

# Keeping it in the family

A board of directors can help small businesses succeed in transferring ownership from one generation to another. Park Industries in St. Cloud is an example as it heads toward third-generation owners.

By TODD NELSON  
Special to the Star Tribune

Park Industries has made stone-working machines for decades. But for the past few years, another type of enterprise has been taking shape within the family-owned St. Cloud company.

"It's almost like we're in the business of owning a business," CEO Tom Schlough said. "It's almost like a separate business plan for owners."

Schlough is referring to a transition plan that he, his family, company managers and business consultants have been crafting and putting into place.

The goal is to keep Park Industries running effectively as the 65-year-old Schlough ponders retirement and as his three adult children prepare to assume full ownership.

As part of the plan, the company established a board of directors, with Schlough as the chairman. The other four board members are all seasoned executives from outside the family and the company.

Choosing a board governance structure is a key but often-overlooked element that can ease the transition from one generation to the next in family and closely held companies, according to Twin Cities business consultant Cary Tutelman and family business attorney Larry Hause of Fredrikson & Byron. The two make their case in "The Balance Point: New Ways Business Owners Can Use Boards," a forthcoming book that builds on a course the two began offering in 2002 known as the Board School.

An effective board can make sure that the sometimes conflicting interests of ownership and management get resolved, Tutelman said. Boards often make decisions an entrepreneur

typically makes informally on his or her own—like whether to pay shareholders dividends or reinvest the money in the company.

Serving on a board also offers an option for an entrepreneur who wants to step back from day-to-day operations but still wants to contribute. A board also can help other owners and managers develop leadership skills and understand their responsibilities.

At Park Industries, establishing the board helped clarify the distinct roles of owners, directors and managers, Schlough said during an interview in his office.

That helped him overcome apprehension over the idea of how his children, who became absentee owners a decade ago, could own the business without working in it. Sons Mark and Mike joined Park Industries relatively recently; daughter Chris Klimpel does not work inside the company but heads the owner's group and serves as liaison to the board.

"The board can be in a place where they can be effective in balancing between those two perspectives" of ownership and management, Schlough said. "That's the goal."

Schlough said his board is still a work in progress. "I'm looking forward to the time when Chris and Mark and Mike own the company and somebody, perhaps somebody in the family or somebody not in the family, is leading the company," Schlough said. "And the board can balance these issues and assure that those two groups are doing their jobs."

Schlough's father, Leon Schlough, started the company in 1952. Schlough and his wife, Joyce, bought it in 1976. Selling to outside investors might

be easier, but the Schloughs want to keep the company, which has 300 employees, locally owned and in the family.

"I came to realize that owning and operating a business was really a privilege that a lot of people never have," Schlough said. "I don't want to do anything that would prevent or discourage or withhold an opportunity for our kids to have the same experience."

Schlough attended the first Board School class five years ago and sent his wife, children and the company's chief financial officer to attend the course last spring.

The course and additional work with Hause has helped eliminate confusion over their roles for herself and her brothers, Klimpel said.

"We want to be smart about this work because it's not just an intellectual exercise," Klimpel said. "This is a company, there are very valuable people who work here, and customers, and this is not just a game. The stakes are very important to us. [My parents] also want us to be a functioning family. We don't want to end up seriously broken up because we own a business together."

Schlough, describing himself as "an engineer, not a business guy," said developing the transition plan and the board with it has been challenging because "organizing this kind of structure is completely different than anything I've ever done."

The family had little choice, his daughter said.

Klimpel said: "What other options do we have? The idea that we would conduct succession planning in the funeral home the way some people do, because the entrepreneur is unwilling to step back and



Tom Schlough, CEO of Park Industries, and his daughter, Chris Klimpel, a part-owner and board member.

## LEARN MORE

Find more about the **BOARD SCHOOL** and "The Balance Point: New Ways Business Owners Can Use Boards" at [www.theboardschool.com](http://www.theboardschool.com). **Park Industries** is at [www.parkindustries.com](http://www.parkindustries.com).



Cary Tutelman



Larry Hause

share and delegate and allow others to learn and participate—we knew that would be a disaster."

While succession plans—identifying who succeeds an entrepreneur—may be familiar, transition plans are less so, Tutelman said. He defines a transition plan as a succession plan in action, defining what to do, how to do it and when to do it.

The ideal scenario, Tutelman said, is to have a transition plan in place for the entrepreneur, directors and management. Doing so can help family businesses avoid an all-too-common fate: Only about 30 percent of family businesses pass to a second generation, only about 15 percent to a third.

"It's the less-glamorous part of family business, but it's the part that needs to be done for the next generation to get up and running and be successful," Tutelman said.

Todd Nelson is a freelance writer in Woodbury. His e-mail address is [todd\\_nelson@mac.com](mailto:todd_nelson@mac.com).

Copyright 2007 Star Tribune. Republished with permission of Star Tribune, Minneapolis, MN. No further republication or redistribution is permitted without the consent of Star Tribune.