Volume 1 Issue 1 January/February 2001

Family Myths in the Family Business

John Robertson was thrilled when his youngest son, Jeffrey, finally showed an interest in joining the family business. For years John had been trying to convince Jeff that working in the family firm would be fun and challenging for him. John was pleased that Jeff would be bringing his marketing expertise into the business, but if the truth were told, he was even more pleased that all three of his sons would finally be working together. He had worked hard to build his company and desperately wanted his children to be able to reap the benefits of that hard work. His plan was to stay with the company for five more years. At that time he would retire, and his sons would buy him out. In one fell swoop his retirement and their financial futures would be taken care of.

Jeff Robertson was actually excited about this new leap he was taking into the family business. Until recently, he had been leery of working with his father and brothers. Since he was the youngest son, he had been afraid that in a work environment his father and brothers would respect neither his skills nor his business savvy. But his father had convinced him that this would not be the case. In fact, John had promised him virtually free reign in the design and running of the company's sales and marketing department. This was the kind of opportunity he would have had to wait years for in any other business.

When Jeff started working for the family firm, he immediately rolled up his sleeves and started an overhaul of the company's sales and marketing efforts. Jeff could see that a major growth in sales volume would be needed to achieve his father's ambitious retirement and family wealth generation plans. During the early planning stages, his father John was totally supportive. Unfortunately, this honeymoon lasted less than a month. By the end of the second month, both father and son were angry, frustrated and seriously re-evaluating their decision to work together.

So what went wrong? How could something that started out so hopefully wind up with each party seriously questioning the other's professional competency; and with father and son both dreading the impending holiday season where they would feel obligated, for the sake of the family, to pretend that nothing was wrong?

The answer to this quandary rests in the underlying assumptions that both father and son brought to their business partnership. While John, in theory, supported Jeff's ideas about modernizing the sales and marketing department, he really still thought of thirty year old Jeff as a kid. Even though he appreciated and was proud of Jeff's professional accomplishments during the last ten years, John had a difficult time moving beyond his image of what he considered Jeff's wild and irresponsible high school and college years. It was an image that did not serve either of them well. It created too great a worry in John about the financial safety of a business that he had created and nurtured over the last thirty years. And in Jeff, it triggered his tendency to become angry

(Continued on page 2)

The Business of Family Business

In truly successful businesses, family owned or not, profits tend to be healthy and cash is king. While other measurements are important, none are more important at the end of the day. Without them, businesses don't survive for long. And without skillful management of a business' basic functional areas, profits will dwindle and cash can easily dry up. With this in mind, the current and succeeding issues of *"Relatively Speaking"* will present a series of interview responses from Corporate Alliance, a professional group of consulting firms focusing on issues and opportunities for family companies within functional business areas. For this issue, the newsletter's editor interviewed six members of Corporate Alliance, each a seasoned veteran within their own area of expertise. Below is a synopsis of their responses to the question, "*From your professional perspective, what are the four or five greatest exposures and opportunities for family businesses you encounter*?" **We will present their first two responses to the question on exposures and opportunities in this issue, with the remainder to be published in the next issue of "Relatively Speaking."**

(Continued on page 3)

Family Myths in the Family Business

(Continued from page 1)

and rebel every time his father questioned an action or direction that he was considering.

Jeff's assumptions were equally destructive of the father and son's professional and personal relationship. He went into the business assuming that his MBA and outside marketing experience were far superior to any of the internal expertise to be found in his father's company. As a result, he ignored crucial industry input that the existing sales and marketing staff could have provided (including information from his father who had overseen the sales staff before Jeff's arrival). Not only did he miss the information that could be key to his plan, but in the process, he began alienating the staff that was needed to carry out the marketing strategy. In addition, Jeff did not view his father as multi-dimensional. Instead, he carried in his head an image of his father as strong, paternal, and fearless. As a result, Jeff failed to consider the fact that his new marketing program could stir feelings of fear in his father. He entirely missed the fact that John was struggling with his changed role in the business, worrying about losing money if the marketing plan failed and also worrying about how the new marketing plan would change the customer relationships that he had spent years developing. It was no wonder that after just one month father and son had reached the point where they both felt that dissolving their professional relationship seemed to be a viable option.

Was there a solution to their dilemma? Fortunately, yes. A business acquaintance of John's suggested the use of an outside coach to work through the issues and attempt to find a solution that would allow both the business and the family to remain intact. Not surprising was the coaching professional's discovery that neither John nor Jeff had recently reassessed the pictures they had created of one another within the confines of their family relationships. After training in respectful interaction and high impact listening, both father and son were able to see one another in a different light. Jeff was able to see his father not only as head of the family, but also as a successful entrepreneur, and a human being. He began to appreciate the skills and determination that enabled his father to build his business from virtually nothing to a multi-million dollar enterprise. And rather than railing in judgment against any of his father's difficult or conservative behaviors, Jeff started to react with a compassion that allowed him and his father to discuss their differences, instead of arguing.

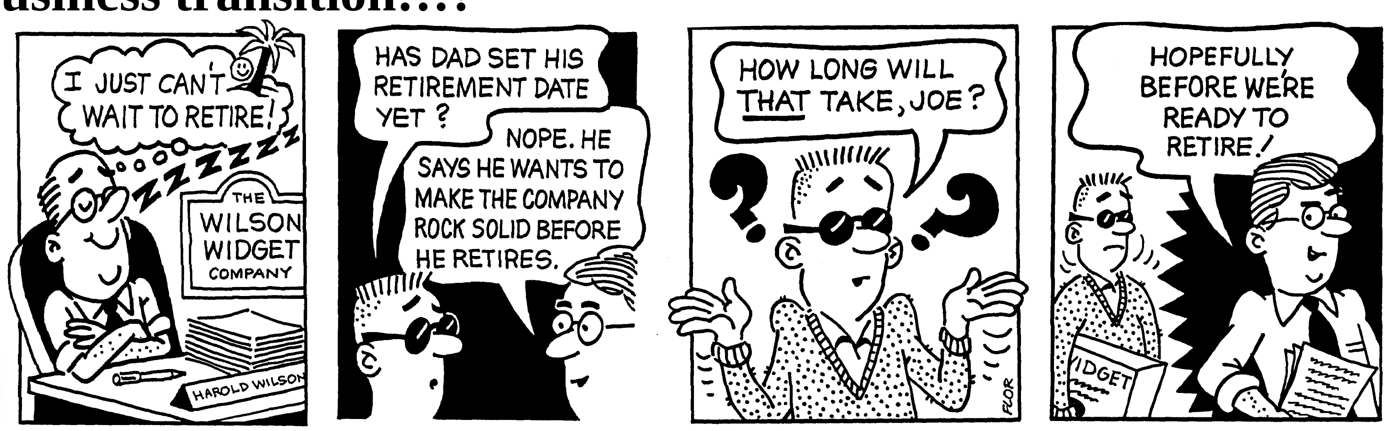
John, on the other hand, began to understand that his picture of Jeff was easily ten years out of date. His son no longer drank, caroused and made questionable personal and professional decisions. Jeff was actually bright, sharp and respected by both his friends and professional colleagues. While some of Jeff's views were different than his own, many were fresh, interesting and probably filled with potential for the business. John also began paying attention to the part his own fears played in the deterioration of his relationship with Jeff. It became clear to him that he was becoming overly conservative in his response to Jeff's marketing plans. This was not because the plans were risky, but because John was feeling less in control

of his and the company's destiny now that Jeff was taking over some of the responsibilities.

With these insights in place, the coach helped both Jeff and John refocus on the goals they had been so excited about when Jeff first joined the family firm. They established a formal transition plan that allowed John to provide needed input into Jeff's plans for restructuring the company's marketing efforts. At the same time, John, with the coach's support, began redesigning his own role in the company. Eventually he created a role that allowed him to closely monitor his company, while reducing the amount of time that he spent on the premises. During his off time, John could (and did) start reaping the rewards of his thirty years of hard work, while simultaneously testing whether or not he would be happy in a life retired from the business.

Fortunately for John and Jeff, their willingness to examine the myths they held surrounding family roles allowed them to refocus on possibilities for themselves and the firm. Changes in outlooks like this often lie at the heart of successful transitions in family owned enterprises.

The business transition…?



The Business of Family Business

(Continued from page 1)

OPERATIONS

(John Hehre, President of Creative Processes, Inc., a firm specializing in process and performance improvement, primarily in operations.)

Mr. Hehre described several areas that he felt were often problematic for family owned businesses, particularly those involved in fast growth or transitioning processes. These include:

1. Tendency to focus on symptoms rather than root causes of operational problems: Too often problem solving is reactive and short term in focus. A prime example is in the area of inventory control. When difficulties arise, a frequent solution is to look for an obvious and often expensive technological fix. Purchase of ERP and CRM systems have their place, but there is a myriad of other causes for inventory control problems that these systems will not solve. Gaps in the sales/ordering process, lack of systems discipline and poor production reporting are only a few of the many possible underlying inventory control situations that quick fix technology can't solve. What these and most operational issues require are disciplined and systematic analysis that go below the symptoms on the surface.

2. The "not invented here" syndrome: Often in family businesses, the entrepreneur or family members who have grown up in the business will assume that their unique history qualifies them to make decisions, perform tasks or take on new challenges in areas where they have no experience or expertise. While the learn as you go strategy can work in certain situations, companies that are in a fast growth mode or who are subject to quickly fluctuating market demands may find themselves making too many costly mistakes. Successful leaders will carefully analyze their own skills and the skills of the family members in their business and offload tasks and challenges that require outside expertise.

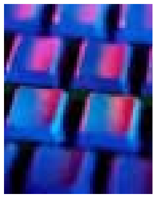
ACCOUNTING

(Kevin Moquist, Managing Partner, Carver, Moquist & Associates, LLC, a full service CPA firm serving a diverse business client base in the software, manufacturing, real estate, service, training and high technology industries.)

In his work with family businesses, Kevin Moquist sees a number of areas where company leaders could avoid undue risks or take advantage of unique opportunities.

1. Document formalization: When family businesses form the members are bound together in trust. While this trust is an important factor in preservation of both the family and the company, if agreements between shareholders in the business are not formalized, misunderstandings regarding disposition of the business can arise. Clearly defined shareholder documents that lay out buy/sell mechanisms and clear methods of valuation in a variety of family and business life scenarios can save enormous grief in the long run.

2. Ownership succession issues: Thinking ahead to the transfer of ownership to another generation is another complex issue that owners need to start planning for early. Successful transition plans usually consider: a) financial implication for children that participate in the business and those who do not, b) realistic financial needs of the retiring owner and his/her spouse, and c) systematic transfer of assets, responsibility and authority to the new generation across time.



INFORMATION TECHNOLOGY

(Peter Schoon is Vice President of Galaxy Computer Services, Inc., an information technology company providing turnkey solutions and support.)

With the speed of technology change, it is difficult for non-IT business leaders to know where to place their focus and where to spend their money. Peter Schoon suggests several crucial areas of consideration.

1. Information access: Since customer, vendor and employee communication is so critical to company success, information access is a key area for corporate analysis. Each company's needs will vary, but the basic areas for review would be: a) internet access, b) e-mail systems and access, c) remote access, d) multiple site access, and e) strategic partner communication systems.

2. Security: While security from outside hackers makes the news most frequently, internal industry security is actually of greater concern. The greatest security breaches will most likely come from company employees, and they can take the following forms: a) malicious destruction from disgruntled employees, b) employee theft, c) inappropriate disclosure (e.g. social security numbers, salaries, etc.), and d) industrial espionage (e.g. customer lists, proprietary information).

LEGAL

(Tim Duncan, Partner, Coleman, Hull & Van Vliet.)

Tim Duncan specializes in working with start-ups and small to medium-sized businesses, many of which are family owned. Mr. Duncan identified several general legal issues that family businesses should consider and/or monitor closely.

1. Estate planning: Mr. Duncan views estate planning as a key area for review. Both the tax/accounting considerations and the legal formalities need to be established

(Continued on page 5)

Editor's Choice ~ Book Recommendation

First, Break All the Rules

By Marcus Buckingham & Curt Coffman

Common sense tells us that the best managers are ones that produce the highest profits, the lowest employee turnover and in general, the greatest business performance. What hasn't been as clear is which personal traits those "best" managers bring with them to their professional roles. Barnes and Noble Bookstores have shelves of guru hopefuls expounding on the methods and characteristics used by high performing managers. But many of these books put forth contradictory information and flavor of the month techniques. What Buckingham and Coffman have done is present real data. Their employer, the Gallup Organization, conducted in-depth interviews (more than 80,000 managers) in over 400 companies in order to answer the question, "What do the world's greatest managers do differently?" The results that they lay out are definitely worth a read for persons hoping to recruit the best and brightest for their businesses.

In just under 250 pages, the authors elaborate on four key operating areas that differentiate the greatest managers from the status quo:

- Great managers select employees based not simply on experience, intelligence or determination. They specifically ***select for talent***.
- Great mangers set expectations by ***defining the right outcome*** instead of the right steps.
- Great managers motivate by ***focusing on employee strengths***, not their weaknesses.
- Great managers develop their people by helping them ***find the right fit*** for their talents, instead of pushing them up the next rung of the management ladder.

Underlying these four keys is the "revolutionary insight common to all great managers, *People don't change that much. Don't waste time trying to put in what was left out. Try hard to draw out what was left in. That is hard enough.*"

Throughout the book, Coffman and Buckingham use clear "in the trenches" anecdotes to elaborate on these four keys. And perhaps even more useful is their inclusion of the top twelve questions that reflect most clearly the presence or absence of topnotch management. (See chart below.) These questions were first asked of company employees. The responses were then statistically correlated to traditional measures of company strength (e.g. profit, productivity, retention and customer service). Companies or divisions that rated high (5 on a scale of 1 to 5) performed significantly higher on the traditional measures.

The editors at *Relatively Speaking* give First, Break All the Rules their top ★★★★ rating. The book is clearly written, concise, practical and provides significant insights into an area of concern for most business owners and leaders.

"And perhaps even more useful is their inclusion of the top twelve questions that reflect most clearly the presence or absence of topnotch management."

Management Indices

Question:	Low 1	2	3	4	High 5	Score
Do I know what is expected of me at work?						
Do I have the materials and equipment that I need to do my work right?						
At work, do I have the opportunity to do what I do best every day?						
In the last seven days, have I received recognition or praise for doing good work?						
Does my supervisor, or someone at work, seem to care about me as a person?						
Is there someone at work who encourages my development?						
At work, do my opinions seem to count?						
Does the mission/purpose of my company make me feel my job is important?						
Are my co-workers committed to doing quality work?						
Do I have a best friend at work?						
In the last six months, has someone at work talked to me about my progress?						
This last year, have I had opportunities at work to learn and grow?						

The Business of Family Business

(Continued from page 3)

to ensure that the wishes of the owner are implemented. Unclear, unrecorded wishes for the business can be easily ignored or misinterpreted, often to the detriment of family relationships. Equally important, an owner's estate should be established in a fashion that permits an orderly legal transition and averts excessive and avoidable estate taxation.

2. Basic corporate transitional issues: Whenever there is a transition in ownership across or within generations, the process is made easier when legal documents are in place as a guide. Arranging for such things as share transfer, board composition and officer appointments and responsibilities are best done early in the company's history, and then reviewed regularly to ensure current applicability.

3. Death or incapacity of owners: Most often, family owned businesses at least have a financial plan in place in case of owner death. However, little consideration is given to the possibility of disability and its impact on the business. What happens if the owner is injured and unable to operate the business? What happens if the head of the company develops Alzheimer's disease? Questions that need to be addressed include: a) Does our key man insurance cover these kinds of issues? b) Do we have legal protection in place that allow the transfer of both shares and power to occur in these types of circumstances?

FINANCING

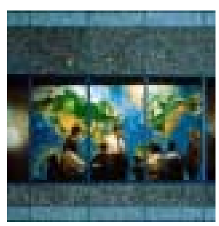
(Jim Louwagie, Vice President Business Development, Signal Bank.)

Close to 90% of the businesses that bank with Signal Bank are family owned, and Jim Louwagie has, at one time or another, worked with most of them. From his perspective, family firms could make their banking relationships stronger by attending more closely to the following considerations.

1. Be prepared: When coming to a financial institution to ask for funding, come prepared. Have a plan for the use of the money that will reflect a realistic return on investment. Have a completed ROI and cash flow projection showing how you will be able to pay back the money that you are borrowing. Even if there is a history of financial loss, most community banks are willing to listen and be open to the possibility of further support. However, they need to understand why the losses have been experienced and how they will be eliminated in the future. The key to gaining or maintaining the support of your banker will be your ability to show professional management ability. Knowing and showing your numbers is the first step in that direction.

2. Entrepreneurial business savvy: When starting up a new business or new division, make sure that you have a solid and formal business plan to show your banker. Take care to discuss the sales process and market strategy from a financial perspective. And make sure the plan you present is realistic.

SALES & MARKETING



(Wayne Voigtschild, President, Market Success, Inc., a marketing and sales consulting company focused on results.)

Most family businesses have a desire to be "best of class" in their markets. Yet many have not taken a fresh look at their current marketing and sales practices to determine how they might be jump-started to improve business success. Wayne describes four areas of need that he often sees when working with family businesses. Leading the list are:

1. Strategic business planning: Most companies give a reasonable level of attention to cash and profits in their early stages of growth, often taking the form of sales/production forecasting and budgeting. But as the business grows, so do the investments in facilities, production equipment, computers, accounting controls and people. With increased size and complexity, the company's ability to "turn on a dime" is greatly reduced. Business fluctuations begin to have a greater impact on the business and last much longer.

In the past, strategic planning purists encouraged companies to look five or even ten years out to determine and plan their desired course of action. Today, with the increasing pace of technology change, looking five years out appears risky at best. The Internet is a classic example of a technology that few strategic planners anticipated. Yet e-commerce has virtually changed the way many companies do business. Effective strategic planning today focuses on a one to three-year planning horizon. Companies plan the actions that will be taken in the event of positive and/or negative growth fluctuations. Strategic planning also assures that the resources of the company are proactively applied and optimized to meet real customer needs. Growth opportunities are assessed, prioritized and pursued in a manner that greatly improves the odds of company success.

2. Understanding and leveraging core competencies: Over the years, companies develop a unique set of skills and competencies that are required to make the products that put them on the map. As customer needs shift, or appetites for growth expand, companies begin to look for new products and services to spur growth. The search for new products can rapidly take a company out of its comfort zone. It is common for management to be lured by opportunities for high sales and profit potentials with new products. What is less understood, however, is the risk factor that develops when companies move away from their core competencies and out of their comfort zones. Successful leaders focus on understanding their core competencies and leveraging those competencies against new opportunities. Targeting opportunities that fit the company's strengths increase the company's ability to succeed.

Worried in Wisconsin doesn't want to take over family business

Dear Anita: My father and his brother own a small manufacturing company in southern Wisconsin. The company is successful, but both my dad and my uncle are interested in retiring within the next few years. My uncle has no children, and I am an only child. Unfortunately, it has become increasingly clear that both men are looking to me to carry on the business. While I have worked in the company and understand the processes, I really have no interest in continuing a career in the family firm. We are a close family so I don't want to disappoint them. But I would be miserable if I went back to run the company. How can I find a solution to this dilemma?

Worried in Wisconsin

Dear Anita…

Dear Worried: While sparing a loved one disappointment can be an admirable goal, it is definitely not worthwhile if it requires you to forsake your own dreams and aspirations. If there is no other reason but family pride for keeping the company in the family then I suggest you come clean with your father and uncle about your clear lack of interest. It may be disappointing for them at first, but that is certainly better than leaving what could be a legacy of misery for the next generation.

I do have several other thoughts for you to consider. It occurs to me that your father and uncle may have additional unvoiced concerns about the business. If they are interested in retiring soon, they may be worried about needing to sell the source of their income before they are ready. To them, having you come in to run the business might seem like a way to continue the generation of retirement funding while they are actually in retirement. This would work well if you had an interest in joining the firm, but this can also be implemented in circumstances where the second generation has no interest in running the company. If your father and uncle wish to retain ownership of their firm, they can actually hire an executive from a reputable outside company to run or position the business until they are ready to sell. They could retain ownership of their assets without having to actually run the company on a day to day basis. Doing this requires research, in depth candidate interviewing and selection, as well as setting up a continuing process for monitoring the candidate's performance. This is a lot of upfront work, but it could provide an alternative solution for your family. Good Luck!

Anita Ryan is owner and president of Family Business Success, Inc., a consulting company focused on assisting family owned businesses in resolving and successfully navigating difficult family business issues.

Investor's Corner

This past year was a scary year in the market, leaving investors struggling to navigate in the new world of sluggish tech stocks and sinking earnings for many Old Economy stocks. Is there anything we can salvage out of the stock market's Year from Hell? If we are smart, perhaps we can at least learn some lessons. Here are some tips that may serve you well in the more demanding markets ahead:

1. Remember to quit when you are ahead. If you have an investment that soars to the moon, do not be afraid to take some of the gain off the table—before it can plunge back to earth.

2. Pay close attention to asset allocation. If you are conservative by nature or relying on your money for retirement, put relatively more money into secure bonds and cash, and less into volatile stocks. But if you are confidently aggressive, young or fairly affluent, you may want to put more into stocks.

3. Allocate your stock investments among different categories of stocks. Over the long-term, investors who have done the best are those who have had a mixture of large vs. small capitalized and value vs. growth stocks.

4. No mutual fund manager or investment advisor is right all the time. Yes, certain managers tend to outperform over a period of years. But do not presume that winning records will persist forever.

5. Pay close attention to the most important factors when choosing stock. Make sure that the company has a solid business and that you understand what the company's business is all about.

6. It is still important to dollar-cost average. Put the same amount of money—whatever you can reasonably afford—into the stock market month after month. History shows that people who invested steadily and sensibly over the years have done very well. They practiced dollar-cost averaging, diversified their investments, and more important, they were not in-and-outers, but invested for the long haul.

Information provided by Pakola, Steichen & Company, LLP, Registered Investment Advisors