

Banking on Family Business Success

The Three C's of Family Business Continuity

Dave Specht



The state of Nebraska has a rich pioneer heritage that continues to influence the culture of the people who live here. As we consider the pioneers crossing our great state in the 1830s, we should remember and apply two important lessons.

THE FIRST IS THAT THE PIONEERS looked at what they were doing as larger than themselves. They were not crossing for their benefit alone; they were crossing the Great Plains in search of a better future for the generations who would follow them. The second lesson is that they kept moving forward with boldness and courage in the face of opposition while assisting others to also reach their destination.

Just as the pioneers moved forward, so must Nebraska bankers. Each bank has a unique history filled with sacri-

fice, struggle, and a desire to provide the community with a catalyst for growth and development. The average age of Nebraska banks is almost 98 years, according to FDIC.gov. As you consider that number, it is apparent that the long-term strength and growth of Nebraska communities directly correlates to the access that businesses, farms, and ranches had to capital. Almost as staggering, we learn that close to 63 percent of the banks in Nebraska are “family-owned.” Why might this statistic be an exciting differentiator and how might it potentially represent a liability to the state?

Family Ownership as a Differentiator for Banks

A high concentration of family-owned banks can be a very good thing for communities in Nebraska and for the state as a whole for a number of reasons. Families who have owned banks for several generations have a competitive advantage due to the long-term relationships they have developed and the knowledge of each borrower’s history. These same banks many times have children, or nieces or nephews, who grew up around the bank and gained learning experiences that most college students would envy. This exposure to banking at an early age boosts these individuals’ ability to discern risk and to make tough decisions. Many are well ahead of their peers who didn’t have the opportunity to grow up in the same environment.

Another important differentiator is that most of the bank’s best customers are also family-owned businesses, whether they are farms, ranches, or other enterprises. Because of the banker’s personal experience with the unique nuances encountered in multi-generational business transitions, these family-owned banks end up having a competitive advantage because they know how to serve the needs of family businesses. Todd Adams, CEO of Adams Bank & Trust in Ogallala, explained, “Being a family business ourselves, I think people are more comfortable coming to us to seek advice on their family business issues.”

Family Ownership as a Potential Liability for Banks

With every possibility of reward comes a certain amount of risk. One of the biggest risks for family-owned banks in Nebraska is not preparing for management and ownership succession. Every banker asks the borrower for contingency plans, but not every bank is as “intentional” with their own plans. Identifying potential successors is one of the first required tasks. Once the criteria and skill sets are identified for the leadership positions, each bank

needs to build a development plan or path. John Wilkins, president of Geneva State Bank, shared his concern about family-owned enterprises he works with by asking, “Are they preparing the next generation and laying the foundation that can carry them from one generation to the other?” Many banks and family business customers have large “knowing/doing” gaps between top leaders and the next level of management. Anything a bank can do to close those gaps will reduce risk and friction during leadership transitions. If your bank does not take this planning process seriously, it will be impossible to convey its importance to your customers.

Family-Owned Banks Serving Family Businesses

Continuing the family business from generation to generation is daunting to say the least. If your bank is family-owned, you have a unique opportunity to empathize with and assist customers in navigating the pitfalls that so often impede generational transitions. Banks need family businesses as badly as family businesses need banks, so working together to facilitate continuity is a natural fit.

As you work with family business customers and think of your own family-owned bank’s succession plan, consider the three C’s of family business continuity to help you navigate safely.

1. Communication

The lack of communication about intentions and desires of the senior generation is one of the most common pitfalls that cause family banks and family businesses to struggle. Encouraging and sometimes facilitating communication about a customer’s ownership philosophy, vision for the business, how they feel about the operation, and when they plan to take a diminished role in the operations are vital to the next generation finding success and fulfillment.

2. Contingency Plans (Management & Ownership)

Each family should have a documented contingency plan in the event that their best-laid plans go awry. One banker shared an analogy of a farmer’s contingency plans for his crops and how the farm will operate differently depending on price and timing, but that same banker struggles to be strategic about his own management and ownership contingency plan if things don’t go according to plan. Knowing how ownership will transition and communicating those intentions to the necessary parties will go a long way to preserve the business, but also will facilitate the preservation of family relationships when difficult times occur.

3. Cash Flow

Most successful family-owned businesses share one trait. They are usually asset rich and somewhat cash poor. In order for a business to transition to the next generation and for a senior generation to hand over the reins, a conversation about cash flow must occur. All parties involved must clearly understand the cash flow needs of the retiring generation. The cash flow requirements of the business

also must be discussed. If a family doesn’t take care of the cash flow question, they will either stifle the growth of the business or handcuff the senior generation from ever fully exiting the business.

As you consider the business succession issues happening all around you, follow the example of our pioneer ancestors. View the goal of succession as bigger than yourself. See business continuity as something that will affect families, communities, and the state as a whole. Move forward with courage in your conversations and planning opportunities, no matter how daunting.

If you are a family-owned bank, take advantage of your heritage and experience and use it to help the multi-generational businesses you serve safely navigate the process. Avoid the pitfalls of not taking your own advice. Don’t be embarrassed if you are not as far along as you should be, but get started today. Your family, your customers, and your community deserve a thoughtful plan for your bank’s continuity. Lastly, remember the three C’s of family business continuity and deliberately seek clarity in each of them. Family businesses in Nebraska are “banking” on your success. Wagons move forward! ▶

Dave Specht is the coordinator of family business programs for the College of Business and Extension Education at the University of Nebraska-Lincoln. Specht has gained national attention for his creation of The Family Business Continuity Audit®. To learn more about his work, visit www.davespecht.com or follow him on Twitter at @fmlybusinessman.

WALENTINE, O'TOOLE, McQUILLAN & GORDON

When time is of the essence, experience counts.

Walentine, O'Toole, McQuillan & Gordon blends confidence, experience and knowledge with the personal attention you can expect from a regional law firm.

www.womglaw.com

WALENTINE
O'TOOLE
McQUILLAN
& GORDON

402.330.6300

11240 Davenport St. • Omaha, NE 68154-0125