

*“Don’t think about it as when you are ready to leave... think about it as when the next generation is ready to lead.”* ~John Davis



*Megan F. Clubb*  
Chairman & CEO

While there are many important issues for business leaders in 2014, I want to talk about one that is front and center for me—leadership transition. At Baker Boyer, Mark Kajita was named president effective January 1, 2014, as the first step of our leadership transition. I have retained my position as CEO and Chairman of the Board. The process to name my successor has been a very gratifying experience for me and also a learning experience. I wanted to share some thoughts that I think will be helpful to many businesses that are facing similar transitions.

The vast majority of Baker Boyer’s business clients are family owned and operated companies. We have served their needs for over 100 years providing expert advice on financing and estate issues. These two factors are key to a successful transition of family businesses to the next generation for sure. But, we often find family businesses are not prepared with plans for a smooth transition in another key area—namely passing along leadership responsibilities. At Baker Boyer, we work with our clients to facilitate discussion on this key element, leadership succession, in their planning.

The fact that family owned companies are not prepared for a transition in their leadership team was confirmed by a recent survey—the Northwest Family Business Survey—conducted by the Pacific Family Business Institute a year ago. Interestingly, in response to one question asking for the issues and concerns that keep family business owners awake at night, respondents most commonly talked about three things: succession planning, regulation and maintaining profitability. About half of the respondents anticipate transitioning leadership to a family member, while one third anticipates transitioning leadership to a non-family member, and the remaining are undecided. And while 70% of the businesses surveyed had a written plan for estate and ownership issues only 33% had formalized succession plans in place which clarified the timeline and evolution in roles and responsibilities for the next generation leadership team.

It surprises me that so many family run businesses are missing this key element of succession in their strategic planning. In my opinion, successful family businesses must ask themselves some key questions:

- Are you preparing the next generation of employees to be future leaders?
- Are current senior leaders willing to step aside in a timely way to allow the next generation to take over?
- And are you attracting, retaining, and motivating impressive non-family talent?

Succession is a process, NOT an event. It takes time and requires honest feedback and frank discussion. If your plan is for the next generation leadership team to be led by family, then it is important to have a plan to prepare

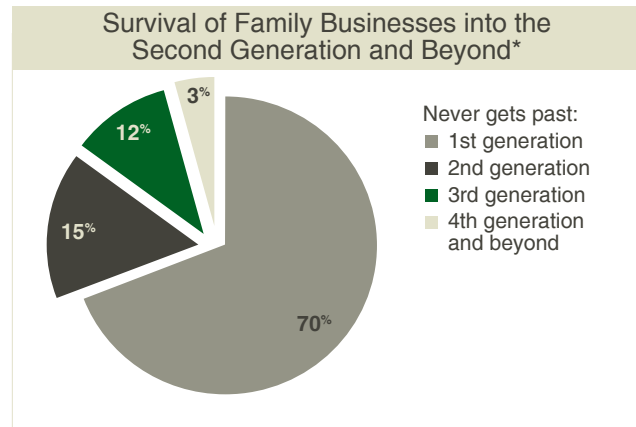
them to become future stewards of the family business. You have to be willing to compare your sons and daughters relative capabilities and place them in the right job in the organization. The person responsible for the selection of the next generation leadership team needs to lead from the head, not the heart (you have to seriously and realistically evaluate the talent and skill gaps of potential next generation leaders). Running a business requires risk taking. You are looking for the visionary individual that is willing to take some risk and try new things to meet the ever changing competitive environment.

I began planning for my successor in early 2011. Selecting my successor was a three year process. Early on, it's important to involve a trusted confidant and spend the time making a list of qualifications, skills and characteristics which make a successful leader. At Baker Boyer, our list included characteristics that would further us along in our strategic planning journey, such as someone who is: visionary and action oriented; honest with high integrity; a good listener; open to alternative ideas; committed to doing "the right thing" even if it is unpopular; known for developing exceptional internal and external relationships; and dedicated to furthering Baker Boyer's interests. Next, you should evaluate internal candidates against the list to reveal potential successors. Then take time to assess your candidates, having meaningful conversations with each of them on plans for improvement and give them feedback on their progress. Using this process, we were able to make our final selection in September 2013.

So what are some of the most important things that I have learned from this experience? First, run your business as a team and make sure to give the next generation ample time to take responsibility for key projects. Prior to passing the baton, involve them in challenging situations and ask them how they would handle it. That not only develops their confidence but helps you develop confidence in them. And finally, let them handle a challenge or crisis on their own where you step back. Let them make mistakes and mentor them not chastise them for errors.

Equally important is the timing of management transitions in order to maintain momentum. I once heard John Davis, the Founder and Chairman of Cambridge Family Enterprise Group make a really insightful comment, "Don't think about it as when you are ready to leave... think about it as when the next generation is ready to lead." A key question to ask yourself is when is the best time for the senior manager to exit? Is it before your peak, at your peak, or after your peak? Your role as senior leader of the company needs to change to one where you are providing guidance and turning over the day-to-day management to the next generation. If you wait until you are no longer interested in

working they won't develop before you leave and, frankly, they may leave the company and jump ship if not given the opportunity to have challenging and rewarding careers. And then where are you? Another way to think about it is the goal is to test their ability to manage and then pass control



in 3-5 years. And truly pass the baton. Don't put the next generation in a position where they have to ask permission from you to make things happen. Encourage them to develop their own plans for the business. If you don't have a successor, it is a major risk to the company's success. Make a transition in a timely and graceful way to maintain motivation and build momentum in the business and the family.

Understand how important this transition is for employees, customers and community. Take the time to consider all of your internal and external options so you make the right choice. And be prepared for the tough questions you will be asked about what it all really means and why you are doing it. Nothing stays the same, and change handled well can be a positive and energizing force for you, your management team, employees and customers. Done right, it will leave you better prepared to face the future and serve your customers.

Remember too that this transition can be an emotional one and letting go can be challenging. Keep in mind that this is just a change in your role, not a removal of your role. The process starts with a leader who is able to deal with letting go and the end goal is to develop the next generation of leadership team who will carry on your family legacy. Finally, don't underestimate the positive excitement and energy that transition can have for everyone in the organization. I am so proud to be the leader of a family owned business with a supportive board, wonderful employees and great clients. I also look forward to working with Mark Kajita, our management team, and employees in 2014 to make Baker Boyer Bank an even better place to work and do business. Here's hoping for a wonderful 2014 for each of you.

\*graph from The Churchin Group