# Evolution of the farm owner's fatal flaw...



**True, total openness can be unwise...**



**...and some secrecy IS understandable.**



## ...but “Family” Farm kind of implies “partners”

- Remember: Post-founder family businesses are usually owned by *groups*



- Remember: No group facing critical decisions agrees 100% on everything

# ...and “silent” partners are dangerous

- Given that **groups disagree by nature**, it's wise to consider that **unanimous** group decision or acceptance could imply either:
  - Nobody has been **informed** about the issue, or...
  - Nobody really **cares** about the issue, or...
  - Someone (or everyone) doesn't **understand** the issue, or...
  - Someone has **compromised** (i.e. accepted a sub-optimum outcome), or...
  - Someone has been **intimidated** (i.e., is probably now resentful)
  - ...or all of the above



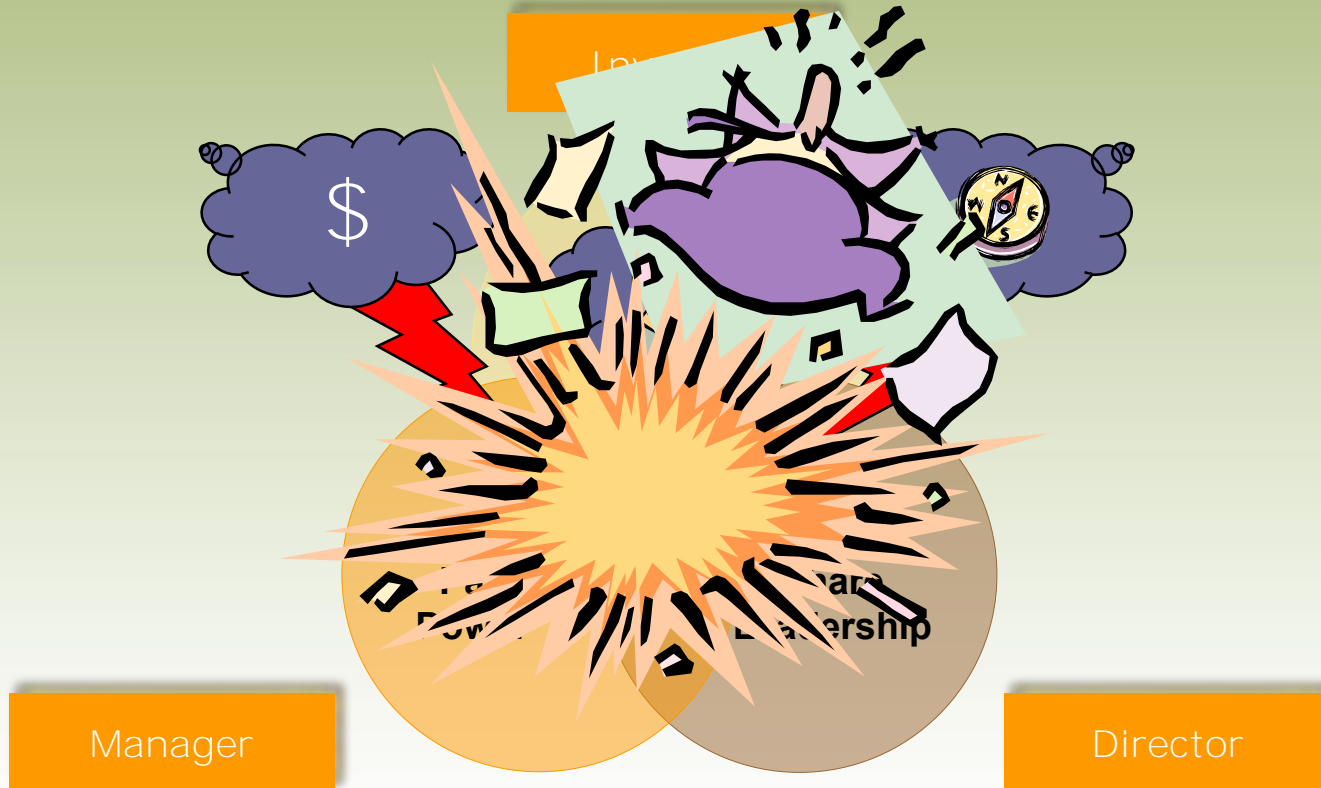


# ...which is why SILENCE is dangerous

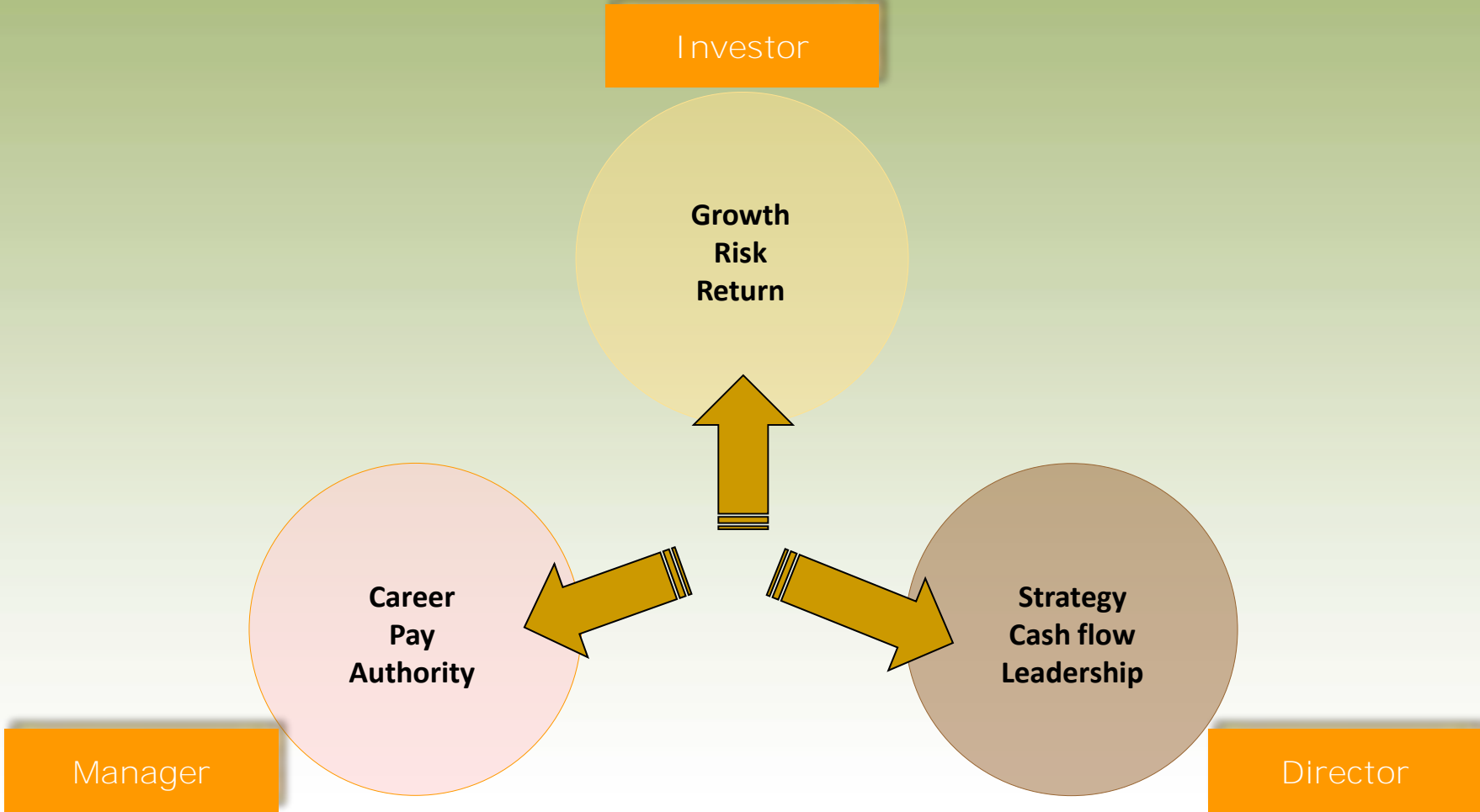


- Failures to communicate and inform are the major cause of most family farm – and family – failures...
  - ...to cooperate
  - ...to collaborate
  - ...and to agree on purpose
  - ...and **to survive**.

Since wars are born in misunderstanding



# We must first be talking about the same thing



# At the right meeting, agenda, and time...

**FAMILY ISSUES**  
Annual/Semi-Annual



Why we're doing this  
How are we doing?  
Who's doing it? Why?

**DIRECTOR/ADVISOR ISSUES**  
Quarterly



How do we use our capital?  
Best return? Risk? Debt?  
Are our leaders leading?

**MANAGEMENT ISSUES**  
Weekly/Monthly



What's happening today?  
Who's doing what?  
Who decides what?



# The major questions

Do we want to maintain Apex as a **family business**?

How do we specifically **define** all of these **terms**?

What, exactly, is our **investment** in our businesses?



What level of **risk** are we willing to take in pursuit of that return and growth?

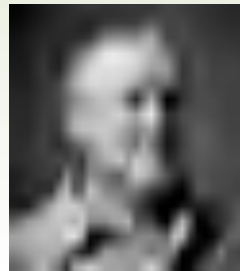
What are the minimum and optimum levels of **return** and **growth**?

Yet we don't even TALK about such things



# Remember our rationale for irrationality?

So the whole war is  
because we **Don't**  
talk to each other.



*Orson Scott Card*  
*Ender's Game*

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# Owners & crew can't do it alone



# Navigation begins with a starting point



Latitude:  
N 21° 20' 38.5174"  
Longitude:  
W 157° 58' 30.3582"

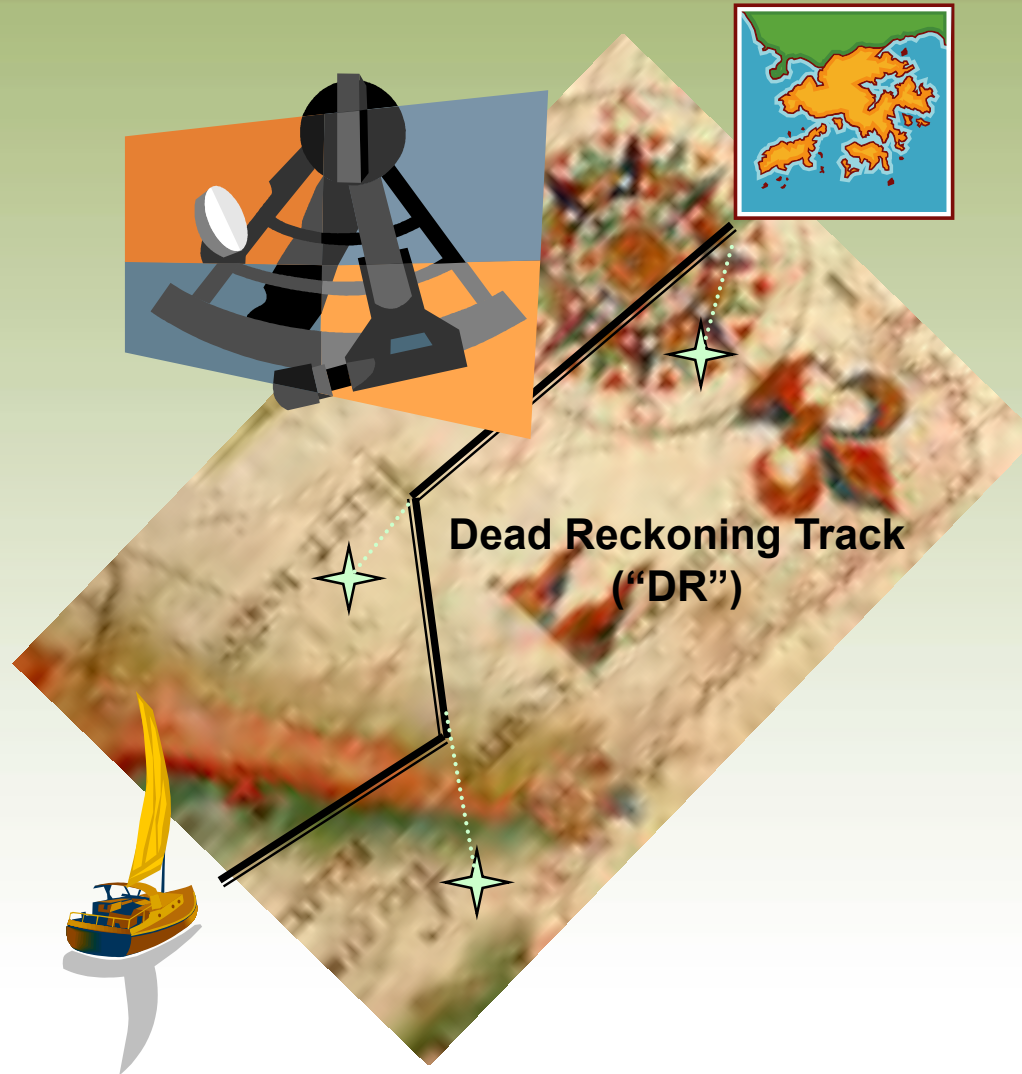
# At worst, we could just begin with history

## Arbor Vineyards *De Facto* Plan

The owners of Arbor LLC have accepted a minimum annual ROA of 10% on all operations, and believe that the business should be able to provide a rolling five-year average target return of 3.3%. We expect to grow owner equity by at least 8.9% per year maintaining an average leverage of .45/1, and will plow earnings back into the business and (maybe) consider distributions someday if we really get successful.

Is This Acceptable to Us?

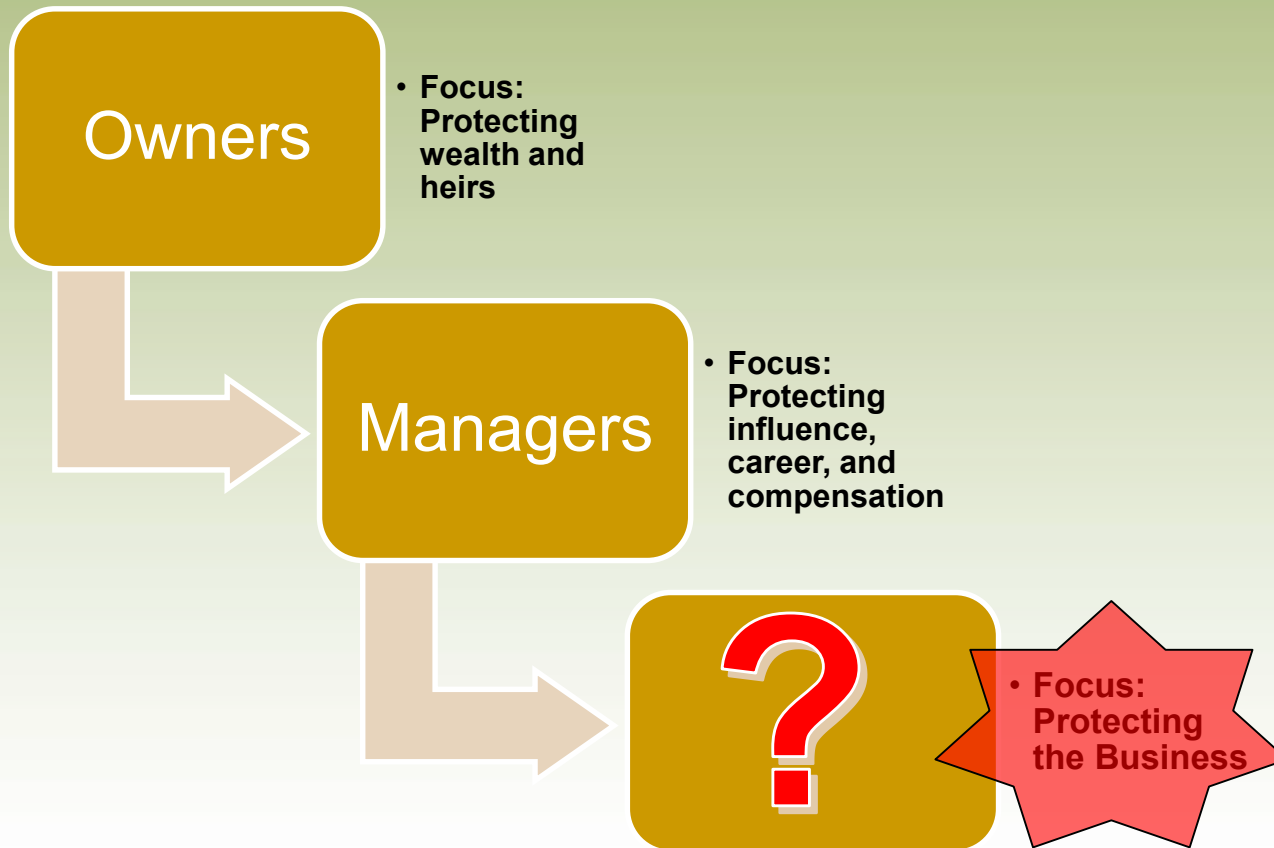
# A “plan” is not a “prediction”



# But why a “pilot””



# Because nobody can think about everything



**If we took a poll...**

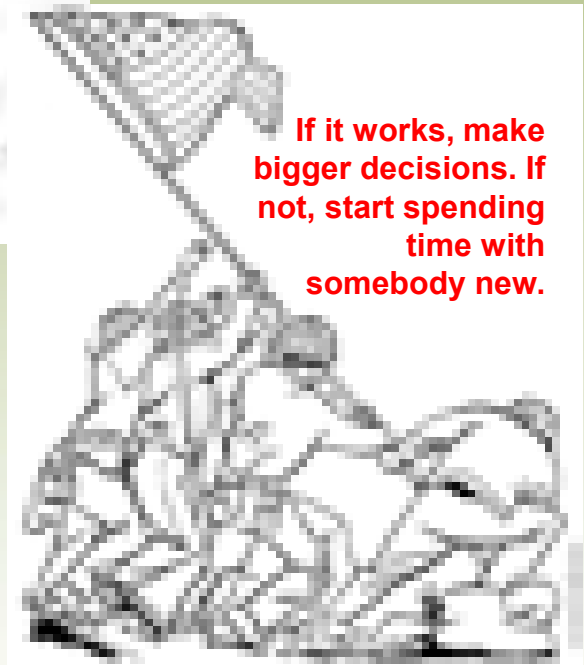


# THE “advisor” question:

- If we can't respect advice of people we don't know, and
- If people who don't know us or our business can't advise us effectively,
- How do we ever trust these so-called “pilots”?

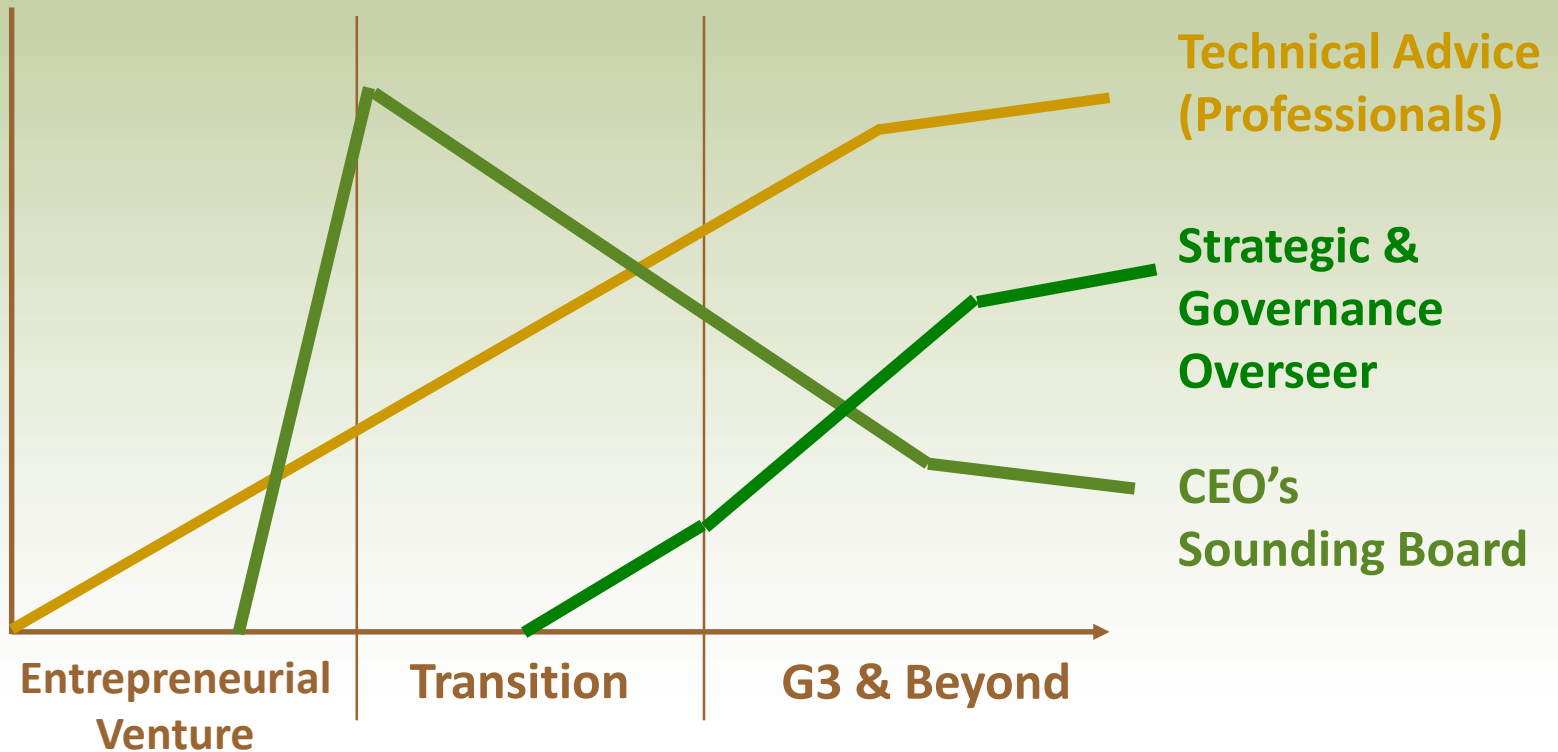


# How do we come to trust anybody?



***Hint: we're really talking advisors AND "directors" here***

# The evolution of “trust”



# The keys to making it all work

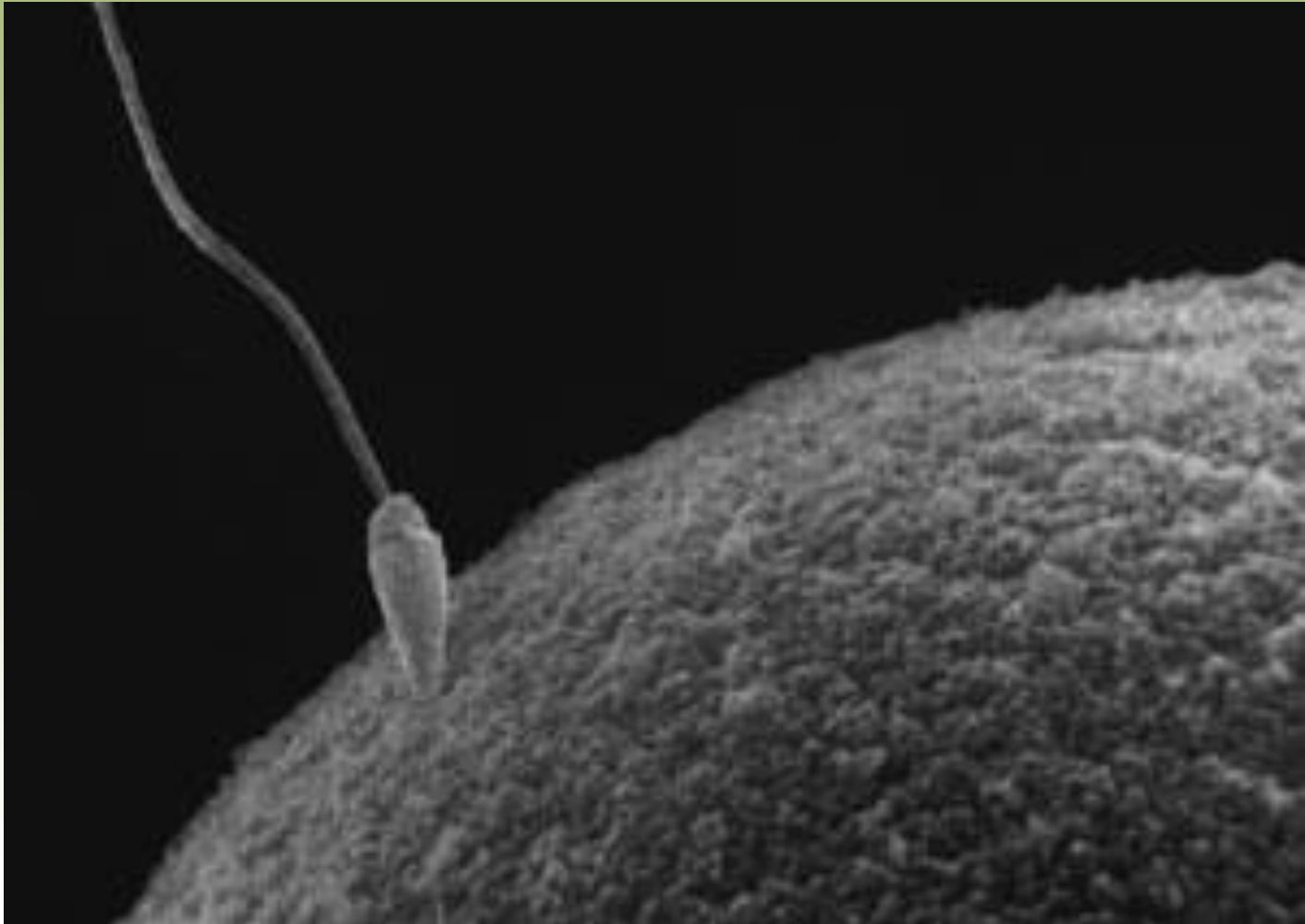
- Accept the realities of the adventure
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\*As though their (and your) lives depended on it.

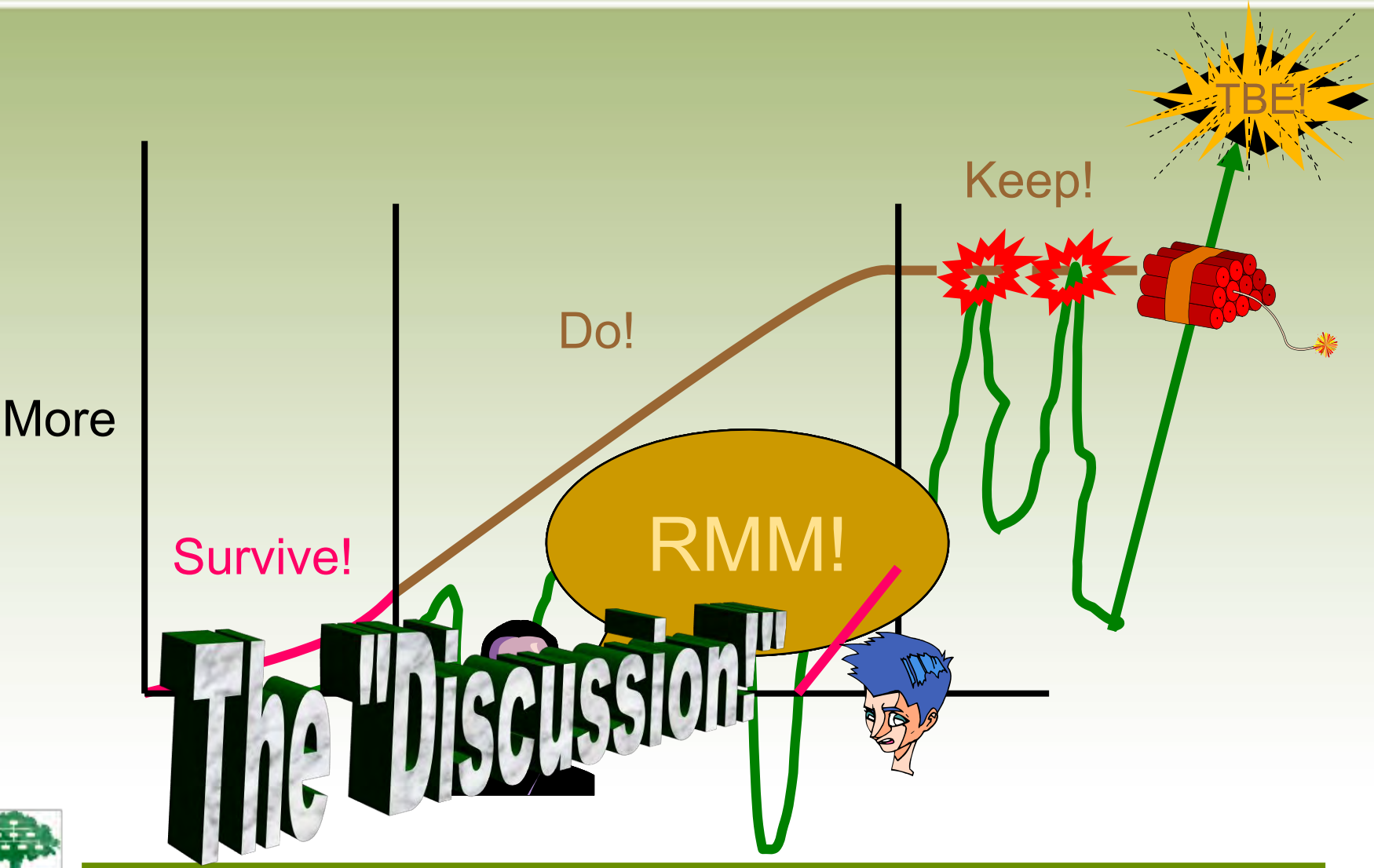
**Which they DO!**

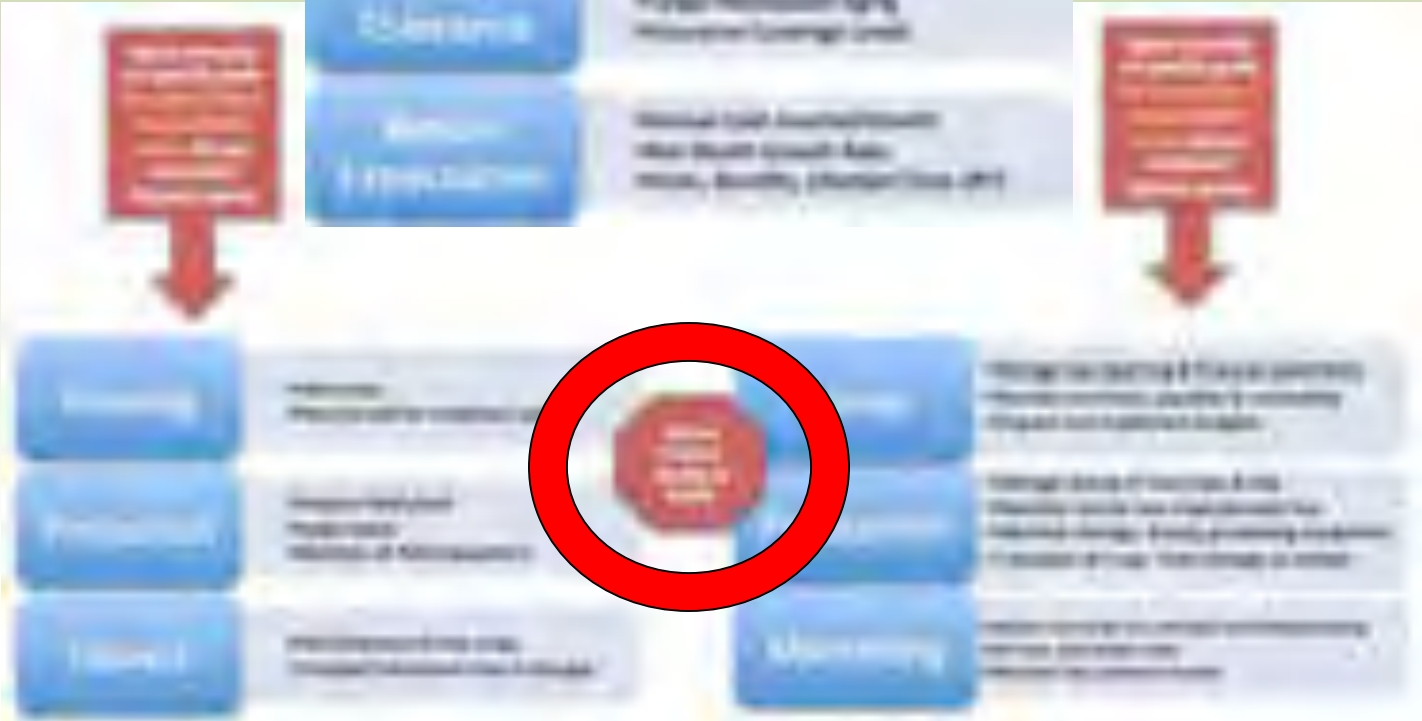


# Our recruiting department is limited



# Time for a new perspective on leadership?





# It's easy to get confused about pay

- “Motivate”?
- “Inc
- “Po



# 5 basic truths about compensation

- **Great employees aren't motivated by money**
- **There's little point in paying for "time"**
- **The more you supervise, the less time you have to lead**
- **Secrecy kills innovation and responsibility**
- **Pay is NOT an expense; it's an INVESTMENT**





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# **Making It All Work II: Why the “Why’s” Are Critical**

Donald J. Jonovic, Ph.D.

**Again:...our almost unconscious goal...**



# Requires much more than hard work



**“It was the wildest damn ride you could ever imagine. If only we’d had the same destination in mind.”**

# 6 lessons from 40+ years and 100+ families

1. **Wealth, social influence, career, family reputation—all fine rewards of business ownership—don't generate enough “juice” to fuel a successful farm transition beyond a third generation.**



## 6 lessons from 40+ years and 100+ families

2. **“Latter-generation” heirs often find themselves trapped in shared ownership of a business that**
  - **Can only provide careers to a few**
  - **Offers only *virtual* wealth (“We never sell farmland!”) and**
  - **Can’t support a family heritage that’s steadily thinned by time and distance.**



## **6 lessons from 40+ years and 100+ families**

- 3. In public companies, owners who are disappointed or disagree can leave relatively easily.**

**In multi-generation family companies, this option is seldom made realistically available.**



## **6 lessons from 40+ years and 100+ families**

- 4. Disagreements among owners are inevitable, but when owners are also family, without communication & structure,**
- disputes land like barrel bombs**
  - in the middle of a group of claustrophobic owners,**
  - who are chained to each other by lack of communication, and**
  - paralyzed by a vague authority structure.**





## 6 lessons from 40+ years and 100+ families

- 5. This is all avoidable with proper planning and structure, as we've discussed, but throwing many heirs together in a risk-filled business venture without either an "escape hatch" or some *overriding* motive to provide the necessary "glue," is worse than imprudent.**



## **6 lessons from 40+ years and 100+ families**

- 6. Choosing to stay a multi-generation family farm only makes sense if the family has a clear-eyed commitment to:**
- Regular family gatherings,**
  - With formalized business discussions and**
  - Regularly updated restatements of goals, objectives, and ownership purpose that go beyond just business success and...**



- **...a core value stating that family unity will always trump maintaining any specific business, career path or the building of shared wealth.**



**This may be a critical current objective...**



**But isn't this our "ultimate legacy"?**



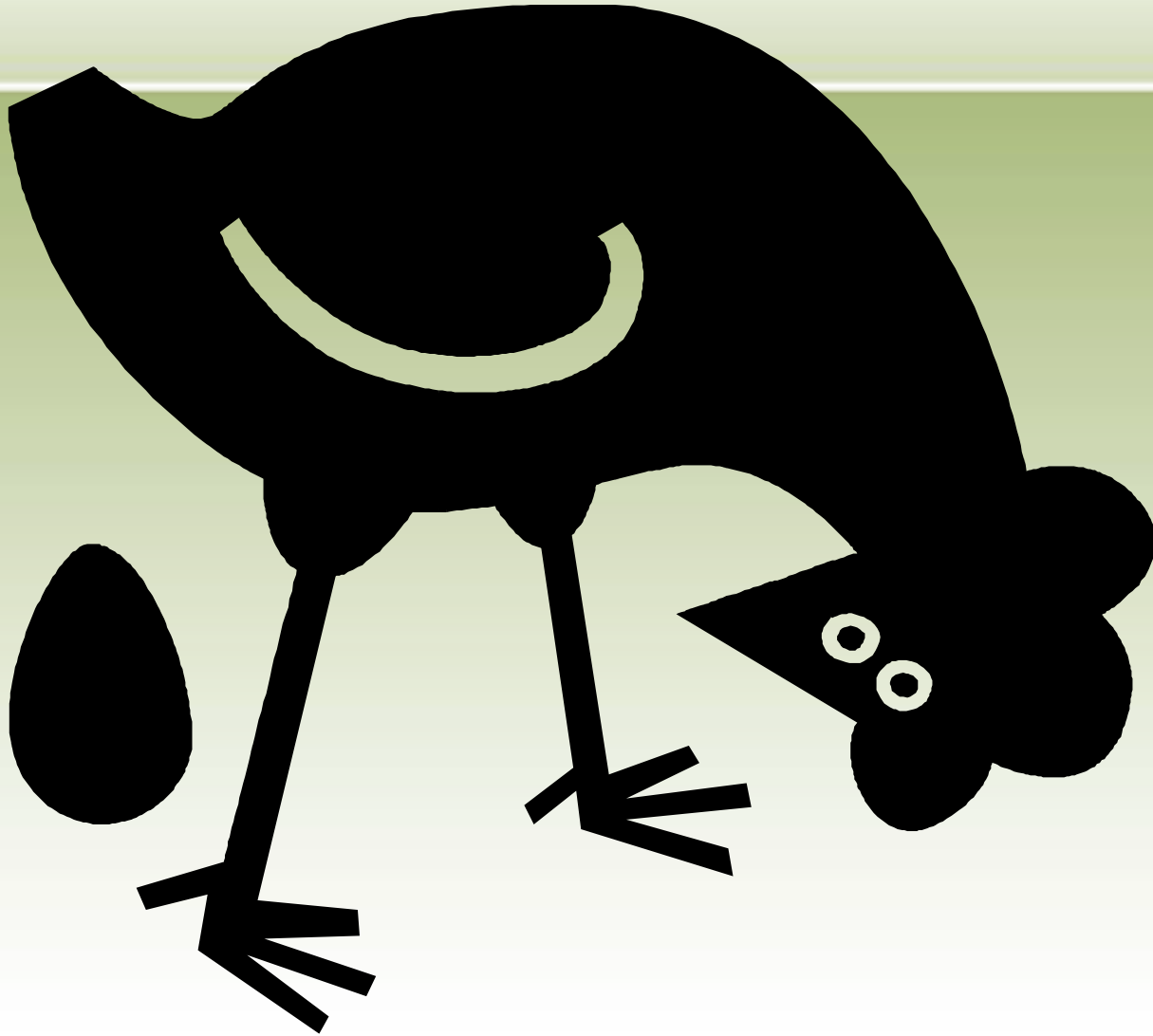
# When's the best time to plant an oak tree?



**Ideally, a couple of generations ago.**

# The next-best time?





**“A hen is only  
nature’s way  
of making  
another egg.”**

**Samuel Butler (1835-  
1902)**