A Family Affair

As a second-generation business owner begins contemplating retirement, how can he best prepare his children to take the reins?

BY CHUCK ZAK

Though retirement seems a long way off, Barry France has a plan. Sort of. The plan thus far consists of stepping down upon reaching 65 and handing over control of his beauty-aids suppliership to his eldest son Martin. Or maybe daughter Kate. Or possibly little Benjy, if the prodigiously talented boy can be coaxed into abandoning his less-practical ambitions.

Actually, Barry France is in a bit of a fog. An only child, his ascension to the top spot of FrancoFiles was a given, and he was such a perfect fit—so like his own father—that the transition between Barry senior and Barry junior was seamless. But this next generation of the France family is more fractured, with varied abilities and conflicting visions for the company. Martin sailed through business school almost effortlessly, but was always more comfortable with the theory than the realities of ownership. Kate has the shrewd intelligence and dynamic personality that make things happen, but her ideas of where to take the business strike Barry as reckless. And Benjy... well, let’s just say he’s a dark horse and the black sheep.

Complicating all this is the figurative ghost of Barry Sr. hovering above the production floor and offices of FrancoFiles. Though the revered founder’s ideals of hard work and sober stewardship serve as a moral guide for the family, Barry Jr. wonders if he over-sentimentalizes his father’s legacy.

Staying profitable in the present is hard enough without worrying about generations to come, but Barry knows it’s time to start making some firm decisions about the future. We’ve asked a handful of professionals from within the industry and beyond to consider this issue and help answer one vexing question: how does a successful family business ensure a smooth transition from one generation to the next?
Douglas D. Box
As a consultant, the biggest failure I see is the unwillingness to take action. The typical family company is pretty bad at procrastinating. They understand they have planning to do but are too busy to get around to it, or they feel that if they stir those questions up it would create too much conflict and would interfere with business. Worse, they wait too long, and then when a legitimate crisis surfaces, they will make decisions out of necessity – and a lot of those choices end up being the wrong choices.

Another complication is that often, the first-generation founder has some magic that no one else seems to have. And since successive generations generally become better educated, a lot of the next generation will consider themselves smarter than their parents, but there’s typically some intangible asset that the founder has that can’t be passed down. Also, there’s often a mutual sense of denial, because the parents want to believe their children have this quality, and the children want to believe they have it, and they may develop a sense of entitlement. So you tend to have an aristocracy that is competing against a meritocracy. In the non-family business world, those people don’t get promoted just because of their last name.

Sometimes, though, we give the founder too much credit. In our society, the wealth creator is not just a businessman, he’s viewed as a hero, larger-than-life, but a lot of the founder’s success may have had to do with luck. So while the second generation has to compete with that image, they need to acknowledge that they can’t be what dad was, they have to be different. One of their strengths may be that there’s four of them, or three, or however many — but they have to use their strength as a team. Most family teams are dysfunctional, however, and a founder has a 10% or less chance of his grandkids seeing the business. There may be money created that is passed down, but by the third generation, they will usually either sell the company or go out of business or become bankrupt.

To end on a high note, however, there is some robust research that addresses how family firms, when they function well, tend to outperform non-family companies. The research demonstrates the intangible assets that family firms have: their ability to communicate values to each other, their loyalty and the energy that comes from that family pride. And families tend to stick together.

Based in Dallas, Doug Box formed Box Family Advisors in 2005 and works with families on succession planning, conflict management and family meeting facilitation. The youngest of four sons, Doug led the sale of the family company following his father’s sudden death and a litigious four-year family ordeal. Doug attended the University of Texas in Austin and has an MBA from Baylor University and a Master’s in Dispute Resolution from SMU. He can be reached at (214) 361-9880 or doug@boxfamilyadvisors.com

Eric J. Rubin
The success of our family business for three generations and 70 years is all based on family values. In any business there will be different points of view, but if you all have the goal of keeping the family together, that’s what makes it successful.

As a child, I often visited the office with my father; the business was really in my blood. I attended New York University just a few blocks away from our warehouse, so even then I was dabbling in the family business. I received my MBA in International Business and Finance and was offered a position on Wall Street, but deep down I knew that I wanted to work with my family. One trip to Hong Kong with my father sealed the deal.

When I came to work full time, the wisdom of my father and uncles determined how I would best be groomed to one day run the business. So here I come with this fancy degree and my uncle says, “That’s great, congratulations! Now I want you to go pick orders on the 11th floor and work on the cutting table.” The truth is that I learned the business from the bottom up to the point that I can walk into any factory in the world and show them how to sew a garment. Today, people’s expectations are different; they tend to come in come in as executives. I learned the hard way, but as my uncle always said, “the stronger the wind blows, the stronger the tree grows.”

The fourth generation is in the bull pen. My son Matthew, who is 16, shows a tremendous interest in the family business. Should he decide to join, I will have to realize it’s a different world today. He would bring in a very different business perspective, perhaps much grander than I have. I would expect with the experiences and exposure he has attained at his young age, he would ultimately propel the business to even greater heights than the generations that preceded him.

When my uncles were ready to retire, we had a very smooth transition, and again, it was all about preserving the family. We would go to lunch together every day, and regardless of what was going on the office, we would socialize outside the office. It was always about the family and that is the basis of our success.

Jim D’Addario
My grandfather couldn’t wait to retire, but my father didn’t really want to step down, and
we didn’t do the proactive things that we’ve now done with the fourth and fifth generations. My brother John and I learned from those mistakes, so we both made a pact to do whatever we had to do to make the transition go more smoothly.

I’ve been the CEO since 1998, and at that time the fourth generation was just getting active in the management of the company, and I decided to begin working with a family business counselor. We have a constitution, we have a governance committee, and we spend a great deal of time communicating our values to all the children. Recently we held our annual three-day family business assembly where we have meetings with our counselor and discuss our vision, and there’s a tremendous amount of dialog. It doesn’t happen otherwise. We’re handing off a set of values to the next generation: passion, curiosity, drive, dedication, candor, integrity and responsibility – and hopefully those values will be handed down to the generation after that. It’s a good plan, it’s just a lot of work to execute it.

But we have very clear rules for who in the family can work for the company and how they get promoted. We don’t create jobs for family members; we’re very candid about that and we have conversations with our non-family members about it. We also work with a training company that does honesty training and we teach people how to have difficult conversations, to verbalize things that might be bothering them so those issues don’t turn into long-term problems later on.

Jim D’Addario started in the family business in 1971, joining his father and brother in the Darco Strings division of guitar-maker C.F. Martin & Company which was established in 1918 by his grandfather, Charles. The company was sold in 1969. In 1973, along with his wife, father and brother, Jim founded J. D’Addario & Company, now one of the world’s leading manufacturers and distributors of musical instrument accessories. Jim can be reached c/o Angela Zammit at (631) 439-3209 or c/o angela.zammit@daddario.com.

Sharon Eyal

I worked for my dad since I was 20 or 21 and I learned all the basic principles form him: the work ethic and every aspect of the business from start to finish. And when we made the transition we were a much smaller company, maybe five employees and $700,000 worth of sales so all the growth has really come in the last 10 or 12 years. But
at the end of the day, it's those core values that my father instilled in both me and my sister and those are the same principles that we use today and I think that's why we're so successful. It's just learning how to do business the right way with integrity and honesty, and you either have those qualities or you don't, but working with my father during that seven or eight year period was fantastic – just to learn how to do things the right way.

My sister, Taly, and I have a phenomenal working relationship, and what we have might not be considered the norm, but our positions don't intermingle. My dad is still here part-time, too, he likes to come in for a couple of hours every day and the three of us have lunch every day. But the way the company is divided up between what Taly oversees and what I oversee, it works out fantastic – we're very fortunate.

Taly and I are fairly young, so we don't have any immediate plans to retire but I think we'll always remain privately owned family business. As for the immediate future with all the growth we've experienced, we're more concerned with things like infrastructure and continuing to serve our customers so I haven't had any time to look ten years down the line. But the way our company works, is that everybody is their own boss – there's no micromanagement. I have minimal management out of 330 employees and with that they enjoy enormous amount of freedom. However, you have to take care of business and if you need to be micromanaged, this is not the place for you.

Sharon Eyal and his sister, Taly, immigrated to the U.S. with their father Ely in 1981, eventually founding ETS Express in 1985. A Top 40 ASI supplier, ETS Express continues to specialize in drinkware under the leadership of Sharon, CEO, and Taly, the company's CFO. Sharon can be reached at (805) 278-7771 or seyal@etsexpress.com.

Virginia Semrow

We insisted our children work elsewhere before committing themselves to American Ad Bag because when children work for another business beyond college they gain added experience and receive mentoring from someone other than their parents. This can help them gain self-confidence and experience new technologies and new management ideas and styles. It can also give them a fall-back career if the family business is not the best fit.

We're fortunate that each family member has specific talents and areas of interest that do not overlap their designated roles. But in meshing professional and personal relationships, one of the biggest problems is giving credence to another person's point of view. We have several rules when we
discuss new issues and ideas:
a) think before you talk and try to understand the other person’s point of view; b) recognize decisions are reached one conversation at a time; c) if you disagree with someone, ask them for more information and insight; d) never forget that the family comes first and that our shared commitment is of utmost importance; e) sarcasm is never allowed.

To prepare for the time when we will turn over control of the company, we enlisted the counsel of professional estate and succession planners to act as neutral parties and stabilize any emotional forces within the family. We have held numerous family retreats to discuss the long term goals, priorities, strengths and weaknesses in order to create a unified vision of the company that will guide future dealings.

But the hardest part of the entire process will be passing the torch. Even if the children are ready to take over, we’ll need to make sure we’re ready to step back. So we must ask ourselves if we’re able to accept that things may not operate exactly as we planned. If so, we have to commit ourselves to that as thoroughly as we committed ourselves to the business. A smooth transition will be achieved because we have delegated responsibility, along with authority, so that switching roles and working for the children or retiring will be exciting.

We have watched the children grow and develop, take on responsibility, learn to be leaders, and infuse the business with new technologies and ideas. We have always embraced change and innovation and we encourage our children to do the same. Though their work ethic is different than ours, we as parents need to accept responsibility for those differences. Different work ethics don’t, by definition, hurt the business. Our generation equates work ethic with time spent visibly working. We can’t compare the hours we needed to work with the hours they find necessary to work today. Few business owners will ever do that again and fortunately it’s not necessary with today’s technologies. Our children have other lives today, other responsibilities, and those other roles need to be respected. Let them work smart, not hard. At the same time, we aren’t easy on them. We expect them to work to their optimum levels. American Ad Bag is fortunate that its successors will “always rise to the challenge.”

Virginia Semrow founded American Ad Bag in 1992 and is co-owner along with her husband and company President Gary D. Semrow. The company also employs their children Gary C. Semrow as CMO/Vice President of Marketing and Michelle Semrow as CFO/Vice President of Finance. Ginny can be reached at (800) 362-6644 or Ginny@adbag.com.