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FAMILY BUSINESS newsletter

D.V. KAP Home

Creating Luxury Home Décor in a Family Business that Extends Well Beyond Family

When Dan Sivas and his wife, Varvara, started a small business more than 13 years ago, they had no idea they would be growing not only a thriving business with 50 employees today, but a successful family business that includes seven members of their family.

Today, D.V. KAP Home has become a leader in home décor—creating, manufacturing and selling high-quality decorative pillows to high-end retailers and interior designers. Based in Fresno, the company displays at major trade shows throughout the year and manages several showrooms across the country.

"The way we see it, the pillow becomes the essential jewel for every room in the home," Dan says. "Not only do we take pride in growing a family owned business, we're proud to manufacture all of our products here in the United States."

Starting a Family and Emerging Into a Family Business

"When we started, and our children were young, we ran our business out of a 1,000-square foot office. As our family grew, so did our family business. Now we operate a 50,000-square-foot manufacturing and distribution center and introduced our own line of furniture this year," Dan says.

Although three of Dan and Varvara's sons worked at D.V. KAP Home after school and during summers as they grew up, they were never under any pressure to join the business after college.

"My wife and I agreed our children should follow their own dreams like we did. Work must be fun. If it's not, you can't enjoy as much success," Dan says.

Yet Khach, the couple's oldest son, decided to join D.V. KAP Home after college and is now in charge of operational functions such as shipping, collections and managing accounts.

Ando, their second son, also joined the business after college. Demonstrating a creative flair, he is responsible for marketing, sales and promotions—including design of the company's showrooms.

Nephew Ernest Martirosyan, son Peter Sivas, founders Varvara Sivas and Dan Sivas, and sons Khach Sivas and Ando Sivas gather in their Las Vegas showroom.

Their youngest son, Peter, studied finance at USC and did not intend to work at D.V. KAP Home. Eventually he decided to join the company because according to Dan, finance wasn't "creative enough."

Dan's nephew and Varvara's sister also now work at the company.

Family Is Family—Business Is Business

While conflicts within both business and family emerge from time to time, Dan pointed out that they must be kept separate.

"Family is family and business is business," Dan says. "It's essential to keep them separate so business disputes can be resolved in a way that's good for business and that conflicts within family can be settled on a family basis." He says it's important to "keep the peace" within the family while balancing business needs—a challenge unique to family businesses.

"I don't think any parent would want a son or daughter to sense any disappointment in them," Dan says. "It's tough when someone makes a mistake because you don't want family members to take it personally. Everyone makes mistakes, but focusing on performance, not the person, is just good management in general—yet especially important when misunderstandings can strain family relationships."

One Big Family

Dan is quick to point out that most everyone at D.V. KAP Home appreciates the family connection in the business.

"I often hear from our team that one of the reasons they like working here is because we run a family business," he says. "Even customers feel like they're part of the family. It's so rewarding to Varvara and me that the small business we started so many years ago is now like one big family."

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.

The Competitive Advantage of Culture in a Family Business

By Kelly LeCouvie and Kent Rhodes

For many years now, we've been thinking, gathering different group's experiences and writing about the role culture plays in organizations in general and in businesses owned and operated by families. Our research and work with enterprising families leads us to believe that family business cultures tend to be stronger, sustainable over a longer period, and more clearly visible and describable for people both inside and outside the business. It is usually deeply linked with the founder's worldview and his family's unique culture as well, making it a formidable force in the success of the business.

When we asked our colleagues at the Family Business Consulting Group, Inc. what key words or phrases they would use to identify common cultural traits in family businesses, their responses give us a snapshot of the unique nature of culture at the core of the family enterprise. A few of the key words included family feel, extended family that includes employees, clear values, caring, loyalty, humility, and deep commitment to community.

Yet culture is about more than the ongoing "feel" of a place, as it also directly impacts key decisions in the company and can strengthen the enterprise. Further, we suggest that in the face of growing competition due to industry consolidation, price wars, new competitors and the effects of technology, among others, businesses need to invest in key competitive differentiators. The culture of your organization might not come to mind first as a key competitive advantage, but recent research on culture of family businesses suggests that there is a positive correlation between superior financial performance and superior corporate culture. IKEA is a perfect example.

IKEA is a Swedish family owned and operated enterprise in the home furnishings retail space. Broadly known as the world leader for designing, manufacturing and selling modernly designed and cheap functional furniture, first generation founder Ingvar Kamprad originally started out as a "one-man mail" company in 1943. Today, the firm counts approximately 70,000 co-workers and realizes more than $33 billion turnover through 332 stores and 30 franchises spread throughout 38 countries.

Ingvar Kamprad's personality had a major influence in shaping the company's organizational culture, which is informed by his core values of cost-consciousness, simplicity and efficiency. These values have also tangibly translated into IKEA's recipe for success: Selling good-quality practical furniture at cheap prices. The multinational founder nourished the company's commitment to cost saving long before he first introduced the self-assembling IKEA-way.

Anders Dahlvis, IKEA's CEO from 1999 to 2009, described the firm's culture as informal, cost-consciousness and with a down-to-earth approach. It has been famously reported that when IKEA management organized a buffet-dinner for employees several years ago, Ingvar served himself last and made sure to shake hands with every worker before they left. Through this genuine and authentic action, the culture of IKEA was further solidified simply because this humble interaction with employees demonstrated the culture at work in the bones of the organization.

In fact, IKEA's current CEO, Mikael Ohlsson, had this to say about the strong cultural influence of the company's founder in the *Financial Times* last November, "If we share the same values and the same vision, we can put more trust in people working in the organization; we can have a very flat and unbureaucratic organization. We always recruit through values and we spend an enormous effort in strengthening the values: togetherness, down-to-earth and hardworking."

While the definition of culture in any organization can vary, says Dr. John Ward, depending on one's perspective, we tend to see three primary frames used to describe it: "A Passive frame describes culture as 'the way we do things around here' and a Scientific frame might define it as something of 'a system of informal, unwritten, yet powerful norms, derived from shared values that influence behavior.' But an Active frame offers a more practical approach: 'Culture is the result of what a particular group of people think and share together as being most important to them (values) and as a result, their shared basic beliefs influence the ways they interact with each other and with the world around them.' We find this Active frame to be most descriptive for family businesses, and the one that helps us best understand the links to success, and the role the family can continue to play in building and preserving this advantage."

1. In fact, while the founder clearly sets a great deal of the tone of his or her family business culture, for that advantage to be sustained over time, the family must continue to play a role in building and maintaining this dimension of their family's business. When we asked our FBCG colleagues how they believe family contributes to the culture in a family business, their responses centered around four roles that are played by family whether they work in the business or not, and often even if they are shareholders or not. Family members impact culture because they are "engaged" owners, helping to ensure that the family's values are represented on the board, in how the company treats employees, customers, vendors, the environment, etc.

2. They determine the family's risk tolerance and therefore the strategic decisions around how much capital is reinvested in the business versus how much capital they take out of the business.

3. They are positive in public-showing pride in the community as part of the owning family—often participating in community causes like hospital fundraisers or serving on local nonprofit or educational boards.

4. They naturally think of themselves as guardians or ambassadors of the company and its values and make an effort to meet employees, speak at orientations for new hires or write the history of business and family.

Family enterprises are often led and stewarded by family members who are guided by values that were ingrained in the day-to-day operations of the business by the founder and have transcended generations of owners. Those values often garner loyalty from family and nonfamily who are strongly connected to the legacy of the business. The longevity of those values also helps sustain idiosyncrasies that support a unique culture—perhaps an entrepreneurial and pragmatic culture that embodies priorities beyond profitability such as employees, the community and the environment. Ironically, research has shown that family companies with a broader focus, rather than just on profits, are more profitable.

> Culture directly impacts key decisions in the company and can strengthen the enterprise.

What's interesting about culture is that on some levels one can observe it and possibly describe it. Yet it is impossible to imitate, primarily due to its complexity. This makes culture unique, like a fingerprint. A strong culture emerges in family businesses from the permanent prints left by the founder, but also from the adherence to core principles that have guided the family, often for many generations.

Culture must be nurtured and evolve over time to reflect industry changes and internal adaptation. Yet the underlying permanence of family values and beliefs creates stability that even through leadership transitions and industry upheavals persists. This is unique to family businesses, and a significant advantage.

Kelly LeCouvie, Ph.D., and Kent B. Rhodes, Ed.D., are senior consultants with The Family Business Consulting Group Inc. Kelly focuses on corporate and family governance. Kent specializes in merger and acquisition integration and is a recognized expert in conflict management.

Family Owner Development

The Foundation for Continuity

By Barbara Dartt, and Michael L. Fassler

In our work with family enterprises, we have witnessed some very high-functioning owner teams, both small and large, engage in discussion and make challenging decisions. For example, they have tackled setting ownership goals for growth, evolving their governance process, and structuring future family ownership. A common thread among these high functioning teams is a strong foundation in two areas: (1) trust for each other and (2) basic competence in an owner skill set.

Such a foundation does not happen by accident. It is the result of an intentional effort to develop the competencies of being an owner and to commit resources to developing the next generation of owners. The effort involves meeting the needs of owners who manage the business (operating owners) and owners who do not (non-operating owners). When owner groups become teams—highly aligned, knowledgeable and engaged—they become a competitive advantage for their family's enterprise.

The process a family enterprise will undertake for owner development is as varied and unique as family enterprises themselves. Variables that impact the process include the size of the family, the size of the owner group and the proportion of operating owners and nonoperating owners. James (Jay) E. Hughes Jr., Esq., attorney and family business adviser, has said, "I have discovered that there is no educational program to teach family members how to be great owners of a family business or of a financial fortune.[1]" The best process for developing great owners is largely up to each family. Below we outline a framework to use in developing an owner development process that works for your family's enterprise.

Development Objectives

What should an ideal member of an effective owner team embody? It depends, of course. The depth and complexity required by an owner team depends on the factors outlined above—size of the owner family and the business, size of the owner team, and proportion of operating and nonoperating owners. Regardless of these factors, though, an owner must first be willing to commit the time and energy to building trust and competency. This assumes individuals see ownership as a benefit. Which comes first—the chicken or the egg? As you will learn below, starting early allows prospective young owners to build an emotional connection to the business. This connection paves the way for the commitment of time and energy to learning about owner rights and responsibilities.

One difference that drives some distinctions in owner development is the status as either an operating or a nonoperating owner. Overall, the development objective for operating owners is to equip them with the perspective and skills to "step out" of their regular, close-up view of the business and widen their view of direction and goals. For nonoperating owners, the objective is to give them the skills and abilities to "step in" to and engage in learning and occasional decision-making when they have a much more limited view of their enterprises and industries. So, while the content of development may be the same, the process of development may look somewhat different for these two constituencies.

Finally, the content itself needs to address two dimensions. First, individual skills and abilities. Second, it must build competencies of the owner team itself. It takes time and practice for a team to form, storm, norm, and, eventually, perform[2]. This process of team development—learning, practicing decision-making and having fun together—builds the trust required of a strong owner team.

What to Develop?

A meaningful family owner development program includes identifying the primary competency areas that include:

- Scope of ownership decisions;
- Teamwork;
- Financial matters;
- Legal matters;
- Governance; and
- Strategy.

Understanding the **scope of ownership decisions** that family business owners make, as compared to the board of directors and managers, lies at the heart of being an effective owner. With this understanding, owners will be equipped to "stay in their lane" as they carry out their owner role, thereby allowing the board and the management team to carry out their roles more effectively. Lack of knowledge regarding decision-making boundaries can create an environment where owners are stepping in front of board members and the management team, leading to chaotic communication and slower decision-making.

Next to understanding the decisions for which owners are responsible, the most important competency is **teamwork**—the ability to work effectively as a member of the owner group to achieve a common purpose. This competency enables an owner to apply their talent to positively influence the owner team and the family's enterprise. Absent this competency, the impact of all other competencies is significantly muted as other members of the owner team will tend to view the owner as less credible. The owner who is adept at advancing their viewpoint and respectfully listening to and incorporating diverse viewpoints adds value to the family's enterprise.

A baseline level competency with **financial matters** is an integral part of delivering value as an owner. This includes the basics of how to read and understand financial statements along with how the business impacts individual income tax situations and estate planning.

A grasp of **legal matters** as outlined in ownership agreements such as bylaws, shareholder agreements, partnership agreements and operating agreements, enables an owner to productively participate in discussions and decisions around ownership succession planning, development of the board of directors and shareholder liquidity. These documents provide the formal agreement details as to what decisions owners make and their relationship with the board of directors.

An important responsibility of ownership is to make decisions as to how the business will be governed. Having a baseline level of knowledge about **governance practices** and the importance of evolving governance practices over time as the owner team and the business evolves helps an owner contribute more fully as part of the owner team. For example, as the size of the owner team changes over time and as the proportion of operating and nonoperating owners evolves, having insight into how to evolve the governance structure to continue to best represent the interests of the owner team is an invaluable competency for an owner to possess.

> The process a family enterprise will undertake for owner development is as varied and unique as family enterprises themselves.

Lastly, owners' understanding the family enterprise's **strategy** which is being employed by management and the board to achieve owners' objectives helps the owner team have realistic expectations regarding growth, risk, profitability and the degree of reinvestment required to execute the strategy. These realistic expectations help to create an environment where the owner team is supportive of the board and management, balanced with having clear performance milestones.

In the end, a well-crafted and implemented owner development program covering the above competencies will better enable an owner team to take risk when making decisions together. Absent baseline competencies in the above areas, decision-making is impaired. The pace of team decision-making will tend to slow to the pace of the owner with the least understanding or lowest trust level.

When to Start Development?

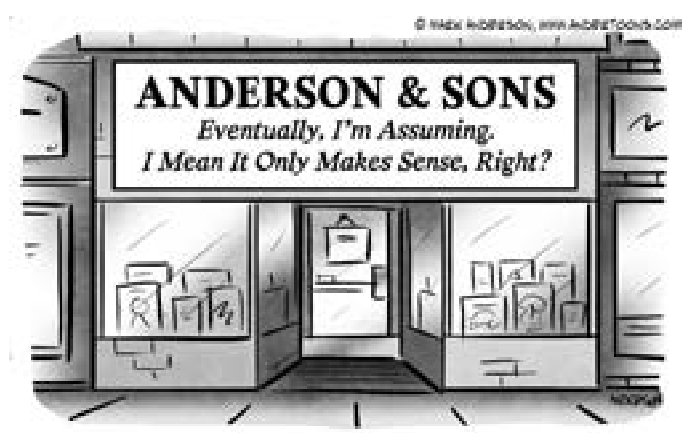
One principle of estate planning is to transfer wealth as early as possible to the next generation, including ownership of a family business. This allows for future increases in value to accrue to the next generation. We believe the same principle applies to owner development. By starting early, the trust and competencies required of great owners has longer to accrue.

Starting "early"—when children are in elementary school—requires a lot of foresight and customization of the content to fit those young age groups. The benefits are many. First, the deliberate engagement of young folks in learning about the business creates the opportunity for emotional connection with the business. This is challenging to replicate after young adults leave college and transition to lives outside of their nuclear families. Second, starting early allows you to instill owner skills regardless of the eventual continuity of the business enterprise. You don't have to promise ownership—only prepare next generations for the possibility. Possessing the skills of ownership would be a boon to any young adult whether they go on to own a business or not. Third, starting early provides the vehicle for cousins to get to know each other at a young, impressionable age. Those early experiences with each other provide an opportunity for sometimes far-flung cousins to build trust—one of the foundations of a strong owner team.

How to Develop?

Developing as an owner is a challenging assignment whether you are an operating owner or a nonoperating owner. First, the breadth and depth of the content itself can be daunting. Individual family members will have varying levels of time available, motivation and ability to learn and stay up to speed. Depending on where one is in their personal life cycle and what has come along with life itself, individual family commitments with one's spouse and children, career commitments, and other personal interests are all competitors for time and energy to devote to developing as an owner. Having some structure that allows for individual choice about how to learn helps make it more feasible for individual owners to fit ownership development activities into already busy days.

The family and the business can provide some of this structure through family meetings and periodic



business updates. Family businesses are leveraging available technology such as video conferencing and recordings, webinars, electronic informational portals, and in-person meetings to provide multiple venues for family owners to learn and to stay up to speed on the most current business information.

Learning options include self-study on individual topics, online classes, seminars and executive programs. "On the job" learning includes other career experiences that overlap with the ownership topics, owner team task force assignments, family council work and nonbusiness leadership experiences. Relationships are a powerful learning approach and include such activities as peer groups, observations at board meetings, participation in board committees, mentoring by other family business owners and elder storytelling. Lastly, related activities can include family business conferences, trade association events and facility tours.

As you think about expanding the options available, give yourself permission to experiment using pilot projects. Sometimes you simply do not know how well an activity will work until you try it out. "Pilot projects" have the advantage of learning about a new way of doing things without making a permanent commitment to devote resources to the activity. Know for sure that, as your family and your business evolve, growing your owner development practices will pay off.

Summary

Providing your family's enterprise with the competitive advantage of an effective owner team requires foresight and the commitment of significant family resources to both the planning and delivery of development opportunities. The good news is that despite a daunting list of competencies required, if you start early, you have plenty of time to influence potential owners.

Whether the impetus for owner development comes from operating owners and/or nonoperating owners, be assured that your hard work in this area will be rewarded in the future. An effective owner team serves as a foundation for the continuity of your family business, the smooth operations of your management team and healthy relationships for your family.

1 A Reflection on the Roles and Responsibilities of Each Family Member as an Owner of the Family Enterprise in a Family Governance System. Hughes, James E.

2 Tuckman, Bruce W (1965). "Developmental sequence in small groups." Psychological Bulletin. 63 (6): 384–399.

Barbara Dartt is a senior consultant of The Family Business Consulting Group, assisting businesses with succession strategies, long-term planning, management transitions and family governance implementation. Principal consultant Mike Fassler's work is focused on family businesses owned by sibling teams and cousin teams with an emphasis on helping clients balance the tension of family and business as their families and businesses grow.

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