



Succession Born and Bred

September 11, 2017
Paul C. Darley



What is your Succession Plan or
Exit Strategy for your paint company?

What is your Succession Plan or Exit Strategy for your Guild company?

- Pass it on to a family member(s)
- Sell it to a partner/key employee
- Sell it to an outside party
- Other
- Not sure yet
- Corporate approval

Guidelines for Private Business Owners

No matter what your **intentions**, the odds are that **at least one** of your heirs will succeed you and take the business into the future.

- Merely inviting your children in if you are an owner will not work
- The business must have room for every person it invites
- Each person must be appropriate for a particular job
- It can ugly -- or it can be awesome

Darley Overview

- Financially Stable Privately Held
- Owned 100% by Darley Family
- 2017 – USD \$200 million in sales
- 285 Employees
- Over 250,000 Sq. Ft. of manufacturing office, warehouse and R & D
 - Itasca, IL
 - Chippewa Falls, WI
 - Janesville, IA
 - Grand Rapids, MI
- ISO 9001:2008 Certified
- Strong balance sheet - No debt
- 50% of business is for fire markets and 50% for defense markets. Roughly half of fire business is export



We Know Where We Are Headed



VISION STATEMENT

To be a global, family-owned and professionally managed company with a long term perspective for our stakeholders as the first choice of fire, emergency and tactical professionals worldwide.

MISSION STATEMENT

To passionately serve the world's first responder and tactical communities by providing high quality, safe and innovative products with unmatched commitment and service.

STRATEGIC DIRECTION

DEFENSE / GOVERNMENT FOCUS

We shall continue to pursue state and federal government opportunities, and to support our US Military and Homeland Defense markets, to help make our country safer.

EXPORT

We recognize and shall continue to build on our role in the global economy as we service existing markets and pursue new emerging markets.

TECHNOLOGY

We shall continue to invest in new technologies to stay ahead of the competition, scale our business and to bring products to market in a timely and cost effective manner.

CORE MARKET EXPANSION

We shall continue to grow our core markets in the pump industry, while expanding in high growth adjacent markets such as new water markets, EMS & Rescue.

EMPLOYEE GROWTH

We shall continue to foster employee development and create an environment of trust and mutual respect in the workforce where our employees know the expectations, rewards and consequences of their actions. We shall ensure employees have the education and resources to achieve their potential.

PARTNERSHIPS

We shall continue to form partnerships with our customers, suppliers and employees.

BRANDING

We shall continue to position ourselves as a provider of high value goods and services and continue to create demand for our products in the fire, emergency and tactical markets.



We Know What's Important



CORE VALUES

INTEGRITY

We shall act in an honest, ethical manner, and we will do what we say we are going to do.

CUSTOMER FOCUS

Everything we do shall be focused on taking care of our customers in a prompt and fair manner, while meeting or exceeding their quality expectations.

RELATIONSHIPS BASED ON RESPECT

We shall strive for relationships built on trust and mutual respect - with our employees, customers and suppliers.

EMPOWERMENT / RECOGNITION

We shall encourage an atmosphere that empowers our employees to make the right decisions for our customers. We shall recognize the efforts of our employees on a job well done and encourage their input for continuous improvement while maintaining a family business environment.

INNOVATION

We shall continue to develop innovative products and embrace technological advancements based on solid engineering and testing.

CELEBRATION

We shall take time to have fun and celebrate our Team Darley victories and special efforts.



Higher Sense of Purpose



“We have a proud past, a great team, we know where we are headed, and we are honored & humbled to serve those who protect us all so selflessly.”

Paul Darley, March 1, 2017



Darley's Best Practices

- Chances for Survival
 - G2 – 30%
 - G3 – 12%
 - G4 – 3%
- Follow a lot of family business “best practices”
 - Outside Board of Directors
 - Family meetings
 - Family Council
 - Next Generation Advisory Board
 - Family Constitution
 - Family Core Values
 - Family Code of Conduct
 - Family Participation Plan
 - YPO Family Business Forum/Loyola

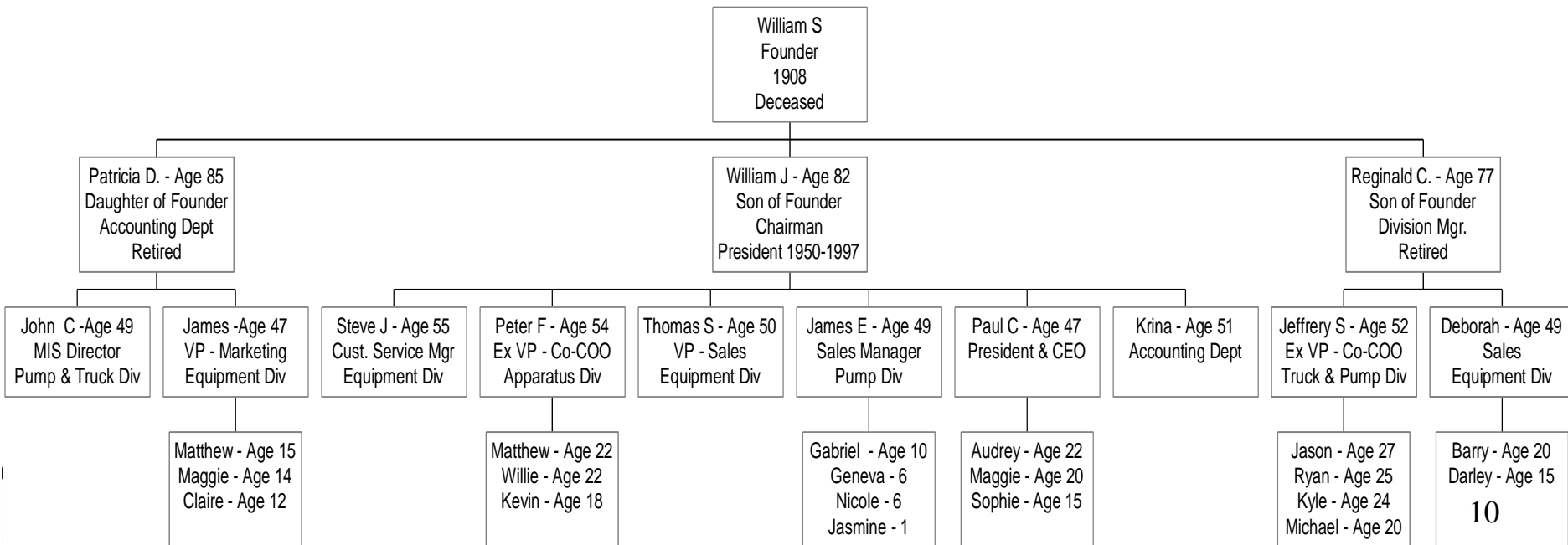


Darley Family Ownership

Company is owned primarily by 3rd Generation. (G3). 15 owners – 9 work in the business. Stewards

6 of 31 members of (G4) now work in the business after completing school and outside workplace.

Darley Family Tree



Darley Family Core Values

- Gratitude
- Faith in God
- Service
- Family Unity
- Love and Respect
- Stewardship
- Integrity
- Face Challenges with a Positive attitude



The Darley Family 'Code of Conduct'

- Family members should respect each other
- We treat each other fairly
- We know that family loyalty and harmony are paramount. Greed and entitlement are the enemy
- What is good for the company is good for the family. A stronger family, a stronger business
- Family members will deal with each other professionally and openly, keeping personal differences out of business relationships

The Darley Family 'Code of Conduct'

- Respect privacy
- Present a professional appearance
- Restrict public and restrain private criticism
- Follow company rules
- Family members should speak out...respectfully
- They should strive to be good listeners
- We don't go to bed mad at each other

Succession Planning Family Management

- 🔲 In 1994, Bill Darley formed an Executive Team of three family members. Solicited reports from each on how they would run the business in the event of his death/retirement
- 🔲 In 1997, we decided he could not pick a successor
- 🔲 Left it up to us to decide.

- Rotating presidents, outside president, co-presidents, one president, etc...
- We decided one president was the best
- Spokesperson to industry, employees.
- They empowered and trusted me
- Added another family member in 2010
- We are a strong team!

🔲 “Cousin Consortium”

🔲 Management Team is more non-family than family

Planning a smooth succession

Bill Darley took an unusual approach to selecting his successor at W.S. Darley & Co. His method—asking the top candidates to choose the new president themselves—could have caused a rift in the family. Instead, it strengthened their ties to each other and the business.

BY MARGARET STEEN

ABOUT 20 YEARS AGO, Paul C. Darley, his brother Peter and his cousin Jeffrey joined eight non-family managers at a management meeting for W.S. Darley & Co., a manufacturer of fire trucks and firefighting equipment based in Itasca, Ill. They waited for Peter and Paul's father, Bill Darley, the president, CEO and patriarch, to arrive.

"He walked into the room and said, 'I'm the ghost of Bill Darley. Bill was killed in a car accident driving up here today. What are you going to do?'" Paul Darley recalls. "It caught us off guard."

It may have been the first time his management team had considered what would happen when Bill was no longer running the company, which is based in Itasca, Ill., near Chicago. But the subject had been on Bill's mind since several years earlier, when he had emergency triple bypass surgery.

Bill had woken up after the operation and seen the sunrise from his hospital room window. "I thought I was in heaven," says Bill, now 80. "At that point I realized that if the Darley Co., including my family and employees, was to survive, I'd better implement a succession plan."

Bill got to work on the succession plan, but he took his time—and came up with an unusual approach.

"The second generation was Bill Darley leading the business with support from Reg and Pat," says James Long, 46, a board member, vice president and brother of Patricia Darley Long. "All three of them set a good example for the third generation of how to run the business."

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"I don't want all hell to break loose when I die!"

— Bill Darley

get the company through this transition. After their mother's death, ownership of the company had passed to Bill Darley, his brother and one of his sisters. (A second sister sold back her shares.) Although Bill regularly updated his brother, Reg, and his sister, Patricia Darley Long, he was responsible for the direction of the company.

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Darley's G3 succession plan

- Bill Darley's Succession Plan
 - Formed Family Teams and worked with John Ward and family business networks
 - Bill Darley formed an Executive Team of three family members in 1994. Solicited business plans from each on how we would run the business
 - In 1997, he decided he could not pick a successor
 - Left it up to the Executive Team to decide the succession plan



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W.S. Darley & Co. had grown and changed since Bill's father founded it in 1908 and it sold its first fire truck, in the mid-1920s, for \$690. The company had been through

transitions before: When Bill Darley was seven years old, his father died. Bill's mother didn't sell the company; instead, she turned its management over to a non-family member until Bill took over in 1990.

Under Bill, who graduated from Purdue University in 1950 and went straight into the family business, the company grew. Today, it has 200 employees, 11 of whom are family members. The company celebrated its 100th anniversary in 2008 and expects \$100 million in sales in 2009. More than one-quarter of its sales come from overseas.

"We feel really good about the type of business that we're in, the fact that we're selling fire equipment," says Stephen Darley, 52, Bill's oldest child and the company's customer service manager. "You're helping people," says Stephen, who is also chairman of the family council. "We're passionate about the business."

But passion wouldn't be enough to get the company through this transition. After their mother's death, ownership of the company had passed to Bill Darley, his brother and one of his sisters. (A second sister sold back her shares.) Although Bill regularly updated his brother, Reg, and his sister, Patricia Darley Long, he was responsible for the direction of the company.

"The second generation was Bill Darley leading the business with support from Reg and Pat," says James Long, 46, a board member, vice president and son of Patricia Darley Long. "All three of them set a very good example for the third generation of how to work together."

"I don't want all hell to break loose when I die."
— Bill Darley

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Flashpoints

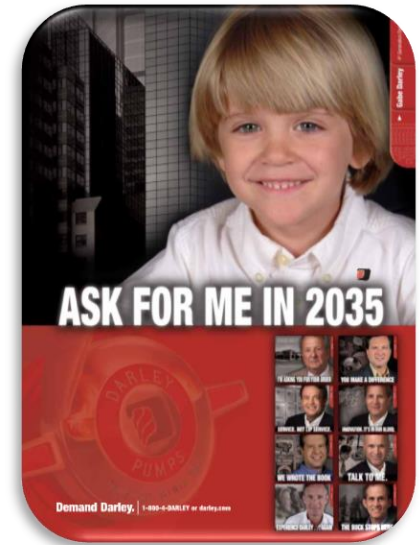
Informal rules of family engagement are often a source of strain in the family system at times of change:

- 📁 Fair vs. equal
- 📁 Lack of liquidity
- 📁 Dividends Payout Ratio
- 📁 My kid vs. your kid
- 📁 Unwritten rules
- 📁 Personal use of company assets
- 📁 Poor results
- 📁 Death of the senior generation



Bringing the Next Gen into the business

- Stepping into the family business can be the most difficult tightrope act a young person will face. New relationship with a parent, **high expectations**, etc.
- Several **factors** related to **positive experiences**:
 - Mutual respect** and acknowledgement of each other's unique roles and perspectives
 - Clear authority** and **responsibility**
 - Children need to have **sense of equality** with parent and need a mechanism to discuss and resolve conflicts
 - Children need **training and skills** necessary for business success through advanced **education** and **work outside** the business



Issues to Address

- Do we allow the next generation's children to enter the business? Under what circumstances?
- How do we decide which family members can join the family business?
- Do they have to work outside company first, if so for how long? What kind of work?
- What if a family member employee doesn't work out?
- How do we evaluate and pay family members?
- Who can own stock in the business?
- What returns and rewards do shareholders get?
- How do we handle conflict resolution?
- Do we permit in-laws or other non-blood relatives to work full or part-time in the business?

Darley Family Participation Plan

- Must have the education required to do the job
- Required to work outside business in meaningful employment for 3 -5 years
- No obligation for them to work for Darley nor Darley to hire them – fit must be right.
- Paid market rate
- Held to a higher standard than other employees
- Report to a non-family supervision (when possible)
- Company will be run by the best management – family or not

Darley Family participation plan

The Darley family views itself as having a stewardship responsibility for the company begun by our Grandfather.

Ownership will always remain solely in the bloodline of our Grandfather.

Darley Family participation plan

Family members are encouraged to consider making W.S. Darley & Co. a place to invest their talents, and express their career aspirations -- but only when it is a great fit for both them and the company.

Under no circumstances is there an obligation on either side to the other.

Darley Family participation plan

W.S. Darley & Co. will be operated with the best professional management available, whether family or non-family, and will adhere to common business practices of planning at every level and review of performance against those plans.

Darley Family participation plan

Family members are expected to have the education, training and skills needed to fulfill the job requirements.

Family members will be encouraged to work outside the company in meaningful employment for a period of at least three years.

Darley Family participation plan

Family members will be paid at market rate for their position and receive approved company benefits appropriate with their position.

Income that comes to family members active in the business from their ownership is not part of compensation for employment.

Darley Family participation plan

Whenever possible, family members will be supervised by non-family members.

They will be subject to the same hiring, performance and termination rules that apply to other employees.

Family employees will be expected to hold to a higher standard of conduct and contribution to the business.

G4 (NextGen) Approach To Working with G3 NowGen

- 🔧 Work together to determine what we want to hold onto and what we need to change
- 🔧 Respect the past but always do what's best for the future
- 🔧 Take time to understand what is important to the senior generation
- 🔧 Identify the role you want
- 🔧 Express your desire to continue the business
- 🔧 Earn your way to the top
- 🔧 Share your vision of the business with others



Succession Planning

- How do we map out our succession plan?
- When does the transition begin?
- How do we select the future leader(s)?
 - Same approach as G3?
 - Voting process? Who votes?
 - What are the qualifications?
 - Will gender play a role?
- Succession planning is NOT an event – it's a series of steps and actions
- Involving our Board in the process



7 Deadly Sins/Pitfalls of Family Business Succession

1. **Informality** – Formal structure in place
2. **Isolationism** – Seek outside help
3. **Entitlement. Lack of Collaboration/Teamwork** Leverage strengths. Put people in right place.
4. **Crowning yourself** – Business and family interests first. Crown others. It's easy, rewarding and costs \$0
5. **Emotional baggage** – Let it go. Forgive and forget. Be guided by what is fair.
6. **Generational conflict** – Be open to new ideas
7. **Ignoring the “Smelly Moose”** – Address hard issues that everyone is thinking about, but afraid to address

Formalize rules of engagement...

- Transparency/disclosure
- Flow of information
- Feedback
- Employment policies
- Code of conduct
- Conflict of interest policies
- Ownership rules
- Decision-making authority
- Succession planning
- Leadership development
- Education
- Mission and values

Guidelines

The way children are introduced to the business determines how well the **relationship develops** and sets the stage for the future

1. Set **clear, explicit expectations** about what children will do
2. Base **salary** on service to the business being **comparable** to that of other employees doing similar work
 - If you regard salary as a family right, this can erode commitment to the business, morale of other employees and the continuing health of the business

Guidelines for Owners

2. When sons and daughters enter the business, there should **not be a celebration** of their entrance. Doing so sets them up for failure
 - Entry is a difficult act. They must gain acceptance by other employees
 - What do they offer beyond the family name?
 - What can they do?
3. Be supportive of children's needs at this entry stage. Carefully monitor their **learning experiences**

Guidelines for Owners

3. Have children **supervised by a non-family manager** who can become their mentor
 - Learning and growth process is better if a person outside of the family can show the new member the ropes
 - Someone who everyone trusts, must be willing teacher
4. Set real responsibility for a clear area and **review performance regularly**
 - Not a vague “staff assistant” role
 - Start with a difficult project
5. Give children different areas of focus. **Rotate** them into different areas of business

Guidelines for Owners

4. Design their early years in the business to **help** you, and them, make **decisions**
5. Establish **clear lines of authority** and job responsibilities
6. Make **no premature decisions** about inheritance and succession when children are learning business/our business
7. Discuss possible futures and create maximum number of **long-term options**

Chinese Menu Approach to Next Generation Involvement – Provide a menu of opportunities by age group – Parents and children review options, pick 1 – 3 activities for the coming year that fit the young person’s interests and skills.

Goals for this:

- *Support and encourage every Next Gen to learn about and become involved in their family enterprise.
- *Take advantage of the family business resources available to help the next generation develop their skills and talents so that they can successfully pursue employment—whether in the family business or elsewhere.
- *Create an approach that establishes some basic requirements for Next Gens, while at the same time, respects and adapts to individual Next Gen interests, capabilities and talents.

Age 5-14

- Bring kids to family meeting.
- Play together and have fun.
- Begin concept of saving, spending and sharing.
- Thank you notes and other etiquette. Social skills.
- Family Chores. Manage allowance.

Age 14-18 (High School)

- Tour company sites with Grandpa as tour guide. Review history of the company, value of work, key customers, how business is won, how customers are treated, etc.
- Dinner/Lunch with Aunts and Uncles to discuss history of business in family, importance of philanthropy, responsibility that comes with financial resources, what does it mean to be an owner of a family enterprise?
- Meet with family lawyer for simple explanation of wills, living wills, health care POA, pre-nupts, guardians, etc.
- Organize a fun activity for younger Next Gens.
- Take a class in high school related to starting your own business and/or economics or other financial concepts.
- Learn basic balance sheet concepts; accounting skills, living within a budget, controlling credit card spending.
- Serve as a summer intern at the family business, report to the family what you learned.

Age 23+

- Find meaningful work.
- Next level understanding of basic documents such as wills, pre-nupts, philanthropy, trusts, etc.
- How to introduce a spouse into the family successfully.
- Attend – and help organize – family meetings.
- Selecting advisors, how they can help.
- Philanthropy, volunteering, representing the family’s charitable interests in the community.
- Family and business vision, values, goals.

Supports for this process

- Mentors for the young people: both support and challenge, based on lifelong experience and success.
- Coaches for the more mature, older Next Gens
- Family Employment Policy, specifying levels of skill and experience required for company employment.
- Family Internship Policy
- Family Tree and Organization Chart, by-laws, buy-sell agreements, family tax and estate plans in simple, pictorial representation.

What will your legacy be?



“Today, say nothing that is not true, nothing that is not kind, nothing that is not useful, and nothing that is not necessary”



“A legacy isn’t something you leave behind. It is something that you build each day. Ultimately, you will be judged not on how successful the company is under your watch, but on how successfully the next generation takes the reigns and works together on making the business a success.”

William Joseph Darley, 1996



Articles on Memory Stick

- Harvard Business Review (HBR) – Spend A Day in the Life of Your Customer
- HBR – What Makes a Leader? Emotional Intelligence
- HBR – Why Would Anyone Want to Follow You?
- HBR – What Your Leader Expects of You, and What You Should Expect in Return.
- Deloitte - Family Business Governance & Succession Planning
- IFC - Family Business Governance Handbook
- Darley Family Constitution
- Family Business Magazine – Planning a Smooth Succession – Darley Approach
- Draft Copy of Sold!
- PPT of Paul Darley presentation Guild CPO Meeting – September

Good Luck and Thank You

