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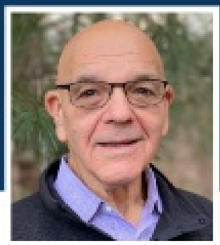

GETTING IT DONE

Financial and Management Insights for Business Professionals

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Dear Friends:

Saturday mornings in my father and uncle's offices at Sherman Shoe Supply are among the happiest memories of my childhood. Expanding on those experiences as a professional business advisor to financially distressed companies, I've developed a real passion for guiding family-owned companies.

Over the years, these experiences have led me to develop a set of Seven Foundational Priorities that I use as a framework for helping to put a family business in a position for long-term success. This month I want to share these thoughts with you.

As always, I invite your questions or comments.

With my very best regards,
Gerry

POSITIONING A FAMILY BUSINESS FOR LONG-TERM SUCCESSES

Seven Foundational Priorities

Introduction

Several years ago, I attended a meeting of the Family Firm Institute. During the evening I had an extended discussion with another business advisor. He asked if I felt family-owned businesses should be viewed as being just like any other company? Or, rather, should they be viewed as being distinctly different? My answer was that both descriptions are true and should be considered as a whole.

From my standpoint, family businesses should be viewed as being just like any other because their ultimate goal is the same. That is, they have to consistently deliver goods and/or services profitably. At the same time, family businesses are distinctly different in that they face significant management hurdles that other companies just don't.

In a broad sense, these hurdles are rooted in two basic challenges: emotions and insularity. As business professionals, we've all observed how emotions can impact sound "management practices" in a family business. Who gets what job? When should the patriarch or matriarch retire? How do you hold a family member accountable? What family member or members have developed material negative feelings that may become destructive? These are just a few of the obvious instances where emotions come into play.

Insularity can be equally impactful, albeit more so from a business standpoint. In my experience, families in business live, to differing degrees, in their own world. Of particular meaning, as a group they can be slow to change; generally, be inward focused; be unattuned to the absolute need for on-going professional development; and overvalue their capabilities' both individually and organizationally.

Below are the Seven Management Priorities I've designed to help family business owners and executives upgrade their management practices to a level where they can actually represent a competitive advantage. While reviewing these priorities, please keep in mind that they are not linear in nature. Rather, they will interact with one another on a regular basis.

#1 Getting It

It's a blind spot of the greatest significance. The owners and senior executives of a family business must **GET** that it's essential to run their entire business every bit as well as they may sell or assure high quality or provide excellent employee benefits, etc. Otherwise, they will not overcome the inevitable hurdles of emotion and insularity on a long-term basis. As a professional advisor to underperforming and financial distressed companies, I can assure you that "getting" this fact must be priority #1.

#2 Putting the Business First

Invariably, from time to time, the CEO, and other family members in senior roles will allow the needs of a family member, including their own, to supersede the needs of the business. A smart way to look at this is by considering the frequency and nature of compromises. It could be the assignment of a job to a family member that's over their head; it could be the toleration of poor work habits, bad behavior or inflexibility; compensation which exceeds the value of a particular job; poor communication skills or any other accommodations that represent a compromise. The simple fact is this: some level of compromise at the personal level is acceptable. However, when it goes too far and the overall needs of the business are compromised, real problems loom.

As just one example, I once had a client where the CEO needed to have their way 100% of the time. Even more significantly, his sister would always side with him even if she knew a decision was wrong. When I was engaged, the company had 15 locations throughout New England – every one of which was losing money – *and the CEO refused to close any of them.* As a result, losses had sky-rocketed and inventory turns had plummeted. Eventually, it would have become unsustainable.

In this case, I was able to bring in a psychologist who specialized in family business issues. Without his contributions, I would not have been successful. Together though, we were able to help get some of the locations closed. More importantly, we were able to get other family member's greater influence. The company remained in business for another 15 years and then sold at a substantial premium.

It is important to note that I was referred into the case by the company's lender.

Without the leverage that gave me, I doubt I could have gotten the psychologist onto my consulting team.

#3 Meeting Regularly

"Gee, I didn't know that." I can't tell you how many times I hear that from clients – both family-owned and otherwise. At its core, this is a reflection of the CEO's approach to management – and sometimes just a simple lack of communications and organizational skills. Regardless, the fix can sometimes be easy, but the support and active participation of the CEO is key. Working with their senior management team, there needs to be business meetings on a regularly scheduled basis with a formal agenda and meeting minutes. It's noteworthy to mention that the benefit of these meetings is almost immediate. Nonetheless, they may not continue, and this again is a direct reflection of the CEO's overall approach. My only answer to this issue, as an advisor, is to be persistent. My success with this, however, is no more than 50% and *there's a direct connection between the success of a performance improvement effort and the consistency of management meetings.*

From a family standpoint, meetings also need to be held regularly. The purpose of these meetings is to address family-related issues that are or have the potential to impact the business. These issues can range, for example, from succession planning to key business decisions that have a significant impact on one or more family members, to issues arising from family disputes, etc.

#4 Establishing a Meritocracy

This priority is easily understood. An organization simply cannot perform to its fullest if too many family members are in over their heads – while often taking jobs away from more qualified employees as well. Furthermore, both employees and at least some family members see the problem clearly and it's a morale killer.

As a rule, this problem has always proven particularly difficult to solve because of the family entanglements and emotional factors that have to be overcome.

#5 Fostering a Skills-Oriented, Outward-Looking, Proactive Culture

"Don't wait to strike when the fire is hot but seek to make the fire hot by striking"
– William Butler Yeats

It's almost spooky. When I walk into a family business that hasn't enjoyed consistent success, it's often like going back in time. Outdated equipment, run-down offices, dusty inventory, and few employees under forty are common characteristics. While only anecdotal, I'm comfortable saying that there is a connection between these characteristics, sub-standard "Management Practices" and a history of limited success.

What's typically missing when I see situations like the one described above is an ownership team that needs to give more priority to establishing a skills-oriented, outward-looking, proactive culture. I address this issue by encouraging the following:

- A focus on professional management education from the CEO down

- A focus on following industry trends and potentially impactful product and technological developments
- A focus on participating in industry organizations and developing personal relationships with senior executives who are members
- A predisposition to act rather than wait
- Periodic, formalized brainstorming and planning sessions focused on the company's future
- An articulated set of goals and objectives that can guide the company's strategies and tactics

How could any family business perform to its fullest without prioritizing a culture that supports these efforts?

#6 Taking a Broad View of Financial Management

When many family business owners think of financial management, minimizing costs is really all they consider. That's a real miss. *Optimizing* costs is the right approach. This thought recognizes that many family member managers are either pennywise and pound foolish, or profligate, and neither approach works over an extended period of time. There needs to be a balance.

An often more significant miss is Balance Sheet management. For example, a focus on keeping at or below industry norms for debt to worth can both protect a company from inevitable revenue downturns and position a company for sound growth. Commonly though, this approach isn't given much thought. Furthermore, the importance of areas like inventory and receivable management are often underplayed. Finally, the central importance of strong financial controls and effective reporting systems is typically under-appreciated as well.

What I like to say is that in their youth, entrepreneurially oriented people rarely, if ever, go to bed thinking about their ambitions to strengthen their company's Balance Sheet. Rather, they dream about striking it rich.

Taken as a whole, a broad view of financial management is essential for consistent future successes and is far less likely without it.

#7 Focusing on Clarity

"Clarity of expectations is perhaps the most basic of needs and is vital for performance."
Per the research of The Gallup Organization

Let's look at the sources of clarity that are often under-emphasized or missing altogether in family businesses I've worked with:

- A carefully developed organizational chart
- Explicit job descriptions
- Regularly scheduled performance reviews
- Appropriately communicated strategic, marketing, sales, and financial plans
- A clearly expressed series of benefits employees, including senior managers, can expect as the result of superior performance

- Well conceived and managed execution plans

Just step back and think about it. How could individual employees and an organization as a whole perform to its fullest capabilities if there isn't clarity in the areas I've detailed above. It's simply illogical to think so. Nonetheless, they're often given short shrift.

I also want to note that from a family standpoint, there's a real need to have clarity around what their future may look like. Is the goal to affect a successful management transition to the next generation? Is the goal to cash out within a defined time frame? Or perhaps to simply focus on building the company's value and see what develops. Finally, there needs to be clarity around what the family will do in the event of a catastrophic event or debilitating illness that takes the CEO, most particularly, out of the mix.

To that point, I was once engaged by a company where the two brothers who ran the company both died in a plane crash. Chaos ensued.

CONCLUDING COMMENTS

Frankly, given how broad the issues I've addressed are, I struggled with how to sum up cogently. After some thought, I found myself going back to a series of conversations I had several years ago with a young woman who was considering the possibility of going into her family's business. After several lunches, I emailed her with some key thoughts:

Dear Leslie,

Looking back on our talks, I wanted to emphasize several major discussion points in writing:

1. Being in business is hard enough but being in a family business is much harder. There's just one more level of complexity that you have to deal with – and this is always a point of view you need to keep in mind.
2. Look at on-going professional development as a basic component of your job description.
3. Develop clear plans.
4. Remember that success with a family business is hard fought. Hand in glove though, the multi-faceted rewards of a successful family business are hard to beat.

I've always been proud of the help I gave this woman and enjoy talking with her periodically to learn about her successes and challenges. So far, so good.

MANAGEMENT TIP OF THE MONTH

"To me, ideas are worth nothing unless executed. They are just the multiplier. Execution is worth millions."

– Steve Jobs

Effective execution infers the completion of a task or project within specified time, cost and quality parameters. So how, exactly, can this be achieved on a consistent, company wide basis? Here's what's needed:

Leadership
In the final analysis it's simple. Starting with the CEO, effective execution must be emphasized as a core organizational value. All other employees, whatever their level, always play an important role but the CEO's central importance is non-negotiable.

Communications
Any business tasks of significance involve more than one person. Accordingly, it's simply essential for all parties involved to have some knowledge of progress to either simply be aware or offer input when needed.

Relentless attention to detail
Who, what, when, where and how – Appropriately documented.

Process
Thoughtful planning, solid mechanisms to track progress, feedback loops to identify roadblocks and resolve them comprehensively.

Commitment
Effective execution is never easy. Even in the best of circumstances diligence, responsiveness and determination are essential and that's all the truer when things go off track. An unwavering commitment is essential.

Coming In The Next Issue

IMPLEMENTING AN EFFECTIVE TURNAROUND PLAN

The Crucial First 10 Days