MONEY MANAGER

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For fathers, sons, and daughters…

SUCCESS CAN BE A MATTER OF SUCCESSION

by Bruce Kinsey

The great majority of printing concerns are family owned and operated. And in many of them, at least one son or daughter is expecting—or expected—to assume operating control of the company on day. Yet, as Mr. Kinsey observes in this month's important **MM** *article, the transition from one generation of company leadership to the next is almost always a traumatic event for all involved—father, son or daughter, and long-time non-family employees. He analyzes this critical phase in a company's growth, and offers some practical advice on how to make it work for, rather than against the firm's interest.*

Ed.

There are certain problems which gentlemen of breeding, by common agreement, never discuss frankly. Among these off-limits topics are any number of personal nuisances, such as herpes, halitosis and hemorrhoids. In the workplace, similar taboos may apply to the lack of productivity of a long-time employee close to retirement, or the propensity of an otherwise good manager to show up for work now and then in an alcoholic haze.

Ignoring these proscribed problems never really threatens the existence of most printing companies. But there is one problem which, far too often, is left unaddressed. It thereby can become a deadly time bomb, waiting to explode within the foundation of the corporate structure, toppling the printing company and all within it. The "time bomb" I'm referring to is the resolution of the potential father vs. Son conflict in the family-owned printing firm.

THE SINS OF THE FATHER

It's a sad but telling fact that the life span of the average small business is almost exactly as long as the working life of the owner who founded the place. ***Most printing firms, in other words, don't survive long beyond the demise of the first owner.*** Typically, few definite plans have been laid to help the transition to new management within family ownership. In some cases the late owner's failure to plan realistically means that his widow is obliged to try running the firm—a situation which rarely works out well unless the lady has already been an integral part of the company and knows its strength and weaknesses well. In other families, an elder son is waiting in the wings, hopeful that Dad's will (to which he's never been privy) will at last award control of the firm to him, or that his mother will have the sense to do the same. The potential for misunderstandings, distress sales, time-wasting intrigue and bitter intra-family feelings in such situations is enormous.

As a management consultant active in the industry, I've often listened as men in their fifties and sixties described to me the fear, confusion and inefficiency which surrounded their inheritance of the family printing business when "Dad" suddenly died. With a few changes in details, many of my clients have recited essentially the same story. What's puzzling, though, is that, in virtually every case, they are prone to make with their own sons the very same errors their fathers made with them. So common is the problem that I've formulated a few guidelines that may help fathers, sons and others involved in the possible transition of ownership within the family.

DAD, JUNIOR & COMPANY

So common in the printing industry is this problem of management transition from father to son that we can identify some elements which, in one form or another, are present in nearly all such situations.

1. Dad has unrealistic expectations—usually of two kinds. First, he has somehow managed to convince himself that he can live forever—or something equally impossible, like making no retirement plan whatsoever, and harboring in the back of his mind the notion that, if he ever does pass on to the land of Gutenberg and Franklin, he'll be hard at work at his desk when the great call finally arrives. Whenever anyone dares raise the topic of his retirement, Dad scoffs the inquirer into silence with a comment something like: "look at old Andy Gump across town—he's 86 and still running that shop like he always did. I'm only 67—I've got a couple of decades left in me!"

Dad's other flights of self-delusion are likely to be about his son and heir. ***Fathers are often the last people on earth who can judge their offspring objectively***. The Old Man seems to love pronouncing extreme judgments on Junior. The most common approach I've seen Dad take is to judge Junior "unready" to assume the top executive's chair that Dad now occupies. Junior might be 55, and may have occupied every job in the company for at least five years. In Dad's eyes, though, he's somehow still "not quite ready" for the job Dad assumed when he was 35 and unable to balance a checkbook.

2. Junior is hesitant to speak up. I've interviewed dozens of "Juniors" and never fail to be amazed at their forbearance on the face of Dad's lack of realism. Junior's mind is usually full of embarrassing questions: how come Dad insisted I spend two years in the bindery in "training" when the overpaid sales manager wouldn't know a stitcher-trimmer from a fireplug? If Dad dies suddenly, who gets the majority of stock in this company—Mom or me? What deals has Dad made with major lenders that I don't know about? Dad rarely gives me anything of real significance to do; does that mean he doesn't trust my judgment? If so, should I stick it out here waiting for something to break, or should I move on to some other career while Im still young enough to do so? But Junior almost always keeps these questions to himself.

3. Other managerial employees are puzzled. If Dad and Junior are having trouble sorting out the succession problem, imagine the plight of senior company employees outside the family! Too many family members assume that such senior people have no interest in the succession issue, or nothing to contribute to its resolution. Neither supposition is true, but it saves both parties to an increasingly sensitive family problem from the embarrassment of venting their frustrations with someone outside the clan. What neither Dad nor Junior often realizes is that ***some non-family managers are hoping to move up after the "Old Man" moves out.*** Their interest in how the succession is affected is thus very real, and normally quite legitimate.

SUCCESSION AND SURVIVAL

Very often there is inherent in the kind of situation I just described a strong *inertia* which prevents any action whatsoever toward resolving the conflicts that surround company succession questions. In some firms, the problem festers for years before it becomes apparent that Dad is never going to retire. ***Often in these cases senior non-family people suddenly leave the company,*** having correctly concluded that their futures there are too fraught with risk to warrant staying. In many other shops, of course, Dad suddenly passes to that Great Print Shop in the Sky, leaving Mom and Junior either to tear the company apart with nasty legal fights, or to struggle to hold together a frightened group of employees. In too many cases Junior simply isn't up to the task, so long has he lived under the Old Man's shadow, with little real opportunity to sharpen his executive skills.

What's at stake here in not how long the Old Man can last, nor whether Junior or Mom is ready to take over the helm. The first step toward resolving the succession problem in the family-owned printing company is taken when all realize that ***the real issue is the very survival of the company and the security of those who depend on it for their livelihood.*** There simply aren't any issues more important than those.

So the questions of who is going to succeed whom, of how that transition is going to take place, of the grooming of the heir-apparent for the top spot, and of how to manage the entire process so as to avoid losing key employees at a critical point are top-priority issues, worthy of the clearest, most objective thinking a company (or a family) can muster.

A TRANSITION CHECKLIST

Top management and ownership transitions are too complex, and subject to too many varied circumstances to be covered in detailed here. But here are several pointers which you may want to use as a checklist for transition planning.

- ***The first issue to settle is who's going to run the company once Dad is gone.*** Because that's the issue that tears lots of companies apart after Dad's retirement or death. Forget unworkable arrangements such as widow and children as co-equal executives, which almost assures a nasty post-transition battle.

- ***Start planning for transition now***. Because a major part of a successful succession is making sure that the successor is equal to the task. That means that Junior may have to be given some significant executive experience in areas of the company's operation with which he's now unfamiliar. He's not going to have time to learn them in detail after the Old Man is gone. The other reason for early transition planning, of course, is legal. Poor planning can leave the fledgling inheritor of the top spot with a terrible tax problem, or facing a major creditor who restricts the company's financial flexibility precisely the time it most needs it.

- ***Keep the lines of communication clear***. Father, Son, Mom and senior employees likely to be affected by a transition need to be aware of each other's views on the matter. Keeping transition plans a deep, dark secret sometimes only assures that after Dad's demise the vultures start coming out of the woodwork. By letting key family members and senior employees in on the major parts of the transition plan, the Old Man will be in a better position to benefit from the thinking of other concerned parties as he guides the succession process. He'll also be in a better position to checkmate the vultures than he would be from six feet under.

- ***If Dad's over 55, he should set a definite retirement date,*** which shouldn't change except because of death or incapacity. No single action on Dad's part will make transition easier nor help assure the company's future security than this one. Setting a definite retirement date encourages Dad to start planning how he'll spend his time, once he stops running the company—and retirees who haven't made such plans often fail to enjoy their golden years. For Junior, knowing Dad's retirement date spurs him to start acting like a top executive, and to take definite steps to fill in the gaps in his knowledge and experience that he won't have time to attend to after the succession.

- ***Form a "brain trust".*** If Dad's smart, he'll find a few key people whose judgment he trusts, and keep them informed of major happenings in the company's life. The purpose here is to make certain that Junior or a widow get the best advice they can should Dad suddenly not be there. The family lawyer, a trusted senior employee whose loyalty to the firm is beyond question, outside business people and consultants are all possibilities here. One way to help transitions from getting out of hand is to establish a board of directors consisting of such people long before the transition, and to use it.

THIRD TIME'S A CHARM

There's one important caveat to all of the comments made above. They were written assuming that the transition is from first to second-generation ownership. ***When the succession is from second to third generation, the problems to be faced—especially by the company which has been reasonably successful—are vastly more challenging.*** There is something about the founder's grandson(s) taking over that can cause terrible problems. I suspect it has something to do with his rarely having had to experience the fear and cold sweat that go with suddenly losing a major customer, or wondering whether the company can meet next week's payroll or debt installment. If you're facing this kind of problem, get outside help.

SOME QUESTIONS FOR FATHERS AND SONS

Instructions: This is an informal self test for fathers who now run the company and sons who may someday take it over. The test should be taken separately, without consultation, by both "Dad" and "Junior". See bottom of the page for scoring.

		Agree	Disagree
1.	*If more than on son is active in the business, which one will serve as chief executive after Dad retires or dies?*__________________		
2.	*"Junior" knows for certain what his role will be after Dad's death or retirement.*	❑	❑
3.	*Dad's capacity to make good management decisions is diminished from what it was, say, five years ago.*	❑	❑
4.	*Dad has a will or other formal document specifying who will own a controlling interest in the company after his death.*	❑	❑
5.	*If "yes" for above, Junior knows what the implications of the document are for him.*	❑	❑
6.	*Junior has had adequate experience to make top management decisions in…*		
	sales	❑	❑
	finance	❑	❑
	production	❑	❑
7.	*Dad could probably stay on indefinitely in his present capacity.*	❑	❑
8.	*Dad often expects too much of Junior.*	❑	❑
9.	*Junior isn't really certain that he wants to ever run this business.*	❑	❑
10.	*The way the company's been run up to now is pretty good, and shouldn't be changed much, no matter who's in charge.*	❑	❑

11. *The one thing that whoever calls the shots in this company has got to understand is*__________________

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ANSWER TO SELF-TEST

The purpose of the self-test is not so much to provide "right" answers as to help father-and-son teams to recognize potentially dangerous areas of misunderstanding or disagreement which will stall the transfer of stewardship, or make it awkward, traumatic or wasteful for all involved. Thus the utility of the test comes only when "Dad" and "Junior's" responses are compared. Disagreement on more than three of the questions means more work needs to be done on transition planning, by both parties, disagreement on more than six items probably indicates that no smooth transition is really possible.

#1. If all involved can't agree here, the company may be torn apart by an ugly fight after Dad's demise. Best to settle this vital question now.

#2 Same as #1. If Junior doesn't know what his role is going to be, how can he be expected to prepare for it?

#3. If there's disagreement here, with Dad saying he's just as good as ever, then Junior very likely resents the fact that he's not exercising more responsibility right now. Even if Dad is just as good as ever, what would happen if he suddenly weren't?

#4. If there isn't one, there ought to be, and Junior ought to know what it says. This is especially so if Dad is directing that Junior not assume full control of the firm.

#5. Same as #4.

#6. Dad and Junior will rarely agree about this one, but mere recognition of the disagreement is helpful. What's important is for Dad to encourage Junior to take responsibility for increasingly important decisions in more than one area of the company's affairs.

#7. If Dad truly believes this, and acts accordingly, then Junior should consider getting his management experience outside the family business. "Hanging around" waiting for Dad to see the light or succumb to Mother Nature is a waste of good learning time.

#8. Answers here are unimportant. But a thorough discussion of the topic between father and son will help clear the air for a good transition plan.

#9. If Junior agrees with this statement, then he'd better tell Dad why, so both can make plans to adjust to the inevitable sale or shutdown of the business.

#10. If the company's ROI has consistently been at least 15% for the past five years, then this statement might be true. Otherwise, Dad had better accommodate himself to the idea that Junior will inevitably do many things differently from the way Dad might have.

#11. Junior and Dad may well disagree here. But if Junior can't respect Dad's views, and the experience which supports them, then a detailed transition plan is all the more necessary—preferably a gradual one.