

# Make a Career of Retirement

Dad is not going to “let go” until he finds an exciting new challenge. Leon Danco, the well-known consultant, talks with Family Business about the options.

BY HOWARD MUSON

# Make a Career of Retirement

Dad is not going to “let go” until he finds an exciting new challenge. Leon Danco, the well-known consultant, talks with Family Business about the options.

BY HOWARD MUSON

**TO** the young, retirement means clearing away a roadblock, says Leon Danco; to the old, it's equated with euthanasia.

Danco, who has worked with family businesses for more than 30 years, now feels he has found one solution for aging founders who refuse to let go: create and manage your own private foundation. You don't have to be a Ford or a Carnegie to do it, he insists. About 90 percent of the 30,000 or so independent grant-making institutions in the United States give away less than \$100,000 apiece each year.

The 67-year-old consultant and his wife have already created their own foundation, the Katy Danco Foundation. He wants to help family business owners establish theirs, and envisions that such foundations can ultimately create a pool of \$1 billion for charitable causes in American communities. Danco sees the creation of a foundation as a meaningful second career for the successful business owner—an “adjunct to the dream” that inspired so many family businesses.

In October, Danco, whom many consider the founding father of family business consulting, spoke about this third career at a conference in Atlanta held by the Family Firm Institute, which honored him for his contributions to the field. Recently, Family Business consulting editor Howard Muson visited Danco at his home in Pepper Pike, an affluent Cleveland suburb, to explore his views on retirement, the private family foundation, and ways in which owners can craft a second career.

**FAMILY BUSINESS:** Leon, why is retirement a special problem in family businesses?

**LEON DANCO:** The ultimate distinguishing characteristic of the family business is the succession rite. The flip side of that is retirement. But the business founder generally has no models of retirement. He has never had to face the issue and is usually frightened to death of it.

Most of his career has been on an upward curve. During his twenties and thirties he was learning how to do it; then, in his forties and fifties, he was learning to do it really well. But after 60, the curve levels off and begins to decline. At that point the business owner should be teaching others how to carry on. He should be developing a sense of stewardship, a contributory role, instead of continuing to beat up on life. Otherwise, he can destroy on the way down what he built on the way up.

**FB:** He continues to “beat up on life?” What does that mean?

**Danco:** There is a Hebrew word, *dayenu*, which means “Enough!” It suggests that at some point you should enjoy what you have and start to share, give something back the antonym is “More!” which can only bring unhappiness.

I deal every day with people who have accumulated money far in excess of their own needs. What are they going to do with all of it? Are they really going to leave untold millions to

their children and ruin what chances the kids have to be self-reliant?

**FB:** You've found there's a lot of money out there looking for good causes?

**Danco:** I have had 20 people in the last 12 months tell me, "The reason I don't sell my business is that I don't know what to do with all the money."

Sadly, there are many businesses that should be sold, for the usual reasons—no known heirs, no willing heirs. Their owners don't realize that selling would give them huge opportunities to support meaningful philanthropic activities with the proceeds.

**FB:** In most cases the funds for a foundation will come from the company, at least in the beginning, right?

**Danco:** It can come from company profits, from surplus company cash—it can even come from debt. Most businesses that are run by old-fashioned rules are almost debt free. You can accumulate some debt, take the cash, and pass the company on saying, "Son, you are going to have all the fun of paying back the debt!"

**FB:** Many companies already give a percentage of profits to charities. Why not just write a check and be done with it?

**Danco:** There's certainly no satisfaction in writing a check. Also, I don't think most business owners are generalized do-gooders; they usually have a few pet causes they feel passionate about.

When they do want to put their personal stamp on something, a private foundation may be the way to do it. Firstly, it helps solve the estate problem, because money put into the foundation isn't taxed. Secondly, it gives them something to do after they retire, so they won't continue to meddle.

**FB:** When should the business owner who's interested in a foundation start thinking about it?

**Danco:** In your fifties and sixties. You need time to plan and years to fund it gradually. A

business that makes \$1 million a year can afford to set aside \$50,000. If you do that every year for 10 years, you have half a million to get your foundation started.

**FB:** Are there any models of what a small family foundation can do with limited funds?

**Danco:** I know one family that spends a million and a half dollars a year to educate the children of Salvation Army officers. The family felt that the Salvation Army does so much good and its officers get so little pay that they wanted to make scholarships available to their children.

The range of charities is enormous. The Coleman Foundation, for example, was started by people who founded Fannie May Candies; they had lost several family members to cancer and so wanted to support cancer research.

**FB:** Do some foundations promote the same business values as the company?

**Danco:** Absolutely. There's a foundation that grew out of a successful mail order company that sells safety equipment, goggles, gloves, extinguishers, and so forth. The owner set up a foundation to do research on occupational safety. And the grants help to enhance the image that the family business is vitally interested in protecting workers from injury.

**FB:** How did your own foundation come about? What did you have in mind when you started it?

**Danco:** Our foundation was created by my wife, Katy, and me as a long-term vehicle to implement our family values. We put a quarter of a million into it in 1986—it was a good thing for us to do in that year for tax and estate purposes. We are very interested in the welfare of children and small animals. We thought we would give the money to needy but unpublicized children's hospitals, animal shelters, and other humane organizations that are overlooked.

**FB:** How did that lead you to the idea of making this a "third career?"

**Danco:** Going back over my first career, I thought: I didn't invent the family business, I merely rediscovered it. I came upon this forgotten instrument, became its champion, and articulated its purpose and credo.

Likewise, I didn't invent the board of directors. It had been there all along as an instrument through which shareholders could have a voice in management. But as I went around to family businesses, I discovered that few had viable boards—just groups of conspiratorial relatives, hangers-on, and fading employees who were adding no value to the business. In my second career I helped clarify the purpose and importance of boards to family businesses.

Now, in my "third career," my wife and I are going to enlarge our foundation's purpose to help others set up foundations of their own.

**FB:** How will it work? What role do you see for yourself?

**Danco:** I see myself as the evangelist. You can get a lawyer or accountant to take care of the mechanics, which are minimal—it cost us only \$900 to set up our foundation.

What I would like to do is to get a lot of 50- to 60-year-old active business owners to set up foundations. I would like to help them create a mission statement and a structure. The business could fund the foundation out of earnings as an ongoing charity.

**FB:** I suspect a lot of business owners distrust "do-gooder" causes. How many do you feel are really touched by the notion of a social mission?

**Danco:** Many. Almost all the ones I know, in fact.

**FB:** I suppose not everyone will want to set up a foundation.

**Danco:** There are men who can retire and go fishing. They can come and go at the company, talk to their sons and daughters, stay involved, and that's great. Some people are good with their hands. But what can the business owner

do whose only strengths are management and an understanding of the business world?

**FB:** Some business owners, I'm told, retire to Florida and sit around country club locker rooms swapping stories and plotting to take back control of their companies.

**Danco:** Yes. Swapping stories, swapping wives, swapping all sorts of things. They're bored. Few people can make a life of golf or traveling, reading books, writing memoirs, or watching old movies. The challenge of a foundation is in spending the money wisely, in finding the best people to spend it on—not just writing a check for the first guy who comes through the door. You get involved, your children can get involved. It also gives you another incentive to make money, so you can spend more on worthy causes.

**FB:** What about starting another business after retiring?

**Danco:** That's an option—but not one I think much of. Most people who try don't succeed.

Often people don't realize that timing and circumstance and often luck had much to do with their success. It's like the guy who has three sets of twins and someone asks: "Do you get twins every time?" "No," he answers, "most times we get nothing." One success in business doesn't mean you will necessarily succeed again.

**FB:** Isn't there a retired businessmen's organization that advises small companies?

**Danco:** Yes, Senior Corps for Retired Executives (SCORE). The approach there, in some cases, is, "Sonny, let me tell you how I did it."

When advising becomes a substitute for watching the grass grow, then nobody benefits. A retiree often gives advice not because the business needs it, but because he feels he's got to give it. It's not a matter of age, though; some 80-year-olds really have something to contribute.

**FB:** How do you think the kids will feel if Dad forms his foundation, then starts taking money out of the business? Isn't there a potential for conflict?

**Danco:** You don't go to your successor all of a sudden and say, "Well, I'm sorry, Harry, but I'm taking \$10 million out of the business to give away to people who want to build bird feeders for the community."

When you reach 55, tell your kids: "We're going to set up this foundation and between now and my 70th birthday we'll put so much in each year." You think, you plan, you spend a few dollars on research. You ask yourself: What do I know about birds and their feeding habits? What makes a good bird feeder? What can I do to help people who are making them?

**FB:** Do kids in the business know what a parent facing retirement goes through?

**Danco:** Not really. Too many of them can't talk to their parent about it; they both avoid the subject

**FB:** Is there anything the kids can do to help him get over the hurdle?

**Danco:** I give them a little button that reads, "Solve Dad's Problem First." I urge them to stop worrying about their own careers and start worrying about his, because he has only a little time left. Kids tend to be critics; that's their nature. I ask: Why should you have an adversarial relationship with Dad's advisors? Or be down on all his employees? Don't add to his problems; try to understand his needs and his viewpoint and add to his solutions. Above all, communicate.

**FB:** And one solution is the family business foundation.

**Danco:** There's a fascinating field out there just waiting for the business owner- untouched, undiscovered. Just think of the joy an executive facing uncertain retirement can experience when he finds that his skills and talents can be

focused on a new arena: cost-effective philanthropy. That's exciting!

-- H.M.

## THE SEASONS OF A FOUNDING FATHER

Back in the late forties, Leon Danco was in the bar of the Harvard Club in New York City when a man of about 50 struck up a conversation, telling him how he had kicked the winning field goal against Yale in 1916. A photo of the helmeted young hero hung on the wall above the bar. The old grad bent Danco's ear with a rousing, second-by-second replay of his feat, "This man told anyone who would listen about his success almost 30 years before, 11 Danco recalls. "He couldn't forget those 10 seconds, Clearly, he also couldn't move on in life."

Leon Danco believes in moving on, as a leading counselor of family businesses, he is accustomed to teaching different generations of people that "to everything there is a season."

At 67, the white-haired patriarch of family business is an engaging blend of Old Testament lawgiver, wise uncle, senior statesman, and high-priced kibbitzer.

Though Danco maintains a small, wood-paneled office in a shopping center over a vacuum Cleaner store, he meets clients in the same yellow, wood frame house that he and his wife, Katy, have lived in since they moved to Cleveland from Connecticut in 1457.

His office in the house looks out on an idyllic six acres of grass and woods, tall hickory trees, and, in summer, a blaze of flowers, at his desk, Danco is surrounded by family portraits, medals, and diplomas. After graduating from Harvard, Danco was a Navy off officer during World War It, on a supply ship in the South Pacific. The captain was a drunk, and Danco, a 21-year-old lieutenant junior grade, boldly took command of the ship one day off New Guinea, risking court- martial, He was not charged, however, and ended up becoming captain instead.

The basics of Danco's vitae are well known-a degree in the classics from Harvard an MBA from the Harvard Business, School. a Ph.D. in

economics from Case Western Reserve. Less well known is his serendipitous discovery of family businesses as a promising consulting field.

After working in the chemical and metal-working industries, Danco came to Cleveland to teach in an advanced management program at Case Institute of Technology. When demand for the course slackened during the 1959 recession, the program was shut down, and Danco was out of work.

He taught economics at the Cleveland Art School for a While, and advised local businesses that were hungry for professional help. They were mostly small family businesses run by immigrants drawn to Cleveland by the auto, steel, and ship-building industries. Danco became a trusted counselor to "the children of immigrants, the first generation that didn't have to work with their hands."

The letterhead of Danco's Center for Family Business shows an hourglass with the sand running down—a reminder that time is short and business owners need to prepare for succession. He himself has had several memento mori in his life. The worst of them occurred when he and Katy crashed in his Beechcraft Bonanza off the Florida Keys in

1971, the plane became lodged on a reef, they were rescued, but Leon was badly hurt: His jaw had to be wired and his face rebuilt by plastic surgery.

Some have called Danco a dinosaur. They say that he speaks the language of the older business owner but has difficulty communicating with younger people. "Trying to be understood by the young is a real challenge," he admits.

Danco was able to talk to his father only after the war. "Before that, my father thought I was a spoiled kid. But I got banged up pretty good; I had paid my dues. After that we got along well,"

The Dancos have a son, Ty, an investment banker in New York City, and a daughter, Suzanne, who's married and lives in London. The son calls often, Danco says proudly.

When dealing with the young, Danco measures everything by where they are on the generational curve, where he was at their age, and where they can be in 10 or 20 Years. He looks for reference points, a common vocabu-

lary. "You're going to run the world I die in," he tells them, "and I don't want you to screw it up."

## **WANT TO START A FOUNDATION?**

Here are some answers to the basic questions.

## **HOW MUCH OF MY CONTRIBUTIONS TO A FOUNDATION ARE TAX DEDUCTIBLE?**

Up to 30 percent of your income if you give cash, or 20 percent if you give appreciated property.

## **WHAT WILL TAXES BE ON THE FOUNDATION'S INVESTMENT EARNING?**

Two percent. One percent if certain conditions are met.

## **DO I HAVE TO MAKE DISTRIBUTIONS EVERY YEAR?**

Yes, the law, requires foundations to distribute at least 5 percent of their assets annually.

## **IS THERE A LEGAL LIMIT ON ADMINISTRATIVE EXPENSES?**

The law allows you to deduct expenses incurred by the foundation that are "reasonable and necessary."

## **CAN A FOUNDATION DONATE TO ANY CAUSE I WOULD LIKE IT TO?**

Yes, as long as it is a charitable activity. If you wish to support a nontraditional charity that's not listed in the tax code, you can ask the IRS for a ruling on whether it qualifies.

## **IS IT NECESSARY TO HIRE A STAFF?**

Most smaller foundations do not have full-time staff people and probably will not need a professional administrator. Usually the work can

be done by the benefactor himself or another family member. ■

Howard Muson is a writer, editor and consultant, and former editor and co-publisher of Family Business Magazine.

Source: Family Business Magazine, December 1990

Copyright © 1990. Family Business magazine. Subject to the provisions of the Terms and Conditions of the Family Business Web Site, subscribers to Family Business magazine may print and distribute copies of this article, electronically or otherwise, provided that (a) such printing and distribution is done only for your personal, informational, non-commercial purposes, and (b) you do not remove or obscure the copyright notice or other notices. For other uses, including reprint permission for non-subscribers, contact Family Business magazine.