



Part 5 of 6

When Family Meets Business

by Ellen C. Wells
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It was hard enough to make Junior keep his room tidy. Now that he's in the family business, you may be having a hard time turning the company keys over to his control. Or perhaps you have your heart set on law school, but you'll help Mom with the retail business for a year or two or 10 or more, finally putting aside your dream completely. Starting and running a business can be difficult, but adding "family" to the scenario gives it a tricky dimension. Donald Trump may say "it's nothing personal, it's business," but when family is involved, it's hard to separate the two.

Family businesses dominate the U.S. economy, with an estimated 75-90 percent of registered businesses fitting into this category. They come in all sizes, from the local mechanic to Fortune 500 companies like Ford Motor Company. According to James Hutcheson, president and founder of ReGeneration Partners, a family business consulting firm based in Dallas, only one third of all family enterprises make it to the second generation of family leadership, and the number drops to 10 percent for the third generation. There are both conscious reasons (e.g. no heirs) and unconscious reasons (e.g. business failure) for business dissolution, and family matters certainly do come into play.

Family Business Challenges

To understand the roots of inter-relational family business issues, one must understand some of the biggest challenges that family businesses face. The first concerns loyalty and position within the company. Because family businesses are all about survival in the beginning, Pop might

install Junior as director of operations when Junior has no real operations training or experience but will work for the right price. When the company begins to flourish after several years, "we find ourselves with family members employed in key positions that they would not be in at all on the open market," says Hutcheson. Also, he says, you often have family members drafted into the business who don't necessarily have a real passion for it or have never tried another career path.

If the children really do desire to be in the family business and have an interest

them to develop fully their own identity and competencies."

Another major challenge is to set up a shareholder agreement. This document outlines how major decisions will be made concerning ownership, selling shares, buying in and passing the business to the next generation. Having a legal document now will help squelch potential family conflict when these prickly procedures arise in the future.

Another challenge is establishing an appropriate system of governance for the family business, typically as a board of

Inter-relational issues can hit home when business mixes with family relationships.



in the field, Hutcheson advises they gain relevant experience elsewhere for a significant time period. "The boss-employee relationship is very important in the early stages of a person's career because it gives them a grounding in how things are really done," Hutcheson says. "Once they join the family business, it's unlikely they will get the kind of feedback that will allow

advisors or directors. "If you can only do one thing in your family business to increase the likelihood of long-term sustainable success, it's to install appropriate governance," Hutcheson says. "When you have people who are beholden to you, it's likely the owner will get censored and filtered feedback, and that goes for professionals like lawyers and accountants,

as well. You really want to have independent, objective people in director or advisor roles who meet on a regular basis.”

Family Before Business

Peter Mezitt, General Manager for Weston Nurseries in Hopkinton, Mass., was candid about the recent troubles at his family’s business. Differences in expectations forced the family involved in day-to-day operations to file for bankruptcy protection to pay off another family member. A large land sale is expected to lift the business from Chapter 11 by the end of the year. Thankfully, Weston has had the full understanding and support of its employees, vendors and the local community, which certainly has helped the family through tough times.

“This should never have happened, and no one expected it to,” Mezitt says. “But you never know what the future will bring in terms of siblings.” He sees the source



of the problem stemming from the second generation’s decision to make things equal for both sons. The mistake was using the business as the means to do this, although one brother was more qualified and committed to the business. Once the company is out of bankruptcy, the family plans to set up an agreement to make sure this cannot happen in the future.

Working outside the business was beneficial for Christina Feile of Atlantic Nursery & Garden Shop, who runs the garden center with her father, Sig.

With family relations strained due to the situation, Mezitt reflects that open-mindedness and good communication is essential in family businesses. “Take care of the family first and then the business,” Mezitt says. “If you take care of the business first and ignore the family, the family could undermine the business.”

Smooth Sailing At Atlantic

Sig Feile and Christina Feile are the father/daughter team that head up Atlantic Nursery & Garden Shop in Freeport, New York. For them, transitioning the business has been a smooth process thus far.

“We were hoping that our children would be interested in the business,” Sig says. “We didn’t push them in any way, shape or form. Christina had to make up her own mind whether she wanted to join or not.” Christina joined the business in April 2001 after a successful career as a currency trader. Looking for a change, fa-

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Tips on Transitions

Transitioning the family business from one generation to the next without conflict is as easy as recognizing these challenges and solutions. Implementing them is another thing. From Hutcheson's experience, a successful transition has five elements:

1 Place the right person in the right job. If a relative isn't qualified for a position, whether as vice president or merchandising manager, don't place that person in that job. In fact, the most qualified person to fill Boss's shoes may be a long-time, non-related employee. The independent advisors can help recognize that and make the right decision.

2 Start the process early and properly prepare your successor for the transition and the new leadership role. Hutcheson describes transition as a window that opens and then closes. Give the next leader some room to lead and allow him or her the chance to take over the business. "There's a time when it's no longer about you, that it should be about helping the next generation to achieve and accomplish and feel the meaning of all the positive aspects of work," he says.

3 Have candid conversations about the transition with all the family owners involved, including the working- and non-working members. This helps the family create the process or the solutions, and when they are part of the solution, they throw their support behind it.

4 Governance. In times of crises, a board of advisors or directors can act as a continuum to make decisions in lieu of family leaders. When a family crisis occurs, the board can make the business decisions with fewer personal distractions.

5 Make careful financial plans. If family owners plan for their retirement needs appropriately, transitioning the business to the next generation won't necessarily call for the successors to buy out the business.

ther and daughter discussed the options. "If it worked out, that would be great," Christina says, "and if it didn't, I wouldn't be too old or far out of the financial industry to go back."

Another daughter, currently a teacher, helps the family during busy spring weekends, and may return to the business in the future when that opportunity fits both her and the business's needs.

It has worked out for Christina, and the two have already checked off a number of Hutcheson's "must dos" for a successful transition. In addition to logging several years in a boss/employee situation in the financial industry, Christina took on an apprenticeship in a similarly sized garden center for seven months. She's also working toward a certificate in horticulture. And her Masters in Business Administration degree doesn't hurt, either. Sig and Christina are also working with an estate planner and financial advisor to transfer stock of their company from one generation to the next.

Sig plans on staying involved in the business for at least the next 20 years, but with a declining management role. "There are plenty of things he enjoys doing that I am not comfortable taking on right now until I absolutely have to, and I would enjoy having his expertise around,"

Christina says. "In our case, I don't foresee the window closing on my father and that doesn't bother me. If it does become a problem, we're going to work through it. It's an old window so the draft comes through a lot."

This isn't to say they don't have their differences in opinions. "I have come to learn – and I am still learning – that my way is not the only way," Sig says. Christina says they make an effort to discuss differences first and try to show a united front with their staff. "We discuss and remedy anything afterwards, if it needs to be," she says.

Christina feels strongly that coming back to the family business is not something children are entitled to, especially if they don't have the appropriate training or skill set. "It's survival of the fittest; if they aren't fit enough to run the business then why should they run the business and prolong the inevitable?" she says. "That's not fair to the employees or the other owners of the business." She also had the insight to recognize even if the son or daughter has the skills, he or she might not have the interest in the business, and that could be just as disastrous. TGC

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