Deadly Sins In Family Business

by **BILL LEE**

Just as there are unique problems in publicly-held firms, there are also challenges unique to family-owned and operated businesses. All companies have strengths, but the secret to both profitability and perpetuation is a willingness to step up to the plate and deal with each business and family issue in a professional manner.

As I write this article, I'm using my experiences as a consultant to family-owned businesses as well as information I have been taught in family business seminars and workshops that I've attended over the years. My purpose is twofold:

- The first is to bring these "deadly sins" to the attention of family members who have perhaps not yet been exposed to them.
- The second is to offer recommended solutions. No matter how bad business problems sometimes seem, it's rarely too late for a full recovery.

Deadly Sin #1: "Daddy" Dominance. In most family businesses, there's a "daddy" who is actively involved. Sometimes he's first generation, but he could also be second, third, and sometimes forth. Daddy is often highly reluctant to let go of the reins.

The "boys" or the "kids" are all too frequently little more than hired hands because only Daddy is qualified to make the important decisions. And although some of these "kids" are well into their 40s and 50s, to Daddy they are, and will perhaps always be, kids.

Solution: The father, the patriarch of the family, can never be assured that either the business will survive him or his offspring will survive him in management unless he systematically gives up his important jobs and delegates them to a qualified subordinate.

Granted, Daddy may perform these duties better than anyone else, but no one will ever approach his level of expertise unless he gives them a chance. And to do that, he must be willing to make the transition from player to coach.

It doesn't really matter where he begins in this process, but the point is that he must begin to delegate key projects or duties. It can be preparing the company's annual budget or profit plan, making credit decisions, assuming responsibility for banking relations, participating in purchasing decisions, pricing, hiring or managing sales. But well before Daddy plans to retire, a competent successor must have proven that he or she can perform each of these functions.

Deadly Sin #2: Refusing to Set a Retirement Date. If Daddy, or whomever is the CEO of the family business, strongly resists establishing a retirement date, the likelihood increases that he never will. He will die with his boots on. He will have convinced everyone in the company that he simply cannot bear the thought of retiring because sitting at the helm of the family business has been his life and his identity for so many years.

I recommend that any owner/manager who is 55 or older set a retirement date as soon as possible. And those younger than 55 should also set a retirement date if they plan to retire before reaching 65.

Of course, setting a retirement date is not sufficient in and of itself. The CEO must take enough proactive steps so that it's clear to all concerned that management changes are imminent, although not immediate.

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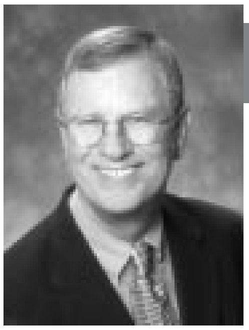
There are several reasons for this recommendation. Employees deserve to know what's beyond the horizon for them. Just about all em-



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ployees suffer some degree of fear deep down inside that when the "old man" dies, the business will go down the tubes. And it's difficult to recruit top talent into a company that doesn't have a succession plan in place.

Solution: Set a retirement date and name a successor. In the absence of both, there will always be doubt that the CEO is really serious about retiring. By naming a successor, a lot of apprehension is lifted. Both family members and non-family members will at least realize that there is a good possibility that the business will survive the current CEO.

Deadly Sin #3: Embarrassed to Name a Non-Family Member as Successor. If the retiring owner does not genuinely believe that one of his offspring has the "right stuff" to succeed him, he owes it to both the family and to the employees to tap a qualified successor from outside the family ranks. And oftentimes, this individual must be recruited from outside the company.

A good example of this principle was executed quite a few years ago at Ford Motor Company. Although since the inception of the company a member of the Ford family had often been at the helm, the family and board of directors was willing to recruit Lee Iacocca when there was no member of the Ford family who measured up to the requirements of the job. As a result of the momentum the company gained under Iacocca's watch, Ford Motor Company's sales and earnings have soared. ❐