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InterBusiness Issues

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Russell's Cycling & Fitness
TREFZGER'S BAKERY SKY HARBOR
menold Construction metro centre
JOHNSON'S FLORAL Kelly Seed
maloof commercial PEORIA CAMERA
Shoe Repair BARD
TECHNICRAFT Fred's PEORIA SIDING OPTICAL URBAN ARTIFACTS
Fortner Insurance Running Central
MEDITERRANEAN MART MUIR OMNI GRAPHICS C.O.P.S. THYME
LORI'S KITCHEN STORE RELICS SEVEN ON PROSPECT The Costume Trunk
FARNSWORTH GROUP
One World Cafe DEWBERRY
KIGHTLINGER ANTIQUES
Joan's Trophy

Walz Label and Mailing
PINKSUGAR
RED CARPET CAR WASH Great American Popcorn Co. Oberlander alarms DVI
JUNCTION CITY Kelleher's CSE SOFTWARE Illinois Mutual
Moser's Shoes PAPARAZZI Thanh Linh Bremer Jewelry
IONA GROUP Uftring Auto Group LINCOLN OFFICE Soderstrom Skin Institute
Lindy's Downtown market Hearth THE PLAID DAISY
The Kim Group PEORIA CHARTER COACH Joseph & Camper
Family Medical CGN Wielands Lawn mower Hospital
Bushwhacker PEARL TECHNOLOGY Olio & Vino PAR-A-DICE
FEDERAL COMPANIES 2CHEZ thirty-thirty coffee co.
Eli's Coffee A PERFECT PEAR VOICESPRING WHALEY'S CLOCK SHOP
Emack & Bolio's HEINOLD-BANWART
Whiskey City architectural Salvage MAURIE'S FINE CANDIES
ALAMWAR BelleMie PDC Midnight Espresso
AAA Confidential

Unconventional Governance Leads to Unconventional Results

Will Williams
David Vaughan
Investments, Inc.

FOR THE BETTER PART OF 30 YEARS, I have spent my career working for family-owned, privately held businesses in the money management industry. With the announcement of David Vaughan Investments' upcoming partnership with Morton Community Bank, I will soon be an integral part of yet another privately held holding company—again with significant family ownership, but with a broader business scope, including banking, insurance, and trust and investment management services.

Because of these unique experiences, both past and current, I have spent an inordinate amount of time researching best practices in governance for these types of organizations. As the old proverb says, "shirtsleeves to shirtsleeves in three generations," most family-owned businesses barely survive the second generation, and by the third generation, it is a rarity if the business has not been sold or is completely out of business.

Governance alone is not the silver bullet that can guarantee the future success of your firm. But without well-thought-out governance, the odds of long-term business success and continuity are certainly stacked against you.

OWNERSHIP VS. STEWARDSHIP

These two words truly differentiate the mindset of most business entrepreneurs. The ownership perspective can best be described by the saying "to the victor belongs the spoils." In other words: I control the business; I do not want outsiders influencing decision making; I want to reap the economic rewards of my efforts; and the long-term success of the company is important, but takes a back seat to near-term decision making. Succession planning under such circumstances is typically a result of crisis management, rather than a proactive, thoughtful process.

In contrast, business owners who embrace the stewardship philosophy have a completely different mindset. They embrace the concept of "a firm built to last," attempting to leverage every known business tactic that will ensure the continuity and success of their company. Governance to them is not a nuisance, but a practical tool. It allows them to embed objectivity and independence into critical decision making, which ultimately forces company leadership to keep their eyes on the windshield rather than the rearview mirror.

BOARD OF DIRECTORS

In many instances, the board of directors of a closely held business comes either in the form of a rubber stamp or the mandatory year-end rush to memorialize after-the-fact corporate resolutions, such as a company dividend distribution or retirement plan contribution. In my opinion, there is an observable progression of events here that are clear indicators of the evolution from the ownership mentality to the philosophy of stewardship.

In the beginning, there is a board of directors, but comprised solely of family shareholders and perhaps the family attorney or accountant. That construct remains in place, but the next iteration is when an advisory board is installed—a non-fiduciary board of directors. There is no governance substance to an advisory board, but it does demonstrate the willingness of a privately held family business to engage with outsiders and encourage their input and feedback.

Adding independent directors to the board is a major next step, and the thoughtful appointment of these new members with complementary skills takes on a genuine level of business importance. In many, if not most instances, the distinct advantages of independent director involvement become apparent to firm leadership. Over time, the board is dominated by independent directors and is viewed as an important strategic initiative. They not only control the board in numbers, but also begin to chair key board committees, such as audit, risk and compensation.

Often times, this last step leads to the development of a family shareholder council. It serves many useful purposes, but its primary role is to provide company board representation through a family representative elected by the family council.

INDEPENDENTLY UNITED

Morton Community Bank (MCB) and David Vaughan Investments (DVI) recently announced the formation of a partnership to redefine and deliver modern trust and advisory services to current clients and to future generations. The partnership will result in one of the largest privately held bank and investment advisory firms based in Illinois, with $6 billion in combined assets.

Effective in early October, Morton Community Bank will purchase a majority interest in DVI. DVI senior partners will continue as shareholders and executive officers of DVI, and will also acquire share ownership in Hometown Community Bancorp, MCB's parent company. Both companies will continue working as distinct but complementary businesses, now offering collaborative resources and expertise. For more information, visit *DVIandMCB.com.*

A FIDUCIARY MINDSET

I am not advocating the adoption of a pure public-market perspective, with all the complexities associated with that framework, but I do encourage the adoption of a fiduciary standard for family-owned, privately held businesses. This approach would include as stakeholders not only family shareholders, but clients, employees and independent directors as well.

In today's chaotic and challenging economic environment, it is critical for business owners to develop corporate strategy that is best for the business and its long-term prospects. A board of directors dominated by independent board members forces one to objectively assess risk and call out the elephants in the room that were easy to ignore in the past. They will challenge your organization to make the tough decisions that go along with building a successful private business. **iBi**