

Iowa's next generation: Iconic family businesses prep millennials for leadership roles

Donnelle Eller and Kevin Hardy, The Des Moines Register - January 19, 2018

BCC Advisers president Steve Jacobs is quoted in the above article. Excerpts of this article are below, which can be found in its entirety at:

<https://www.desmoinesregister.com/story/money/business/2018/01/19/iowas-next-generation-iconic-family-businesses-prep-millennials-leadership-roles/1009093001/>.

A fresh wave of young leadership is sweeping through Iowa's family-owned businesses.

Over the next seven to 10 years, the U.S. will see family-owned and closely held companies worth \$10 trillion pass to the next generation of owners.

Handled poorly, those transfers could jeopardize millions of jobs, cripple companies and hurt U.S. and state economies.

That's important in Iowa, where about 20 percent of businesses are family-owned.

"We know that a lot of family businesses don't survive beyond the first generation, much less the second or third," said Mary Andringa, chair of the board at family-owned Vermeer Corp. "You need to be pretty intentional about good transitions."

At Kemin Industries, third-generation family employees Lucas Nelson, 30, and Kimberly Nelson, 27, are helping the nutritional ingredients maker diversify with forays into textiles and medications derived from cannabis plants.

Emily Schmitt, general counsel at Sukup Manufacturing Co., recently helped negotiate the company's purchase of SBC, a Pittsburgh-based maker of steel buildings. She's also a third-generation family employee.

Kemin, Sukup and Vermeer all have strong succession plans in place, as do other well-known Iowa companies like Fareway grocery stores and Kum & Go owner Krause Gentle.

But they are exceptions to the rule, says Debi Durham, director of the Iowa Economic Development Authority.

In recent years, Durham became concerned about the future of Iowa's family-owned businesses after touring small-town manufacturers.

"There really was no transition plan. There was no family member actively engaged in the company," said Durham, who initiated a state program that helps Iowa companies explore employee-stock ownership as an option to replace family ownership.

Without employee- or family-transition plans, businesses may be picked up by large corporations or equity firms with few ties to local communities.

That often means a factory closes for good or that its profits and leaders are relocated elsewhere.

And that can lead to the demise of small towns where a company was the biggest employer.

"We've seen that play out many times in Iowa," Durham said, "and we usually don't fare well in that."

Each transition gets 'harder and harder'

Only about 12 percent of family-owned businesses make it to the third generation, [research from the Family Business Institute](#) shows. And only 3 percent persist to the fourth generation or beyond.

"After about two or three years (into a transition), these businesses often tend to hit the wobbles and don't survive," says Lisë Stewart, director of the Center for Family Business Excellence at EisnerAmper, a New York consulting firm.

The key to keeping family-owned businesses going strong is preparing the next generation for leadership, she said.

But far too few family businesses have even begun thinking about succession, according to Steven Jacobs, president and founder of BCC Advisers.

"Not nearly enough," he said. "Only about 10 percent of private companies in the country have a clear and thoughtful succession plan."

'Children don't always share the same motivations'

Beth Livingston, an assistant professor at the University of Iowa's Tippie College of Business, said passing a business from founder to the next generation is often the most difficult transition.

"The biggest leap is when you go from original to second generation," she said. "Founders of companies have very specific motivations that cause them to create the company, and their children don't always share the same motivations."

Jacobs said founders face another struggle: letting go of the companies they've led.

"Most business owners who are looking to sell would like to liquefy or monetize their investment," he said. "And when you sell to family or you sell to employees, more typically than not the business owner has to provide the funds for the sale versus selling to a third party."

The first transition provides a precedent for future changes.

"Everybody should know the succession plan in the company," Livingston said. "And if we don't have one, if you're open to external leadership, you should know that, too."

Livingston predicts transitions to next generations will become increasingly rare as entrepreneurs nowadays cede ownership of their budding companies through angel investors or public stock offerings.

'Family business has torn them apart'

It's rarely business issues that cause family businesses to fall apart, says Stewart, an organizational psychologist. "What brings down the family business is emotional strife — family members that don't get along."

Companies often are willing to look outside for business support, such as independent board members, accountants and consultants, she said.

But they're less likely to get help sorting through the emotional challenges.

"How much money do you keep in the business and how much money do you distribute to family members?" she said, ticking off a dozen questions family businesses should ask themselves.

Stewart said her team from the Center for Family Business Excellence is working with a half-dozen businesses whose family members are suing each other.

"These are people who at one point loved each other, but the family business has torn them apart," she said.

'It's truly a responsibility and not a gift'

Kemin Industries, the Des Moines maker of nutritional products for people and animals, plans to be a seventh-generation family-owned company.

While Lucas Nelson, the grandson of founders R.W. and Mary Nelson, said he didn't love attending shareholder meetings as a teenager, it planted a seed in him and cousin Kimberly Nelson, both of whom joined the company in the past year and are now leading new corporate initiatives.

Chris Nelson said family members have a choice about whether they join the company.

"If you choose to join the company, you probably have to be more qualified than non-family members for that position," he said. "And once you have the position, you probably have to work harder" than non-family members.

"It's truly a responsibility and not a gift based ... on what your last name is," he said.

Kimberly Nelson, the daughter of Chris Nelson, said she and her cousin feel passionately about taking the steps that will be needed to make Kemin a 200-year-old family business.

Employee ownership in Iowa

Since the Iowa Economic Development Authority rolled out its Employee Stock Ownership Formation Assistance Program in 2014, 11 companies have been approved for funding, said agency spokeswoman Kanan Kappelman.

Five of those companies have made a sale of stock to an ESOP: Library Binding Services, Seaberg Industries, Absolute Group, Kreg Enterprises and Palmer Cos.

Four more companies are expected to form ESOPs in the spring this year, she said. And two contracts were terminated without the companies forming ESOPs.

The Iowa-Nebraska chapter of the ESOP Association [lists at least 42 ESOP companies](#) in Iowa.