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FAMILY BUSINESS NEWSLETTER

EWING & CLARK INC.

Boutique real estate company's focus on high-quality service has transferred across generations and from one family to another.

In 1900, in a narrow city with ample shoreline and mild weather, real estate firm Ewing and Clark was formed.

Today the Seattle company is the oldest real estate brokerage in the state of Washington — and possibly on the West Coast.

Serving the coveted 84 square miles wedged between the Puget Sound and Lake Washington, as well as Seattle's suburbs, Ewing and Clark offers full-service residential, commercial, and property management services.

Two Families, One Legacy

Ewing and Clark was owned and operated by the Ewing family for 76 years before becoming part of the Losh family almost 50 years ago.

In 1967, 18-year-old Brian Losh painted houses to cover his tuition at University of Washington. Among his customers in the affluent Washington Park neighborhood was H. W. "Bud" Ewing, the third-generation owner of Ewing and Clark.

Upon Brian's graduation, Bud offered him a position managing the company's commercial rental department. When Bud retired in 1976, Brian purchased the company.

Just two years later, the family and the business faced a devastating crisis. Brian and his wife, Therese, were involved in a fatal car accident. Therese died, and Brian was hospitalized. In Brian's absence, the company struggled, and he had to work for several years to get it back on its feet.

From Father to Son

Like his father Brian, Casey Losh's entrée into the real estate business was painting. He spent high school summers tackling a full schedule of interior and exterior paint jobs across Seattle for his father.

Casey moved to California to attend Santa Clara University where he majored in accounting and went on to obtain a Juris Doctor and Master of Business Administration. After five years as a tax consultant at Deloitte & Touche, he returned to Seattle and the family business in 2004.

Since becoming CEO in 2010, Casey has carefully built the company's real estate portfolio while keeping it a boutique firm with high-touch service and hands-on management.

Focusing on the luxury market, Ewing and Clark's residential properties have a $1.8 million average sales price. Commercially, the company's known for in-city retail space and a mix of smaller family-owned buildings. It manages properties from single condominiums to condo associations and commercial buildings.

Ewing & Clark Chairman Brian Losh (left) and his son, CEO Casey Losh (right).

Complementary Roles

In his early days working in the family business, Casey would frequently consult with his father and seek his advice. But after 20 years, that has changed.

"Now there's no situation where I don't know what his answer is going to be," Casey says. "I know how he thinks, and that's usually different than me. I come more from the numbers side, and he's more sales and ideas. At the end of the day, it's a good combination."

The company also benefits from the real estate expertise of Brian's wife, Betsy Terry, and Casey's wife, Kristine Losh, who both work as residential brokers.

The best part about running a family business, Casey says, is working with people you know and trust. The continuity of family ownership benefits the company, yet each generation brings its own thoughts and innovations to the organization.

On the flip side, separating work from pleasure is an ongoing challenge.

"Those lines between personal and business get blurred a lot in a family business," he says. "There's always one family member who wants to talk business more than another person, or people want to talk about it at different times, and usually when we are not at the office."

Lessons Learned

While Casey's accounting and legal background have been invaluable to his real estate work, he says additional training in areas like sales and management earlier on with the company would have helped him a great deal.

His advice to others aspiring to work in the family business: "Gain experience by working as many facets of the job as you can. Also, spend time outside the family business to learn how other companies work."

Casey says when you're a family member in the family business, the burden is on you to set the example and prove you deserve to be there.

"Be the first one to arrive and the last one to leave," he says. "And never ask employees to do something you wouldn't do yourself."

For Casey, that often means picking up trash at a property or dealing with a difficult tenant or client issue.

"Not every situation is going to go perfectly. You have to work through each challenge as best you can," Casey says. "When there's negativity, focus on the positive parts — there's always a lot of positive."

Seven Steps to Recruiting Value Add Independent Directors

By Anne Hargrave

Incorporating independent directors into a family firm's board is considered one of the standards for family business success. The prospect of finding independent directors who can both challenge business leaders and represent ownership interests can be daunting. Following these seven steps will help identify directors who will add value to the family business enterprise.

1. Establish a Nominating Committee

Identify three to four people to manage the director search process and recommend candidates to the board, which is responsible for electing a new director. The nominating (or governance) committee can facilitate an inclusive process, incorporating stakeholder perspectives to identify candidates who will support the needs of the business and the shareholders.

2. Collect Stakeholder Opinions

Soliciting stakeholder opinions on the characteristics of a new director gives participants an opportunity to express their point of view and will make it easier to accept the ultimate conclusion of the board. It is helpful to follow these steps:

- Review strategic challenges and board member expertise. Consider how your industry is evolving and the degree to which the business is prepared. What parts of the strategic plan are new territories for management? What skills might a new director have to support management in executing the plan?
- Assess the board's culture and function. Clarify what you would like to maintain and what you would like to change. Consider the impact of near

term retirements on the board's culture and whether you are seeking a director who might become the chair in the future. What director characteristics are important to enhance the board's functioning?

- Consider family and shareholder dynamics. Independent directors who build relationships with shareholders, spouses and future shareholders can be valuable in creating alignment between the board and shareholders. What characteristics will be important for a new director to relate well with shareholders?
- Explore potential added value for management. Ask management to identify specific skills in a new director that will be helpful to them. Taking into consideration the board's view of management's opportunities for growth, what attributes might a new director have to mentor to management?

3. Create a Board Prospectus

As a tool for recruiting new directors, the prospectus outlines important factors about the business and the expertise desired, including the following items:

- A summary of the business's history, products, markets served, strategic focus and size;
- Rationale for seeking a new director;
- Board structure, including number of independents, committees, meeting frequency and board fees;
- Board responsibilities; and
- Desired director experience, attributes and education.

4. Solicit and Review Candidate Pool

The nominating committee manages a process of circulating the prospectus to colleagues, advisers and personal contacts requesting candidate referrals. They collect and review candidate resumes to establish a pool of candidates whose background aligns with the prospectus, at least on paper. Using a firm experienced in searching for family business directors can be helpful in expanding the candidate pool.

5. Conduct Interviews

The nominating committee then narrows the candidate field incrementally until a qualified director has been identified. It is helpful to break the interviewing process into the stages noted below to compare candidates and share thinking about the right fit for the board:

- Provide candidates with the prospectus and confirm their interest.
- Interview each candidate via telephone.
- Review the interview outcomes and identify a small group of candidates for in-person interviews.
- Invite candidates to meet in person with nominating committee members.
- Review the in-person interview outcomes, determining whether you have the right candidates from which to choose. If so, move forward.
- Consider the value of additional interviews or a chemistry fit social gathering with key stakeholders for the final candidates.

6. Decide

When you have identified a board candidate whom you believe has the right skills, values and cultural fit, extend an invitation. At that time, determine whether or not the candidate is interested in accepting, contingent upon reference checks.

7. Conduct Reference Checks

Conduct reference checks and any additional vetting to confirm the candidate's value add to other boards, their level of expertise, and, if they have had family business experience, the manner in which they were helpful to the family and business system.

Anne Hargrave is a contributing author to the Family Business Advisor, a publication by The Family Business Consulting Group.

Putting Ownership Alignment Into Practice: The Sanders Family Dilemma

By Martha L. Sullivan

The three-generation Sanders family business was facing a crossroads. The company made it through the rollercoaster ride of the pandemic and is experiencing renewed growth and stability. Members of the first generation, Bill and Sally, are in their 70s and are ready to dedicate themselves to a new adventure beyond the company. Their three adult children — Pat, Jamie and Chris — are involved in the company as owners and board members. Jamie and Chris continue to have a role in the operations, although the key executive roles are now held by nonfamily members. With the third generation just beginning their careers in the company, the family needs to make some decisions around succession.

We asked the million-dollar question: “How aligned do you think you all are in your goals and thinking about your ownership? Are you all in agreement on the matters of growth, risk, profitability and liquidity?”

Silence was followed by restlessness in their chairs. Family members looked from one to another, wondering who was going to speak first and, more importantly, whether they would agree. The silence seemed to go on for a long time.

Matters of Growth, Risk, Profitability and Liquidity

When it comes to owner alignment, agreement on the four elements of the Growth, Risk, Profitability and Liquidity (GRPL) model serves as the critical foundation for forward progress. When a family enterprise agrees on how to measure and track key GRPL metrics, the stage is set for the family, owners and company leadership alike to all follow the same set of “marching orders.” It also creates a game plan and sense of accountability for the entire system.

Every family enterprise serves the needs of a wide variety of constituencies between the family, owners and business. The needs are unique while simultaneously deeply intertwining and dependent upon one another. The GRPL dashboard ultimately reflects the harmonized agreement for the enterprise.

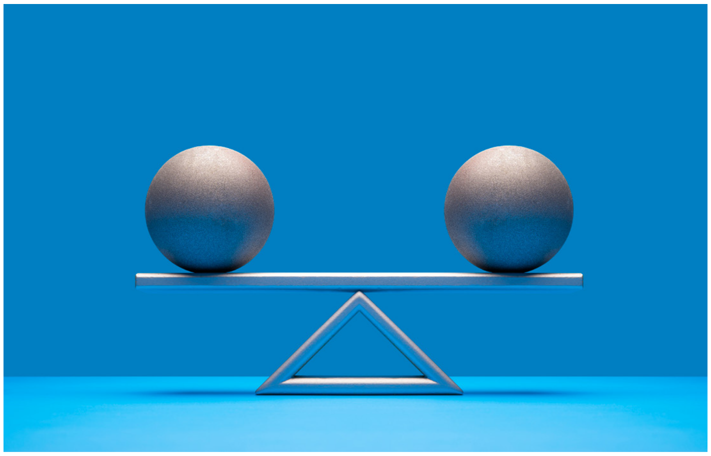
Where Does It Begin?

Many family enterprises react as the Sanders did when asked about their alignment around GRPL. It can be challenging to know where to begin as you define the key metrics. Ultimately, the metrics reflect the performance of the company, in the form of growth and profitability. The impact of the growth and profitability is manifested in the absorption of risk in the system and the availability of liquidity to the business, owners and, beneficially, the family.

It’s tempting to begin the GRPL journey at the company level. However, experience tells us the best opportunity for alignment exists when we start with the individual.

For example, Bill and Sally have reached a time in their lives where they have adequate resources at their disposal. Their appetite for the adrenaline rush that comes from high-octane growth in revenue and profits of the company was satisfied years ago. Their goals are now focused on taking care of one another and the family and achieving other goals around philanthropy and social impact.

In contrast, their adult children are at a different phase in their lives. Pat is easy going and secure both personally, professionally and financially. There are no complaints and according to Pat, “Things can just keep going like they have.” Chris, the oldest, enjoys being part of the board because it provides connection to the family business. However, Chris would also be more than happy to step away from it entirely to pursue other interests. Jamie, on the other hand, recently remarried and has started a second family with two toddlers. Jamie needs to remain engaged, employed, and making the most out of every aspect of ownership and operation of the company, aligning more with the sentiments of the third-generation family members working in the company.



As each person considers their own needs, there is a balancing exercise that occurs. There is a natural tension between the four GRPL elements, a tug-of-war between risk and growth, profitability and liquidity. Risk, by definition, is uncertainty relative to the impact of an event or outcome on the achievement of an objective. Put another way, risk is the degree to which an action may have a negative or positive impact on you achieving your goal.

When there is an emphasis on mitigating negative consequences, it is likely that growth, profitability, and/or liquidity will be curbed. Conversely, an aggressive growth strategy inherently increases risk, which may or may not threaten profitability and liquidity. The positive consequences could be tremendous. The negative consequences could be disastrous.

The process starts with the individual. Each member of the Sanders family was encouraged to reflect on what their personal expectations were as an owner in the enterprise. To what degree did they want to be involved? What are their expectations for degree to which they want to take on the risk and liabilities of ownership? From a personal financial perspective, what are their needs for compensation and/or dividends from the company?

As a group of individuals, the GRPL profile can be summarized in the following table:

Family Members	Personal View	Individual Goals			
		Growth	Risk	Profitability	Liquidity
G1 Sandy & Sally	• Carried weight & risk for decades. • Wants relief • Strong philanthropic goals driving interest in exit	Low	Low	High	High
G2 Pat	• Very easy going • Secure personally, financially & professionally • Happy with how things are running now	Medium	Medium	Medium	Medium
G2 Jamie	• Remarried after a difficult divorce • New babies & kids in college from first marriage • High need for employment in company & strong, routine dividends	High	High	Medium	High
G2 Chris	• Enjoys the business yet has other interests to pursue • Wants to step away from the business entirely to focus on these other interests & being a family	Low	Low	Medium	High
G2 Cousins	• A mixture of working in the family business & beneficial owners • Young professionals hitting their stride in careers • Young families & first time homeowners	High	High	Medium	Low

Once the self-reflection is completed, the information needs to be shared with and heard by others. This demands a certain level of listening and communications skill across the family group so the discussion can be purposeful and intentional, with a base regard for the speaker and their value as a member of the family. By acknowledging individual appetites for risk and needs for growth, profitability and liquidity, we build understanding across the enterprise. With this broader and deeper understanding of the respective needs, the enterprise enhances its ability to build alignment and consensus.

The Sanders Dilemma

In the case of the Bill and Sally, they were at the point where they prioritized liquidity and wanted to eliminate their risks of ownership. They brought a sensibility to this and wanted to work with company leadership to ready the business for the transition while encouraging growth in value and infrastructure. This information was communicated to their children, and it was agreed that they would craft a three-year plan to accommodate Bill and Sally's wishes.

One of the first steps in their action plan was to obtain a valuation of the company as a baseline for planning as well as developing the executive succession plan. When the valuation was above what Sally and Bill had been assuming it would be, they began to question:

> **What's important to us — as individuals, a family and shareholder group?**

- Should we stay the course of a three-year plan or accelerate our timing?
- Should we continue to make the investments in growth that we have built into the strategic plan and financial projections?
- What is the feasibility of redemption of stock? What is the cash flow impact on the operating company and, in turn, the impact on its ability to weather future economic cycles?
- What options should we explore to meet the diverse needs of those looking to exit compared to those committed to remain as owners?
- What's important to us, as individuals, a family, and shareholder group beyond the financial quantitative aspects compared to the qualitative and legacy implications? Where are the points at which the scales tip in one direction or another?

The Approach Toward Alignment

The Sanders family enterprise had a long history of being able to work through challenging times. That said, there were tremendous differences between them in terms of how they viewed the world and how they processed information. For example, Bill and Chris were fast-paced, high-energy decision-makers. Sally, Jamie and Pat preferred to gather more information and input before making high-stakes decisions. Bill, Jamie and Pat had a higher degree of comfort with numbers and financials whereas Sally and Chris were far less confident.

As with every family, they also knew how to press each other's buttons. At times, emotions would cloud the conversations. Jealousy and favoritism, whether real or perceived, would spark an impasse. Conversations would stall as family members retreated to their corners.

Both generations recognized that they needed an impartial facilitator to guide them. They needed someone with no skin in the game to lay the data out on the table and translate when applicable.

In our work together, we crafted a process for the Sanders that accomplished the following steps:

- Identified individual learning, information and communication styles to build self-awareness and broader understanding of ways to more effectively problem solve together.
- Enhanced the enterprise's understanding of the underlying factors in the GRPL model through education and review of financial trends of the company.
- Facilitated self-reflection on individual needs that in turn led to facilitated conversations as a group to build deeper understanding of the shared priorities of the enterprise.
- Developed consensus around acceptable metrics and frameworks for succession.
- Developed an action plan for achieving the agreed-upon goals and timing of the succession plan.

By investing the time and resources in developing a process, the Sanders team was able to address the questions in a well-considered and balanced manner. Rather than allowing the differing needs to stall them, individuals had the opportunity to voice their opinions and needs. By giving voice, the leaders charged with making the ultimate decisions had better awareness of and ability to weigh the varying needs. Those individuals without a direct say in the decision recognized that the decision-makers were following a process that was organized, inclusive and fair. While the decision may not be what a given person wanted personally, the transparency of the decision-making process and information provided a path for accepting the decisions.

The Positive Impact of GRPL Alignment

The results were readily accepted by the enterprise, including the following ideas:

- The enterprise recognized and respected Bill and Sally's interest in liquidity. Collaboration among the family council, board of directors and leadership developed a strategy around their exit from owning certain operating and nonoperating assets. This provided Bill and Sally the funds to make the level of investment in their philanthropic projects while still alive and fine tune their estate plan's legacy planning component.
- After robust discussion, the enterprise decided to moderate the investments in growth slightly, lowering the targeted growth rate and strategically pulling back on certain investments that would not sacrifice the long-term health, growth and profitability.
- The enterprise implemented a program for the annual adoption of specific metrics to guide both the strategic plan and measurement of performance for each of the GRPL components. The facilitated discussions resulted in an enhanced understanding of the dynamic and interrelated nature between growth, risk, profitability and liquidity. As such, family members, board members and the leadership team deepened their knowledge and respect for striking the right balance for the Sanders enterprise.

Conclusion

The Sanders family worked hard to listen to each other, to learn together and invested the time to hold critical discussions that would determine their future. They recognized that the crossroads faced were going to be both impactful and potentially emotional for the members of the family. A well-considered and facilitated process opened the door for including the full range of interested parties from the family and leadership of the companies. By giving everyone a voice and a level of transparency that reinforced their process, the Sanders family had a path for effective decision-making that reinforced trust.

As a family enterprise, it is vital to evaluate the level of alignment in key areas such as growth, profit, risk and liquidity. Are all your family members on the same page when it comes to the future direction of the business? Is everyone aware of the risks and rewards associated with different financial decisions?

By improving alignment in these areas, your family business can unlock a world of opportunities for success and continuity.

The examples mentioned in this article are composites based on our client experiences.

Martha Sullivan is a consultant with The Family Business Consulting Group assisting family enterprises with exit readiness assessments, and ownership transitions to family members and employees.

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