

Getting into the Horizontal Box: Aligning Family Business Owners

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Background

The Prime Manufacturing Company is an 85-year-old, third generation family business which has been passed down to three sisters: Tina (59), Brenda (56) and Jen (48). The company has a rich history and is well known throughout the community for manufacturing the highest quality products in the region.

Over the years, the company has been very successful with steady revenue growth, consistent margins and loyal customers. However, recently the capital-intensive business has come under new challenges with the declining economy, increased cost of goods and pricing pressure from customers and competition.

Historically, a family member was responsible for running a specific division of the company with complete autonomy to make all decisions with respect to their division. Major company-wide decisions, such as opening a new plant, were made collectively among the owners of the business. In the current generation, Tina handles finance, Brenda runs manufacturing operations and Jen leads sales and marketing.

Although common among many businesses, the challenge this posed was that each sister made decisions for her division without completely understanding the impact it had on the other two divisions and more importantly, the other sisters. The resulting silos throughout the business increased conflict among the three sisters and the business divisions. Recognizing the potential long-term damage this might cause, the sisters sought out a family business consulting firm to help them identify the issues and work with the family to develop a solution.

The Challenge

The manufacturing business has changed and become more complex in recent years. The rising costs of goods, government compliance and competition have directly affected margins causing Prime to take another look at its market and make some difficult decisions about which customer markets to focus on. This too has been a sore spot for the sisters as Tina and Brenda want to focus on the local market which provides higher margins but less revenue and Jen wants to go national focusing on larger more brand name customers, though the margins are tighter.

The conflict among the sisters is accentuated by the differing personalities, ages and perspectives on the business. Tina, who runs finance, is most concerned about building profitability and contributing to her retirement plans. As the oldest, she also tends to be the peacemaker among the three and does everything she can to minimize any conflicts with her sisters. Brenda, who runs operations and is only three years younger than Tina, is focused on ensuring the manufacturing and distribution process runs optimally while also building for her retirement with profits from the business. Brenda is very quiet and tends not to voice her opinions as often as her sisters. The challenge, at times, is that Brenda holds things in until there is an explosion of emotion. Jen, the youngest who is in sales, is not concerned about retirement and wants to grow the business making Prime a household name. She is more concerned with closing the sale and doing whatever it takes to make the customer happy, even it means lowering profit margins to get the deal. She is relentless, the most confrontational and the most vocal

among the three. Jen tends to get her way through fear and intimidation rather than compromise.

These differences in personalities and perspectives along with the core business differences between finance, operations and sales have led the sisters to resent each other and the family business. The resentment has led to the sisters questioning whether they should expose their children to the business. This brings into doubt the future of the family business and the ownership and leadership structure for the next generation.

The conflict among the three sisters has extended into the business silos to the point that there exists an us vs. them mentality in which middle management is more interested in protecting their “turf” and not working for the greater good of the business. Prime has a strong middle management layer, yet they are not empowered to make decisions without the owner’s consent which differs based on the silo and the sister making the decision. The end result is that employees have little confidence that the family can make strategic decisions about what’s best for the business because they clearly see that the family is not aligned. In addition, when it comes to the family, there is a history of little change. Employees believe things will never change among the sisters which reinforces the individualistic attitudes throughout the organization.

The Process

In order for changes to occur in the organization, the sisters must begin to look at their family business not from the vertical perspective of finance, operations and sales but rather from the horizontal perspective of family ownership. This will help Tina, Brenda and Jen to think across business lines and make decisions, as owners, for what is best for the business. See Figure 1 for a visual representation of the goal of the engagement.

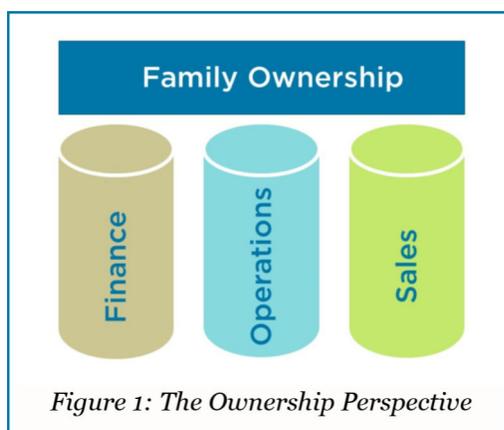


Figure 1: The Ownership Perspective

To allow for this to happen, each sister must understand the business from each other’s perspective. If Jen can understand and appreciate the decisions she makes and the impact they have on operations and finance, then she may think differently when making those decisions. The same would be true for Tina and Brenda.

The three sisters must also come together and align themselves behind a common vision and strategy for the business, but not before aligning themselves on some personal goals. Through a series of facilitated meetings, Tina, Brenda and Jen first shared their view of the business, what is important to them when making decisions and the impact certain decisions have on their department. They then went on to share what they appreciate of each other and what they would like to see change. Although difficult, they needed to have these candid conversations in a safe environment, which allowed for open and honest sharing that had not been done in quite some time, if ever.

Once they had a comfort level of open and honest sharing, the sisters were now ready to focus on developing a set of personal goals that would align them behind a strategy and vision for the business. Although each was at a different point in their lives, they all agreed that they had been working there a very long time serving the business and it was time to have the business serve them. Tina, Brenda and Jen agreed on two personal goals for the business to drive towards: build personal wealth and improve quality of life. Both goals were developed from the horizontal perspective of being a family business owner which enabled them to be aligned with each other and then develop a strategic vision for the business to achieve their goals.

With agreement and alignment of their personal goals, Tina, Brenda and Jen were now able to come to their middle management team with a unified approach that would enable them all to develop a consistent strategic vision and plan for the business to support the goals of increased wealth and improved quality of life.

Assuming the Role of Ownership

Although this is an ongoing process, there have been some short-term results including improved relationships among the sisters, better communication across business silos and a team approach to solving problems while developing an over-arching strategy to

drive the business. Tina, Brenda and Jen have developed a mutual respect for what each brings to the business and the impact their individual decisions have across the business.

Getting the three sisters into the horizontal bar of family ownership enabled them to be more effective owners, strategic thinkers and show a unified approach to decision making across divisional lines. It also allowed management to run their divisions more collaboratively, effectively and efficiently. Instead of each sister running the finance, operations and sales divisions, they promoted key employees into senior management positions with line responsibility throughout each division. This helped breakdown the silos and create a teamwork atmosphere that had been absent for quite some time.

In addition to promoting senior managers to run the divisions, Tina, Brenda and Jen collectively made the decision to hire a non-family COO with day to day responsibility for management of the operating business. This enabled them to focus on the strategic direction of the business and ultimately lead to a better work/life balance and improved quality of life.

The Result

Finally, for the first time in the company's 85-year history, the senior management team, along with Tina, Brenda and Jen participated in a strategic planning offsite that resulted in operational and go to market changes which will lead to operational efficiencies, product line enhancements and improved profit margins — all driving toward to the personal aligned goal of building wealth for Tina, Brenda and Jen. The strategic planning session left the entire team feeling more cohesive with a sense of ownership of the vision and plan that had never been felt before.

For the first time, the team saw the three sisters aligned and unified across the business and felt that things could change for a better future. At the same time, Tina, Brenda and Jen have embraced their new roles, meet monthly to discuss strategic direction and make collective decisions as owners for what is best for the organization. They have a renewed sense of what it is to work in a family business and have even discussed developing entry criteria for the next generation.

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