



An OAD LLC Article Personalities and Family Owned Businesses

Most companies begin as family owned businesses. They range from Fidelity Investments managed by hundreds of executives to the corner deli that is being run by a grandchild.

Starting a business requires courage, a commitment to long hours, initially little pay, no benefits, and lots of aggravation. The founder often initially made the product (or service), shipped, billed, collected, typed, and changed the light bulbs. If he or she were in it solely for the purpose of getting rich - there were better odds playing the lottery. Friends and relatives thought these entrepreneurs were crazy and turned off the lights when they saw the him/her approaching their front door looking for another loan.

Our definition of founders does not include dot com flippers. Our founders are not envisioning new "killer" software that they can sell to Cisco or Microsoft, pocket the millions, and move to Tahiti. True founders want to build a business. They want to see it grow, be profitable, and, more than anything else, have pride in ownership. They want to be able to tell others and themselves that what they produce is the best on the market - whether it is a pizza or a cure for cancer.

It is extremely rare that relatives, whether they are spouses, children, or brothers and sisters, possess the same passion to the business as the founder. The founder is obsessed with the business and truly cannot understand why others don't share the passion. This is the first and most important reality founders have to come to grips with.

Don't Rules

There are four cardinal Don't Rules to family succession. Do not put a relative in charge of the business if:

1. He or she has never had much interest in the business and now only see it as a vehicle to make money. The royal ap-parent who drools at the prospect of finally owning a Mercedes and a Nantucket summer home will use the business as a charity with himself as the worthy beneficiary.
2. He or she has no substantive work experience, ideally in the business or same industry. A son/daughter with little or no knowledge/experience dropping in from nowhere will destroy company morale. The best employees will leave first.
3. He or she is only taking over to pacify the family or "keep the peace". Cops know that when they stand between an enraged husband and wife on a Saturday night the only person who is going to get hurt is the cop.
4. He or she doesn't have the smarts. "Not my precious Joey". Yeah, right.

Do Rules

There are four cardinal Do Rules to family succession and business survival:

1. Even in small businesses a qualified board of directors must be established. The key word is "qualified". Packing a board with family, cronies, or sycophants only compounds problems and inhibits rational decision-making.
2. Conditions should be established in which family members can (and cannot) work in the business. Personnel decisions must be based on merit, not nepotism. Qualified managers who may make occasional bad decisions are far more preferable than relatives who make consistently bad ones. If an outsider is much better qualified for a position, he/she should get the nod.
3. There must be rules on how equity shares can be traded, voting rights rules, which decisions require a majority or unanimity, and documented debt and dividend limits.
4. As the business grows diversification/acquisition/merger opportunities should be considered. This provides more job opportunities for family members and affords longer ROI horizons. Don't allow sentiment to hang onto an older, core business that has seen its day.

However, blood is thicker than water, which is why 95% of family businesses are gone by the third generation. Beyond the above rules life becomes more complex because we enter the world of personalities. Let's look at two dichotomous scenarios where personalities, not business realities, can dictate outcomes.



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Two Types of Entrepreneurs

Founders/entrepreneurs come in two stripes:

The first is the bold visionary who is bringing something new to the market. This individual is creative, energetic, and extremely self-confident (Higher A/Lower D). A Bill Gates type of personality comes to mind.

The second is the artisan entrepreneur (Higher D/Lower A). This individual is highly skilled and knowledgeable of a particular trade or craft. Electricians, mechanics, parts distributors, and contractors are only a few examples. Don't misunderstand; many of these "mom and pops" grow into national businesses. Sam Walton started with one discount store.

If successful through the start-up phase (See our website article, "Required Cultures for Success & Failure") hard work and a little luck gets the business past the daily anxiety attack phase.

From this point, however, these two different entrepreneur types encounter radically different problems for the business to survive. Because in spite of what Michael Corleone said in "The Godfather", it is all very personal.

The Creative Entrepreneur

Higher A creative entrepreneurs never question their beliefs in the superiority of their product. They are accustomed to taking risks, talk or bulldoze their way through resistance, and often have superior sales abilities.

These entrepreneurs are fast on their feet - they can turn on a dime. Failure is a temporary setback and an opportunity for improvement. Communication with employees is spontaneous and informal, policies (if they exist) are very flexible and conditional, and everybody is to drop what they were doing in order to confront the latest crisis. Some employees find this environment fun; others see it as chaotic.

The creative entrepreneur's children rarely share the parent's "management style". In many instances the children are Higher D personalities - cautious, structured, and risk averse. Initially the parent views these qualities as being responsible, mature, and level-headed. Later the parent views these children as hand wringing worriers without vision. Tension mounts, the family feuds and, if Daddy doesn't conveniently drop dead of a heart attack, the kids quit. Meanwhile the employees spend a good portion of their time running for cover.

The Artisan Entrepreneur

In the Higher D craft-based business - If the children simply want to pick up where the parent left off and follow the same business plans and practices there usually aren't major problems. Aside from the problems that will always be encountered in any scenario - jealous relatives or employees who thought they should have been given the opportunity to take over.

However, if the children want to expand the business, acquire new product, penetrate new markets, or other bolder initiatives, the conservative parent will fight them tooth and nail. Risk opportunities are viewed as foolish and jeopardies to the business. To the children (brother, sisters, et al) it seems Daddy would rather see the business go slowly down a drain rather than do something "crazy". In this inverted situation the Higher A children are attempting to break out of long established policies and practices - a distinct threat to the sensibilities of the Artisan Entrepreneur.

In this situation squabbling and trench digging usually result in the kids going elsewhere or, worst case, are paid to stay away from the office.

In OAD terminology these are the battles between the Higher A's and the Higher D's. Which successor leadership styles and orientations are the right ones? Ask yourself several questions:

- Is the current way of doing business resulting in shrinking revenue or market share?
- Have new endeavors resulted in ill-planned quixotic flights into disaster?
- Do you really want the business to expand or are happy with the present "natural growth"?
- Are you measuring family members' job performance objectively or with a hope that Joey will "improve with time"?
- To what degree does the execution of present and future strategies depend on wishful thinking about family members?
- What are other leaders of other family owned businesses telling you?
- In a final, cold analysis might you be better off selling the business to outsiders?

Keep in mind - hopes should have a specified and documented time horizon; usually coinciding with five to ten years before retirement. Anything else, time and relatives will make the decision for you.

