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Passing on the torch without blowing up the family

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Our succession process began without a formal plan. I eventually realized that the do-it-yourself approach had lost traction on both the business and family fronts. Was it too late to create a proactive succession plan?

By Jack MacBean

I often refer to myself as the “illegitimate” third generation of Ostbye & Anderson, the Minneapolis jewelry manufacturer founded by my wife’s family in 1920. My father-in-law never liked being a part of the company and discouraged me from joining. Yet after 12 years in other jobs and industries, I brought my experience and skills into the family business in 1978.

As an only child, I naturally became self-sufficient, which developed into independent thinking and a do-it-yourself (DIY) attitude in business. These character traits continued to serve me well as I became company president and majority stockholder in 1988. I built a new factory, made a significant acquisition in 1993 and grew the company from a regional to national player.

But in 2001, our business and industry took a major hit and I wasn’t sure where I saw myself in the future. I wanted the company to recover but was unsure if I had the energy or the passion to build it back up. My independent streak had hit a roadblock.

Unbeknownst to me, a DIY succession process started in the fall of 2002 as I neared my 60th birthday. I had no exit plan at that time and no clue that things were about to start happening on their own. After learning a series of lessons—the hard way—I realized the DIY approach was no longer useful. Ultimately, pleasant surprises occurred in the process of passing the torch, but only after I opened myself up to professional help and peer guidance.

Lesson #1: Those privileged to be part of a family business can’t ignore the family.

My initial mistake was not recognizing the business as part of our family, whether or not anyone in the family was active in the company. In retrospect, I did not know how to incorporate the business into our family without sending a message of entitlement or expectation. I wanted my children to work elsewhere. It was important to me that both my sons had freedom to find their own careers, passions and independence. Because both my sons had developed highly successful and financially rewarding careers with multinational corporations, I assumed that neither would want to come into the business, which effectively cut off the possibility of a family succession plan. Too bad I never asked!

Advice to other family business owners: Do not assume you know what your children think about the business. You have to ask. Engage family members in direct conversation or have an outsider conduct interviews.

All family members must understand that discussing the family business does not guarantee any specific outcome for either the children or the business. I believe very strongly that it can be stifling for children to come into a family business immediately after school, before they have some “real world” experience and have gained a degree of confidence and independence. That background also allows them to bring some skills and knowledge into the family business. Equally important, this helps raise the problematic child/parent/boss relationship up a notch to the still challenging adult/parent/boss relationship.

Surprise #1: A successful son says, ‘Make me an offer.’

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In the fall of 2002, as I started having concerns about what to do with the business—sell it or work until age 90—I had a fateful lunch with my son Craig, then 34. He had recently been named U.S. Salesman of the Year at his company (among a sales force of 1,100) and was considering new opportunities. We met to talk over his résumé. As I reviewed it, I said something like, “Our business needs a sales manager with your qualifications.” His response: “Make me an offer.”

I was taken aback, flabbergasted and totally shocked that Craig had considered working in our family business. (Again, I never asked!) This lunch was a pivotal moment for me. I was excited, but terrified, about bringing him into the business. I wrestled with this emotional conflict and internalized the decision. I didn’t discuss it with my wife—a major mistake! I never reached out for help and didn’t consider the effect of the decision on our company, its management team or our family, especially Craig’s younger brother, David. Only much later did I learn that David had always hoped that he would ultimately take over the family business.

Advice to other family business owners: Before you decide to bring a family member into the business, create a family council—even if you don’t think you need one yet. A family council provides a framework for educating the family about the business and addressing and resolving conflicts. It also offers an open forum to discuss opportunities, qualifications and desires. The goal is to prevent unintended consequences that, most likely, will have negative ramifications for other family members. It also can be a way of creating some fun family events.

Lesson #2: Family members and company managers get upset when owners make significant operating decisions independently.

A few months after my lunch with Craig and before the announcement of his new role as national sales manager, I came face-to-face with the guardian of our family’s relationships—my wife, Lynne—and knew I was in trouble. My son David and his wife were visiting for Christmas on the day that Craig and I had reached our agreement. I casually mentioned to Lynne that I was “thinking” of bringing Craig into the business. She was astonished and quickly asked, “What about David?” She was loud, stong and clear: “You may be responsible for the company, but don’t blow up the family.”

David did not take the news well. He was highly qualified, but the reality was that his strengths mirrored his brother’s in sales and marketing. Within our small company, there wasn’t another opportunity for him. David was hurt, disappointed and angry. Simply put, David was devastated not to have even been asked. I have very few regrets in my life, but this one tops the list. I could have —and should have—handled this decision so much better. It’s a lesson I leaned the hard way, and I share the story often with family business owners as a way to help make amends.

I also agonized over announcing Craig’s appointment to our top managers. They had assumed my two sons were not coming into the business. During a managers’ meeting, I said I had hired a new national sales manager whom I felt was well qualified for the job. I passed out Craig’s résumé with the name removed. As managers were reading the résumé, one of them said, “Wow! Is this Craig?” The general reaction was favorable; however, one individual, who might have been a candidate to take over my position as president, felt threatened and was visibly upset. That individual never adapted to Craig’s being in the company and left within a year.

Advice to other family business owners: Whether succession is a DIY or a planned process, it will be an uncomfortable time for everyone. Lack of communication and trust will further erode family and company harmony. Once the family’s plans are in place, simply announce this to key managers and employees.

Since 2002, David has moved from telecommunications to GE Healthcare, where he has worked for the past six years. He is very proud of his success with GE and is well recognized within the company for his accomplishments. Although they live in different states and have very busy professional and active family lives, David and Craig have maintained a good relationship, including a shared interest in running marathons.

Surprise #2: My son’s leadership helped the business meet economic and industry challenges.

Our industry was going through challenging times in the post-9/11 era, but our struggles had started before that. People buy jewelry when they feel good and optimistic. We saw a 30% revenue decline in 2001 due to fear and uncertainty. What’s more, intensifying competition from global companies had eroded profitability, and the impact of the Internet was growing each year.

I was delighted to see that Craig contributed not only leadership skills, but also big-picture thinking to guide the business to perform at a higher level. One of his first action steps was to develop a long-range strategic plan, which the company had never had before. This replaced my DIY approach, which had landed us squarely in survival mode.

Steve Coleman of Platinum Group, a business consulting firm, helped Craig and me to work more effectively together and map out a strategic plan for long-term growth and profitability. This process identified a need for experienced managers in finance and manufacturing, and we decided to engage a search for “A” players.

To address rising competitive forces, we opted to narrow the company’s focus to strengths in mature markets. This strategy, in addition to investment in new technology and distribution channel resources, became the driver for change that would generate profitable new growth.

Advice to other family business owners: The DIY approach saves money in the short term but will cost you in the long run. Ask for help before it’s too late, especially if you are at the point in life where your focus is on conservation and comfort in your own lifestyle, rather than investment and risk-taking for the company’s sake.

Lesson #3: Transition is a natural, healthy event that can be good for the company and its leadership.

During this strategic planning period, Craig became involved in aspects of the company beyond sales, and I became aware that he was capable of running the business. A conflict developed between the two of us based on his higher expectations for the company vs. my comfort level.

I wanted to suppport Craig’s efforts but quickly realized that I didn’t want to take on more work at this stage of my life. Although I still had not planned an exit strategy, I started to attend a business transition group out of curiosity—not thinking it would affect me. Other owners shared their transition experiences openly. It took me a year to go from spectator to player as I gave myself permission to consider a transition. At some point I realized that transition is not a weakness and does not signal the end of life; it’s a natural progression that’s necessary for a company to survive into the next generation. Once I started, I never looked back.

Advice to other family business owners: Be open to resources and suggestions from experts in the field. You don’t have to go through transition alone. Find a peer group where there is open, honest discussion about taking the next step. It can bring clarity to your succession planning, as well as encouragement.

Surprise #3: Planning a sabbatical can be a helpful tool to test your management team’s readiness to ‘step up’ in the organization. It also can be a positive step in a business owner’s succession plan.

I initially decided to take a five-month sabbatical from the business in 2007 and return as an active chairman in the business. But I struggled with what to do on my sabbatical. I found myself building a long list of things I “should do” that became overwhelming. A peer suggested I instead think about what I “could do,” which took a lot of the pressure off and helped me become comfortable with enjoying myself.

As I prepared to leave, I became more committed to not returning to the business. I was now getting more and more excited about the best transition for the company. It became apparent that my sabbatical was the blueprint for elevating Craig to president and moving him into my office. I would not come back in a formal role or have an office in the building.

Craig had earned the respect of our employees, customers and suppliers; it was important to me that everyone see him as in charge. We called a company meeting (including local family members) on a Thursday and announced Craig’s promotion to president, effective the next day. The short transition period was painless and could not have been more successful. There was no time for staff to speculate or question “who was in charge.” In fact, there was enthusiastic support immediately. The company moved forward and never missed a beat.

Advice to other family business owners: A sabbatical can help your management team to “step up” to new responsibilities. At the same time, the senior leader who “steps out” of the company can get a new perspective and can plan new opportunities beyond the family business.

Also, remember that business owners’ decisions have a huge impact on the employees. When announcing a transition, be sure to send a strong message about the sustainability of the business and ensure that everyone knows who is in charge.

Surprises continue: Moving from daily operations to ownership presents new options.

The sabbatical provided a runway for my next stage of life. In fact, my life had come full circle: I began work in 1965 with American Airlines at O’Hare and now I volunteer at the Minneapolis/St. Paul airport with the Travelers’ Assistance Program. I am also exploring other ways to give back to the community. In addition, I still enjoy consulting with Craig on business issues as needed and attending periodic company meetings as well as traveling, gardening, reading and spending time with our five grandchildren.

After a 40-year career, I'm enjoying being an owner without the concerns of daily operations. The business, now led by the fourth generation, is well positioned for success in the years to come, and we eagerly anticipate the company's 100th birthday in 2020. The recent recession has been devastating for some businesses, but Craig's energy, focus and leadership have resulted in revenue growth, product diversification and continued profitability for our company.

While I proudly celebrate my accomplishments in the family business, I am grateful for the freedom and flexibility I now have to pursue other passions and opportunities.

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Mapping out a productive transition

There are six dimensions to the journey.

By Steve Coleman

"What's next for me?" It's a common question among today's Boomer business owners and leaders. The key to mapping a productive experience in any transition is to know where you're going—to identify the next stage in your life and work.

Based on the experiences of many leaders in transition, Platinum Group has identified six dimensions of life that can help point the way.

1. Family. Involve your family in the transition decision, and consider their needs. Action steps: Form a family council, hold family meetings and engage in long-range planning.

2. Finances. Balance wealth management with succession planning to meet family lifestyle needs going forward. Action steps: Obtain a business valuation, develop a buy-sell agreement, get tax-planning assistance and plan your charitable giving.

3. Business. Assess your business's readiness for transition by evaluating its stability and predictable cash flow. Action steps: Develop business plans with timing and budgets.

4. Successor. Evaluate internal candidates and/or conduct an external search. Action steps: Plan to transfer leadership and inform key stakeholders of your decision.

5. Lifestyle. When planning how to spend your time and energy after the transition, focus on your passions. Action step: Start by planning a sabbatical. This will also enable you to test internal candidates' readiness for leadership roles.

6. Community. Give back to leave a legacy. Action steps: Consider various ways to support the charities and causes you are most passionate about, through financial contributions and volunteer opportunities.

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