## Chapter 4: Take Care of Your Other Children

***Family is Family, Business is Business***

> **FAMILY MATTERS**
> Family issues did not play a major role in the cases presented in Chapter 1, but they had been considerations in developing the business and the sale.
>
> **Iconix:** The biggest family issue Leo Mullen had to deal with was taking the heat from his daughters for firing his wife. He didn't want to burden his children with responsibility for the business and so kept business and family separate.
>
> **Homeland Designs:** A few years before the sale, Bill Chambers had brought his daughter and son-in-law into the business with an aggressive growth plan, but they had unraveled the deal by the time he was ready to sell. His concern about the size of payouts from the sale to family members were part of his decision process for taking the larger, riskier deal, so family issues did influence the deal process.
>
> **Politics and Prose:** While Carla Cohen's son had the capabilities to run the business, the two partners decided that they didn't want to saddle their heirs with "the family farm." They turned to an outside partner but it proved more difficult than they had expected.

John Sampson had a problem. The scrappy, hard-driving entrepreneur had built a successful chain of retail stores in a very competitive industry. At first, he had felt fortunate that two of his sons had followed him into the business. But now, in his 70s, he didn't feel he could turn it over to either of them. It wasn't because they didn't have the skills. Both sons, in their late 40s, were highly competent. The one, vice president of operations, was on the floor and knew the operations and 1,000 employees of the business inside and out. The other, vice president of administration, was sharp as a razor and knew the inner workings of the company's finances, strategy and real estate holdings. On paper, it looked like a match made in heaven, but the reality was the sons were barely talking about the business. When they did speak, they were at each other's throats. It would be like turning the business over to Cain and Able.

As the owner reached retirement age, the strong morale in the organization began to weaken. Employees were nervous about the future. Several of the key employees said if this succession issue could not be resolved successfully and soon, they would leave the business. There were positions that were not filled and the company's growth strategy was stalled because the two sons could not cooperate. Worse yet, if this situation continued and the business were put up for sale, it would have been a fire sale. Each son stated emphatically that he would leave the business if the other was named CEO. John Sampson had built a very successful business, but this family crisis could undermine everything he had worked so hard for. As much as he wanted to continue the family legacy, he felt that he had to go to an outsider to run the company. After a professional search, he placed a general manager over the two warring sons, with a hope that this new structure would help stabilize the organization and allow him to retire. Perhaps this outsider could even encourage the sons to develop the leadership skills needed to break their impasse.

**A Family Legacy**

Sampson's business had always been in the family since it was founded by his immigrant parents during the Great Depression. Sampson's father had lost his job. His mother set up a small shop in her garage to make ends meet. The store grew after the end of the Depression and her husband eventually joined the retail store. The company was passed down to two sons and two daughters, but John Sampson and his brother bought out their sisters. When his brother died, Sampson took over the business. He aggressively expanded the chain of stores and revenues, building it into a regional enterprise with more than $150 million in revenues. But the black-and-white photos of Sampson's parents still hang in the corporate offices. His mother is in her apron and his father behind the cash register. He had expected that the same photo would hang in the offices of his sons, but now he was not so sure.

Sampson hoped the new GM might serve as a "nanny" who could bring to two sons along. It wasn't a perfect solution, but the best they could do. When the GM developed health problems that caused him to step down, the father went back to the search firm to hire another general manager. The search firm executive, who had known Sampson for many years, suggested they take a closer look at the situation. Instead of throwing another outside executive at the problem, he suggested that Sampson examine the family and organizational dynamics more carefully.

That's where Mark Brenner, chairman of The Global Consulting Partnership, and his colleague David Pellegrini came in. They conducted extensive interviews across the organization, including managers, the owner, his sons, and, just as importantly, their spouses (who are the real "CEOs," the Chief Emotional Officers). Brenner and Pellegrini reached an unexpected conclusion: There was a possibility to work out the relationship issues and allow the two sons to take over leadership of the business. "Sometimes it may look bleak," said Pellegrini. "But when you have the firepower, the business skills, in the family you can often make it work. You just need to get a handle on the emotional issues."

The results of the interviews were summarized in a 60-70 page report, laying out the challenges of the relationship between the sons, the impact on the business and the potential for improvement. "Everyone could see how destructive the relationship between the two sons was," said Brenner. "It was taking a material toll on the business." In an emotional, daylong meeting, the owner and his two sons met with the consultants in a hotel room to discuss the results. One of the turning points was a particular question that Brenner and Pellegrini had asked each son during separate interviews. To each son, the consultants asked: Would you want to go it alone? In answering this question, both sons realized that they had complementary abilities and that neither one would want to continue to run the business without the other. With this new appreciation, they began to visualize a way to work with each other. "It was a seminal moment," Brenner said. "They realized they needed to form a rational business partnership. It just happened to be between two brothers."

Both brothers, while very competent in their areas, needed to build the emotion intelligence to be successful leaders. They engaged in an ongoing period of executive coaching individually as well as coaching sessions together. When Brenner and Pellegrini met with them a year later, the difference was profound. "The year before, there had been a cold chill in the room," Pellegrini said. "They didn't acknowledge one another. You could cut it with a knife. When we met with them a year later, we marveled at how they did with one another. There was much less stress in the room and it was a real business meeting."

**Transferring Ownership**

The general manager position went unfilled. The sons were named COO and CFO, with the understanding that they would share operation of the business. They began taking more responsibilities from their father. But it was also clear to both of them that one of them needed to be the "go to" person. From their discussions, it became apparent that it should be the COO. Employees, vendors and other partners already looked to him as the face of the business. While Sampson is still CEO, he is transferring more of the responsibility for the business to his sons. He even managed to take his wife for a long-anticipated trip to Italy. But Sampson's own favorite destination is still the floors of his own stores. As one son says, "The day he doesn't show up at the office will be the day he is dead."

But the sons are on track to take over, and the plan for succession is now clear. The owner had already transferred ownership of the business to the children. There is less uncertainty for employees and the brothers can focus more on the strategy of the growing business and less on the emotions of the family relationship. They are now concentrating on developing the bench strength of their own managers. They are happier and the business is healthier. The business can continue to be run profitably and successfully, as they expect to do, or it could be sold in excellent condition without the baggage of internecine battles.

Their case demonstrates the importance of addressing the family issues that are inextricably intertwined with a family business. While some family transitions have succeeded wonderfully, such as the transition in the Roberts family at Comcast, most have failed miserably. Complex or destructive relationships, which take their toll on a business at any time, come to the fore in discussions about selling a business or transferring ownership to the next generation. Bad blood can precipitate a sale. It can undermine a sale. Or it can make it impossible to keep the business in the family. Sometimes, as in the case of John Sampson, these knots can be unraveled productively. But these "soft" issues are sometimes overlooked. Addressing them is every bit as important, and as complex in its own way, as dealing with financial, tax and legal implications.

Whether the business is to be transferred internally or sold externally, owners have to deal with the complex family issues involved. "One of the big obstacles to succession planning is if the family has leadership and relationship issues," Brenner said. "It often raises the question for owners of whether it can be done. Can they change the way they have related to each other for 50 years? We can't always convince them that they can do it, but we can convince them to make a run at, for the sake of the business."

**It's Business**

Most family business owners expect to leave the operation of the business to their children. It will be their legacy. But most businesses will pass to an outsider, if they survive at all. As noted in the preface, only about a third of businesses make into the hands of second generation family members. Sometimes, as the in case of Sampson, battles between the children in the business undermine the goal of a family legacy. Sometimes the children really are just not competent to run things. These family problems are so difficult to deal with that they can make powerful CEOs tremble. So these owners may put off considering succession or dealing with persistent issues that may be undermining the success of the business. But these issues need to be addressed to meet the challenge of succession or a sale. “In understanding family dynamics, you need to recognize that it is like an iceberg, 10 percent is above the surface and 90 percent is below,” said Pellegrini.

As discussed in the preceding chapter, the more the business looks like a family – particularly a dysfunctional family – the less it will be worth.  This recognition can be a sobering moment for the family and the business. Family relationships are crucial if the business is passed on to children or other family members, but these relationships are also important in the deal process. It is time to bury the hatchets (and not in one another’s backs). After the sale, family members can take up any old grudges they may have. But during a sale, like a wedding day, it is time to gather together, smiling for a family photo. This, of course, is easier said than done. There are many family entanglements that rear their heads in the context of the sale, including: family members working in the organization, family involved on the periphery, blurring between family business and finances, or no clear succession plan.

**Unhappy Families**

As Tolstoy wrote in his famous opening line of Anna Karenina, “All happy families are alike; each unhappy family is unhappy in its own way.” There are as many ways that families, and the businesses they found can go wrong as there are families. But there are some common patterns and pitfalls identified by Brenner and Pellegrini in their work. These include:

1. ***Rules of families are egalitarian while businesses are hierarchical:*** The principles that operate in a family may not work well in a business. “Families are egalitarian but businesses are hierarchical and differentiated,” said Pellegrini. “Responsibilities vary, and market rates vary.” For example, three sons were employed in one family business. One managed 50 people with full P&L responsibility, the second had more limited management responsibilities and the third worked in operations. All three were paid the same salary. Their compensation was not based on the hierarchy of the organization but rather the egalitarianism of the family. What do you think the son with the most responsibility thinks of the fact that his brother in a much more limited role received the same compensation? What do other employees think? In some companies, family members draw a salary without any role in the business, or the company may bankroll family members in a new venture. These types of

arrangements can create many resentments and strains on relationships within the family and with other staff. But they become particularly problematic when it comes time to sell the business. Will the new owner really want to retain an operations employee at the same salary as a senior manager? Very unlikely.

Family firms commonly pay both family members and non-family members below market rates. The idea is that if family members stick it out, they will inherit the business. The owner thinks about all the blood, sweat and tears he has put into the business. He remembers how he took little or no salary in the early years. He had paid his dues and the next generation should do the same. But it can take a very long time for these family members and other employees to see the payoffs, if ever. The deflation of salaries for other staff makes it harder to retain good people. With this "suppression of talent," the best employees, inside and outside the family, tend to go outside the business for opportunities.

Sometimes, family member may have unrealistic expectations or assessments of their own capacities, and founders are reluctant to confront their children. The children may aspire to leadership, without the necessary skills or aptitudes, but they can cut the legs off everyone else in the organization who threatens their position.  To create the best conditions for a successful sale, the business needs to be run as a meritocracy and the family principle of egalitarianism needs to be saved for working out inheritance. If this hasn't been done in the past, it should certainly be done in advance of a sale. If owners are not able to confront these issues alone, they should bring in outside consultants to address them.

2. ***It is difficult to attract and retain professional managers:*** A Booz-Allen study found that, across all businesses, about 55 percent of CEOs drawn from the outside fail within two years. The number is significantly higher for family businesses. In addition to below-market compensation, as discussed above, outside managers have to deal with the crosscurrents of family meddling, founders' egos and many other forces. There may be sons or daughters who feel they can tell the manager what to do, or a family-dominated board. Professional managers also have to be comfortable playing second fiddle to the founder, not stepping on the toes of other family members, but then be able to assume leadership when the founder heads off into the sunset. This requires a rare set of capabilities.

   Sometimes professional managers are hired to play interim roles. One successful professional manager returned the business to growth, stabilized operations, but made sure not to receive too much recognition to offend the second-generation family members. Then the manager turned the business back to a son who was designated to take it over. This role as a turnaround artist can work, as long as it is clear from the outset. It needs to be spelled out whether the manager is a place holder until the family members are ready or is expected to step into the leadership role. If the family is clear about the role of its professional managers, they can be tested and screened to make sure they have the necessary skills and cultural fit to work. “Hire by design, not by chemistry,” said Brenner. Some strategies for these outside hires are discussed below.

With careful planning, outside managers can be very successful. The 2003 American Family Business Survey found that while relatively few family-owned businesses (13.6 percent) hire outside CEOs, of those that did, 31 percent rated the experience as “extremely successful,” and 40 percent rate it as “very successful.” Taken together, less than a third (29 percent) rated the hiring experience as “somewhat,” “slightly” or “not successful.”

3. ***A founder infantilizes children:*** A founder who treats the business as his exclusive enterprise and doesn’t pay attention to the next generation will give insufficient attention to grooming children or bringing in professional managers. Everyone in the family and business defers to him and they are infantilized. Founders often have trouble delegating. The owner looms so large in the business that other family members cannot escape his shadow. There is no strong management or leadership. The owner also can never see the children as anything more than the snotty-nosed kid or 14-year-old who screwed up and was brought home by the cops. Finally, when he is in his late

50s, the founder looks around and sees: Babies! There is no one who can take over the business. How did this happen? “It’s their first born,” said Brenner.

The infantilizing of children can be a self-fulfilling prophecy. The kids are kept in the business but are never given any real responsibility or training. The owner never feels they are ready for real challenges. In protecting them, he prevents them from gaining the experience they need to lead. So when it comes time for him to transition out of the business, the kids really are unprepared.

Brenner notes that, “the founders will frequently reinterpret the situation as something like: ‘My boys simply don’t have what it takes, so I’m stuck having to go down with the ship; there’s just no one to turn the helm over to.’ So, the founder shoots himself in both feet this way, not just one! He retards the professional development of his kids and unknowingly places a ‘curse’ on his succession plan.”

4. ***Inability to let go:*** Because of this attachment, these founders often engage in a lot of tire kicking in selling the business. They pretend to put the company up for sale, with no real intention to sell. They will never be able to let go. Or they have such unrealistic valuations for the business that they know it will never sell. Then they act surprised when they are unsuccessful. But they don’t want to be successful! These owners plunge back into running the business

and promise that they will revisit the question of succession later. Later never comes. Very often, unless they experience a serious illness or other event, they may postpone this decision until their deaths. They just can't bear the thought of letting go of their babies.

Owners need to begin looking at the possibilities for life after the sale, as discussed in the last chapter of this book. While the thought of selling the business may be painful, the thought of having more time to pursue a hobby, public service or make up for lost time with grandchildren may make it more appealing. They need to be able to see a life on the other side. These owners also need to get a little distance from the business. Bringing in a strong professional manager might give the owner this opportunity for greater detachment. Knowing the business is in good hands can make it easier to walk out the door. In this process, owners need to be brutally honest about the capacities of children who are involved in the firm. Often owners are forced to stay around to prop up a weak heir, and this delays decisions about moving out of the business.

5. ***Insufficient emotional intelligence:*** Many founders who were brilliant in building the business are "EQ idiots." Their low emotional quotient (EQ) makes managing relationships a problem. In building the business, this may be less of a problem, because their single-minded vision and force of will helped drive the business to succeed against the odds. Relationships are

important in building a business, of course, but many relationship errors can be glossed over with healthy cash flow or a powerful business model. In selling the business, those relationships that were not addressed in the past have to be dealt with. There are relationships with family, with employees, with customers, with other investors and with the new owners. Navigating the delicate negotiations required to pull off a successful deal is a serious challenge.

Although founders can be tigers in their business negotiations, they often are pussycats in family matters. “Big, tough, potent entrepreneurs often get the willies over their kids’ interpersonal problems and will do anything to avoid addressing them directly,” said Brenner. They are not self aware of how they affect other people. Pellegrini and Brenner usually try to interview the spouse of the founder, who often has deeper insights into the emotional dynamics of the family than the owner.  Understanding and controlling the emotional cross-currents is essential to setting up a successful sale.

You need to be honest about your ability to manage relationships and bring in outsiders if needed. The value of the business will suffer if these problems are left to fester.  If your goal is to help your family, getting top dollar for the business could be the best thing you could do for them.

6. ***Lack of clarity:*** Sometimes to avoid conflicts, owners give mixed messages to children. The owner of one successful business had four children. At one time or another, he had promised each of them individually that "someday this business would all be yours." He had brought in two daughters from outside in addition to the two sons from inside. As he grew older, it became apparent that none of the children had what it would take to run the business (and some less than others, even though they all received the same pay). The owner brought in an outside president but later had to fire him when he was caught smoking pot with employees. So the aging owner was still in the driver's seat, with many heirs apparent but none capable of actually taking the reins.

   He didn't have the heart to tell his kids that they didn't have the skills to run the business. Instead, he let them *all* believe they were in line to run the business. "He led all of them on that they would take over the business," said Brenner. "He was so scared he would lose his children." Instead, he ended up creating more problems in the long run. Being clear and direct from the outset is usually the best policy. Sometimes an honest recognition of the weaknesses of the children can create opportunities to build new strengths, or to create a smooth plan to transition them out of the business.

7. ***Founders expect to beat the odds:*** While founders know the low rates of sustaining family businesses across generations, they also know that they have already beaten the odds in creating a successful business in the first place.

> Why should selling the business be any different? “They are charismatic, world beaters and when they look at these obstacles, they think they will beat the odds again,” said Brenner.  “They’ve beaten the odds in every other way. When they see the statistics, they just think that they will beat the odds again.” What they may not recognize is that the personal qualities that allowed them to beat the odds in building the business may not be the ones that will lead to a successful sale. It is a different game. Michael Jordan is a legendary basketball player but was stuck in the minor leagues when he tried his hand at baseball in the 1990s. Instead of wishful thinking, owners need to take a hard look at their own capabilities and what is needed to carry out a successful sale or transition to the next generation.

**Do the Kids Have What It Takes?**

As noted above, the skill development of children can be a self-fulfilling prophecy. How do owners objectively assess whether their children have the capacity to take over the business. How do you assess the abilities of children to carry forward the business?  It is a rare owner who can set family relationships aside and look objectively at the situation. The professional tools for assessing outside hires discussed in Chapter 3 can be turned toward children and other family members in the business. These assessments tools are particularly valuable here because they can help to penetrate the fog of emotions and relationships. Owners can take a hard look at what these family members can actually contribute to the business. This can help make an objective assessment of the best fit for the organization and the results also can form the foundation for a candid and objective discussion of the individual’s prospects in the business and other opportunities outside.

Such testing may be the best thing you can do for your business – and your children. It can help to clarify what skills are needed for the future success of the business, whether they exist inside the enterprise and which skills need to be brought in from outside. This is vital information in preparing the organization for a sale or generational transfer.

There are some factors that can contribute to the skills of the next generation. First, it helps for children to have experience in the larger world. Even if you can proudly say that your kids will outdo you in running the business, it is still a wise move to send them out into the world first. They will have independent experience and a chance to show their capability. Otherwise, the other employees in the organization, or family members outside, may question their experience and authority. If they only work in the family business, regardless of their performance, there will always be nagging questions about whether they found their jobs through merit or nepotism. A trip out into the great world, when possible, can put these concerns to rest and bring valuable new perspectives to the organization.

Second, if family members are inextricably involved in the business, make sure the relationship is professional. Salaries should be according to market rates and promotions should be based on merit. If you want to give children a part of the business for being in your family, give them a share in the enterprise that is separate from compensation for their work. It will keep things a lot simpler. Keep family as family and business and business. Your family will be happier, and your business will be healthier.

**Structuring the Deal: Pressures of an Earnout**

With an inside sale, the structure of the deal and the owner's role after the sale will affect the outcome. Since children usually don't have a lot of capital to put up for the sale, families often choose an earnout to transfer ownership, allowing children to pay the founder over time. In Chapter 2, we considered some of the business implications of an earnout, but there are also emotional issues involved.

While an earnout may seem like a good solution for a business that doesn't have the resources to buy out the founder directly, it should be used with caution even if it makes financial sense. The earnout will mean that the owner's retirement income will be affected by the decisions of the children running the business. This loss of control may be infuriating and owners will not stay on the sidelines for long. Even if they might be able to restrain themselves from second-guessing their children under ordinary circumstances, they now have to protect their investment. This will give them more reason to meddle in the operations and decisions of the children – after all it is their money at stake! It can be much harder for the children to take charge.

Even if the owner is able to bite his tongue and watch as the kids make their inevitable mistakes, the earnout creates added pressure on the children. Children will feel the responsibility for supporting their parents and other family members. At the time when they are already assuming considerable pressure just in running the business, this is an added weight on their shoulders. It should be done with caution and the family and emotional issues should be discussed explicitly.

This doesn’t mean that it can’t be done. Bill Chambers, whom we met in Chapter 1, acquired Homeland Designs in an earnout deal with the founder, who treated him like a son. It allowed Chambers, who was a senior manager in the business at the time, to purchase the company, even though his personal resources were limited. The owner had an office and Chambers respected his advice. The relationship worked so well that the earnout was a huge success. Clearly defining the post-sale role of the founder is vital in this process.

**Passive Owners**

Some family members are not involved in running the business but they are still owners, and can rear their heads in the sale process. As owners, they have a stake in the outcome of the business and can meddle with its operations or exert psychological pressure on the family members leading the firm. For example, Mike is a business owner who inherited the family business from his father. His step-brother and step-sister, Phil and Jen, are passive owners who are more concerned about their personal tax liability than the overall success of the business. While Mike tries to make the best decisions for the long-term success, he has to deal with the sniping of his step-siblings pressuring for decisions that benefit their tax liabilities.  This is not only uncomfortable during business meetings, but Mike also finds himself avoiding Phil and Jen at family functions. He feels like the bad guy while he is only trying to make the best decisions for the business. But the issues often are far deeper than just financial interest. Mike's siblings might be angry that the business was given to him by their father. There may be emotional depths beneath what may seem a relatively straightforward issue floating on the surface.

These relationships with passive owners can become particularly important at the time of a sale. Siblings and other family members might have some direct say in the sale process and outcome. They might have to give their blessing to it. Even if they don't have a formal role, they could use back channels in the family to influence the outcome. It is vital to recognize these relationships and discuss the pending sale with these family members, clarify roles and goals, and look for red flags that could interfere with the sale process.

**Inviting the Children In**

While we have focused on the challenges of having family members involved in the business, some founders face the opposite set of issues. Children are not involved in the business at all. And at a certain point, the owner might wonder if these children should have been. Many founders err on the side of caution. Perhaps they had overbearing parents in their own childhood and want to give their children the freedom to make their own decisions. They think they are doing the kids a favor by not pushing them to follow in their footsteps. But the children could feel that they are shut out, not invited to be part of the business.

It may be only after the business is sold that founders learn about the interest of their children in their business. “It is a hard issue for a lot of family businesses,” said Pellegrini. “There is a thin line between pushing the business on the kids and the children not feeling invited into it. The father intends to give them room to be what they want to be. He doesn’t want to overburden them with his dreams. But the kids feel like they are being kept out.”

This is a discussion founders should have with their children before the sale, if only for their peace of mind afterwards. This will remove nagging doubts and regrets for the founders and resentment that may be felt by the children. It also could be an opportunity for a successful next-generation transfer that never happens because the question is never asked. Or it could just make everyone more comfortable with the sale that ultimately results. If the children are unqualified but still have dreams of being asked to take over, this should be addressed head on. It may be an uncomfortable conversation for both sides but it may leave both founders and children better off, and ultimately improve the relationship. And it will certainly improve the business and its value for buyers.

**Dealing with Extended “Family”**

The same types of destructive relationships and soap operas that are seen in family relationships often also emerge in non-family relationships with partners or key employees. These relationships can have similar complexity to the relationships with family and similar negative impact on the sale price and process. A famous example that illustrates these points is Leslie’s Poolmart. A bitter battle between the two founding partners, which made the Hatfields and McCoys look like high school sweethearts, undermined the sale of their business.

In 1963, Philip Leslie and partner Raymond Cesmat founded Leslie's Poolmart and built it into a $50 million business. While the business was booming, the partnership self-destructed. In the mid-1980s, Cesmat wanted to sell his interest in the firm to settle a divorce proceeding. Leslie wanted to buy, but the 50-50 owners couldn't agree on a price and had no exit agreement. Cesmat went to court to petition to dissolve the corporation under California law. The court appointed a temporary third director and proceeded with the sale. Leslie was livid.

He didn't just get mad, he got even.

When prospective buyers would come through the door, Leslie did his best to scare them away. He threatened to set up a competing company and drive them out of business if they bought the firm. With Leslie giving every potential buyer the evil eye, a company that once had a fair prospect for fetching a good price became a dog. It was sold at fire sale prices to investors led by Hancock Park Associates for $17.5 million. (As half owner, this hurt Leslie just as much as Cesmat. But for Leslie getting even was more important than getting richer. He would cut off his nose to spite his face.)[i]

When the company was sold in May 1988, employees who were loyal to Leslie stayed off the job and even picketed company stores. Leslie called up retailers to badmouth the new management.  For seven months, he waged war on the company until he finally dropped his crusade under the threat of a $45 million lawsuit by the new management. But when his air war was brought down, he launched a ground war. He set up a competitor, Sandy's Pool Supply, Inc., and opened new stores across the street from Poolmart locations. Somehow Poolmart survived this attack, but only after posting two years of losses, and with the help of a successful IPO.  By 1997, shareholders approved a plan to take the company private.  The company that was sold for under $18 million was now valued at more than $100 million.[ii] But Leslie and his partner only earned headaches and pennies on the dollar from what could have been a very lucrative deal for both of them.  The problems with their partnership undermined the value of their successful business.

**Creating an Advisory Board**

One of the best ways to maintain some perspective on the business and keep family issues from dominating it is to create an advisory board stocked with outsiders. A good board with expertise in key areas can be a great way to test ideas and keep the operation and governance professional.

This board is never more important than when the business changes hands or goes up for sale. The advisory board at this point will offer sage advice on whether the business should stay in the family or go outside. The board can also be a source of leads for buyers and advisors who can help in the deal process.  Board members may themselves offer advice on the strategic, financial and legal issues involved in a sale.

You don’t need to be a public company to benefit from the advice of a board. You will need to compensate your board members, but it will generally be worth every penny. If your only advisory board is other family members, you will never be able to step back from the business to see family issues that need to be addressed for the company to prosper. Outside directors can play a vital role in offering this sense of perspective.

## ASSESSING THE OVERALL RISKS

Like any other risks of the business, risks from family issues can be assessed and addressed. Brenner and Pellegrini have developed the following checklist as a quick-and-dirty assessment of the overall emotional health of the business and family. It presents a set of questions that every family business should ask itself, particularly at a point when the business might be sold. One set of questions focuses on the business and another on the family.

**Success Factors: For the Business**

This has "cost" us ⟷ We have truly benefited from doing this well

**1.** We have a clear and elevating Mission, Vision, and Core Values.

| 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|
| ☐ | ☐ | ☐ | ☐ | ☐ |

This has "cost" us ⟷ We have truly benefited from doing this well

**2.** We have created both a company culture and a set of people practices in which we all take pride.

| 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|
| ☐ | ☐ | ☐ | ☐ | ☐ |

This has "cost" us ⟷ We have truly benefited from doing this well

**3.** We agree on the most effective way to lead our people.

| 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|
| ☐ | ☐ | ☐ | ☐ | ☐ |

This has "cost" us ⟷ We have truly benefited from doing this well

**4.** We agree on the most effective way to manage our company day-to-day.

| 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|
| ☐ | ☐ | ☐ | ☐ | ☐ |

This has "cost" us ⟷ We have truly benefited from doing this well

**5.** We agree on our business strategy and how to execute it over the near- and long-term.

| 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|
| ☐ | ☐ | ☐ | ☐ | ☐ |

| | This has "cost" us ⟷ We have truly benefited from doing this well | | | | |
|---|---|---|---|---|---|
| | 1 | 2 | 3 | 4 | 5 |
| **6.** All family members in the business act as role models for one another and for our employees. | ☐ | ☐ | ☐ | ☐ | ☐ |

| | This has "cost" us ⟷ We have truly benefited from doing this well | | | | |
|---|---|---|---|---|---|
| | 1 | 2 | 3 | 4 | 5 |
| **7.** As a business family, our teamwork is about as good as anyone's. | ☐ | ☐ | ☐ | ☐ | ☐ |

| | This has "cost" us ⟷ We have truly benefited from doing this well | | | | |
|---|---|---|---|---|---|
| | 1 | 2 | 3 | 4 | 5 |
| **8.** We are fully aware of most of the challenges that lay before us in the future, and typically go straight at them—no heads in the sand. | ☐ | ☐ | ☐ | ☐ | ☐ |

| | This has "cost" us ⟷ We have truly benefited from doing this well | | | | |
|---|---|---|---|---|---|
| | 1 | 2 | 3 | 4 | 5 |
| **9.** We've demonstrated that we know how to manage the succession process. | ☐ | ☐ | ☐ | ☐ | ☐ |

## Success Factors: For the Family

This has "cost" us ← → We have truly benefited from doing this well

1. In and out of the business, we live by our *Family Code of Conduct*.

| 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|
| ☐ | ☐ | ☐ | ☐ | ☐ |

This has "cost" us ← → We have truly benefited from doing this well

2. We are quite skilled at handling intra-familial conflicts.

| 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|
| ☐ | ☐ | ☐ | ☐ | ☐ |

This has "cost" us ← → We have truly benefited from doing this well

3. We have no "difficult" family issues.

| 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|
| ☐ | ☐ | ☐ | ☐ | ☐ |

This has "cost" us ← → We have truly benefited from doing this well

4. All "closets" are clear of skeletons.

| 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|
| ☐ | ☐ | ☐ | ☐ | ☐ |

This has "cost" us ← → We have truly benefited from doing this well

5. We are quite effective at handling the toughest of issues: family rivalries, money, hurtful actions or attacks, addictive behavior, marital problems, differing abilities and career potential, etc.

| 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|
| ☐ | ☐ | ☐ | ☐ | ☐ |

**6.** We take a long-term approach to how we bring our children into the business—we have a decades-long strategy, and we stick to it.

This has "cost" us ⟷ We have truly benefited from doing this well

| 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|
| ☐ | ☐ | ☐ | ☐ | ☐ |

**7.** We are effective at managing FOB challenges: trust, fairness and equity, inclusion, privacy, performance, compensation, dissent, individuality, etc.

This has "cost" us ⟷ We have truly benefited from doing this well

| 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|
| ☐ | ☐ | ☐ | ☐ | ☐ |

**8.** We've been quite successful at creating high-quality work experiences for family members, young and old alike.

This has "cost" us ⟷ We have truly benefited from doing this well

| 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|
| ☐ | ☐ | ☐ | ☐ | ☐ |

**9.** In everything we do as a family, we walk the talk of FOB continuity and longevity.

This has "cost" us ⟷ We have truly benefited from doing this well

| 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|
| ☐ | ☐ | ☐ | ☐ | ☐ |

**10.** We've demonstrated that we know how to prevent parental success and wealth from stunting the growth and development of our children (and their children).

This has "cost" us ⟷ We have truly benefited from doing this well

| 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|
| ☐ | ☐ | ☐ | ☐ | ☐ |

Working through these questions can help identify the problem areas that might derail the organization or undermine a sale. It can shine a light on the dark corners and offer a useful starting point for recognizing, discussing and addressing these challenges. This can ensure that these "soft" issues – which might be avoided or overlooked with all the details of preparing for a sale – are carefully examined before they suddenly rear their heads in the middle of the sale process.

**HEARTBREAK HOTEL**

Families can present a very complex stew, with intergenerational conflicts, gender differences, birth-order baggage, black sheep situations, interfamily feuds, spouses, in-laws, issues of power, control and money. The impact can be huge. The Pritzker family offers a cautionary tale. After the death of founder Jay Pritzker in 1999, he had bequeathed the business to 11 family members, three of which were put in charge. Within a few years, family disagreements over money led to a plan to liquefy the $15 billion empire and distribute the assets, including the Hyatt Hotel chain.

But even this plan didn't put the matter to rest. An 18-year-old heir, Liesel Pritzker, who contended that her trust fund was emptied, filed a lawsuit demanding $1 billion plus $5 billion in punitive damages. The suit filed in 2002 was ultimately settled by the family in 2005 for a reported $1 billion, which opened the way to breaking up the empire . These soap operas can become very messy, very quickly and cost the business years of time and, in this case, billions of dollars. Owners need to pay attention to them before they get out of hand.

One of the things that can be most useful in keeping family focused on addressing such issues is to remind everyone of the stakes involved. It could mean millions of dollars in value for the business – or even its ultimate survival. This can sometimes get the attention of family members and allow them to focus on the hard work they need to do. Even if the situation has eroded to the point that individuals don't care about other family members, most will still retain an interest in the success of the business and their own financial stake in it. Making the business case for addressing family issues can be the best way to focus the family on the needs of the business.

---

[i] Emshwiller, John R. "Desire for Revenge Fuels and Entrepreneur's Ambition," *The Wall Street Journal*, April, 19, 1991, B2.

[ii] "Leslie's Poolmart, Inc. Shareholders Approve Plan to Take the Company Private," *The Wall Street Journal*, June 13, 1997, B4.