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All in the Family



ALL IN THE FAMILY

Strategies for success with your multi-generation family business.

By Jeremy Lurey

Family business is often described as the oldest and most common model of economic organization. In the United States alone, there are roughly 5.5 million family businesses. Maybe more importantly, these businesses account for more than 50 percent of the U.S. gross domestic product and about 75 percent of all new jobs that are created every year.

While there has been significant consolidation in the cold storage industry over the past several years, it is estimated that more than 90 percent of GCCA member companies are still privately held. Of those, the overwhelming majority are also family-owned and operated, so creating a sustainable multi-generation family business remains a critical concern across the cold chain. However, only about 30 percent of all family businesses successfully continue from the first to the second generation. The success rate for transitioning to the third generation, and especially maintaining a viable fourth-generation family business, drops dramatically from there. That's frightening given that these family businesses are the backbone of our industry.

Family businesses by their very nature are complex. It is not just about managing and operating a sustainable business with a family business. It is about the leadership and governance practices required to keep any family drama and unproductive relationships away from work. In multi-generation family businesses, you may have 50 or even 100 plus years of history running the company. On the personal side, that's multiple generations of family members living and growing up

together who need to work together to operate that business. That can create a lot of added stress and anxiety that doesn't exist in other business settings and that many family business leaders are poorly equipped to handle.

"There is a natural divide between the older generation in family businesses that tend to be risk averse and less comfortable with change and the younger generation that often have new ideas for the business and want to grow," according to Ken Ude, Director of the Family Business Program at the University of Southern California. "The key to success with family businesses is effective communications. Open, honest, transparent, and respectful communications. At work, and at home." He continues, "Healthier families simply talk to each other and communicate more effectively."

How else can you increase the likelihood for success with your multi-generation family business? The following are some proven strategies for success that GCCA members have shared to help any family business leader secure his or her legacy from generation to generation.

Reinforce Family

Reinforce that family-like culture versus more formal corporate culture at work. Many family business owners across the cold storage industry pride themselves on creating positive work environments for their employees where they treat everyone like family. Reinforcing this point, Mike Henningsen, the fourth-generation Chairman and President of Henningsen Cold Storage, says they "have created a company culture based on how we'd want our family to treat others." This is not nearly as common with larger corporations.

Draft a Family Business Charter

A family business charter serves as the family's constitution to define their mission, vision, and values and document key business practices, like employment policies, for future generations. The charter is a living document that can be refined over time, but it clearly communicates the strategic intentions and operating guidelines for a family and its business ventures from one generation to the next. It also provides a strong foundation for future decision-making and conflict management well before any issues arise between or within generations.

Convene Family Council Meetings

Once the charter has been drafted, it is important to share the content of that charter with any family members who have an interest in, or might otherwise be impacted by, the business. This might include establishing a family council comprised of only active business managers to meet monthly or holding an annual retreat for all family

shareholders/owners and their immediate families, or anything in between. The point is to establish the governance required to run the family's business, continually monitor its performance, and keep everyone informed about how it is doing.

Separate Business from Family

Business focus at work, family focus away from work. Some family business members regularly talk about personal matters at work and business matters at home. While this may be effective for some, it regularly creates problems for others, so avoiding this blurring of the lines is recommended wherever possible.

According to Henningsen, "The key to success is to run your family business like a publicly traded company. We have outside directors on our board, and we don't wear our family hats at work. We treat our family members like business colleagues, no different than our professional managers."

If nothing else, referring to people by their individual names at work rather than familial terms like "Mom" or "Uncle Joe" is strongly encouraged just as if these individuals were non-family professional hires.

Distinguish Ownership from Management

Depending on the terms of your family business charter, it is quite common for family members to be "passive owners" of the family business rather than "active managers." Passive owners might receive a monetary distribution when the company does well, but they have no say in the day-to-day management of the business. Active managers, on the other hand, have some level of operational authority whether they own equity in the business or not. This means that family members can be peers in the boardroom but direct supervisors and direct reports at the management conference table, so it is important to make

sure family members know when they need to defer to their higher-level, more senior relatives, like the CEO, versus when they may have an equal vote.

Define Management Responsibilities

It is imperative to determine who does what in the business. In less diversified family businesses, that often means assigning functional responsibilities (operations, finance, human resources) to one relative or another. In larger entities, that might mean assigning separate business units to different family members like Tony Leo and his brother Russell do at RLS Logistics.

According to Leo, who is the third-generation President and CEO of RLS' Warehousing Group, "My brother and I grew up in the business beginning when we were 12 and 13 years old. We moved up the organization through all roles and naturally evolved into our areas of passion and interest



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in warehousing and transportation. Our employees need a clear boss, so at the end of the day each of us makes the final decision about our part of the operation.”

The obvious benefit of this is that it minimizes any overlap or potential conflict between family members. It also enables you to put a trusted partner in charge of running other critical areas of the business, so you don't have to.

Plan for your Leadership Succession

Family business succession planning facilitates the handoff between generations and enables the transfer of management responsibilities and ownership from one leader to the next. Successful family businesses support their next generation in pursuing their individual passions, but they also prepare for their businesses to be multi-generation legacy businesses before their current family business owners move on.

“Our succession plan was unique in that our father believed you had to be in or out as the owner,” Leo says. “He always thought that if you have a son or daughter who is capable, then you must be willing to step aside. He didn't keep my brother Russell or me from critical meetings with our major customers or bankers, for example. Instead, he got us involved in these big meetings during the transition.”

Executive coaching and other leadership development programs can be invaluable to helping next-generation family members develop the functional skills and executive presence needed to run the family business.

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Family First Mindset

Remember, family always comes first. The business, many would argue, is simply a means to an end. And if the end is taking care of, and providing for, the family, many family business leaders believe that takes precedent over pure business results. This can put undue pressure on the business, though, if it means hiring a family member who isn't well qualified simply because he or she needs a job. To be clear, that isn't the suggestion. What this really means is that family business owners will convene family dinners and other social gatherings outside of shareholder meetings or whenever else the family can come together so that family members can prioritize both the family and the business. If you take this “both/and” rather than “either/or” approach to your family business, perhaps you too can maintain an unwavering focus on nurturing your family while still honoring your primary commitments to the customers you serve and employees you hire.

Family businesses offer family members a rich foundation for whole-life experiences and tremendous wealth-generating potential. They are, however, often ripe with relational chaos that can create emotionally charged environments that don't exist in other business settings. No wonder it is so hard for these companies to continue from generation to generation. These strategies from GCCA members, though, can lay the foundation for greater success and enable any family business across the cold chain to create a more sustainable future for future generations. ☺

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