

APPENDIX BY DAVID BORK



HUG

— YOUR —
CUSTOMERS

THE PROVEN WAY TO
PERSONALIZE SALES AND
ACHIEVE ASTOUNDING RESULTS

JACK MITCHELL

CEO, Mitchells/Richards

“What Jack Mitchell didn’t tell you...”
in his book

Hug Your Customers

The Proven Way To Personalize Sales and Achieve Astounding Results

Hug Your Customers is destined to become an important business book because of the specific content Jack Mitchell has included and the enthusiasm with which it has been presented. Every successful business owner recognizes that no detail can be ignored. I have had the privilege of consulting to the Mitchell family for more than fifteen years. As the business evolved, we have worked on important interpersonal issues between Jack and Bill Mitchell, introduction of additional family members into the business, complex personnel matters and delicate family matters. Had these critical issues not been resolved successfully, they would have torn apart the fabric of both family and business.

Mitchells is one of the best run of the nearly 400 family businesses I have served since 1970. It is “**The Mitchell Formula**” and their commitment to its implementation that earns them this accolade. Their success presents a challenge to all business owners and is an inspiration to all family businesses: *create your own business formula* - then stick to it in the same, consistent way the Mitchells have done, and you are certain to achieve your goals. Whether part of a family business or a public corporation, readers can use the Mitchell Formula as a template to design a formula that fits their values, their industry and their style of doing business.

Jack has alluded to a number of family business principles that were implemented within their business. He and Bill are extraordinary men, always looking for a way to give to others, to help them in any way that they can. That explains a good part of Jack’s motivation for writing *Hug Your Customers*.

What Jack didn’t tell you in his book is that he and Linda married young and had four sons, while Bill and Sue married later and had three sons. In aggregate, the average age of Jack’s four sons is ten years older than the average age of Bill’s three sons. This is important because their goal was to treat all seven sons equally. That meant there would be equal opportunity within the business. The reality is that there will always be this ten year spread and it is likely that, in some ways, the older sons will be ahead of the younger sons, simply due to their experience. It has been said that, “it is hard to find your place in the sun, in the shade of the family tree.” Further, “fair” and “equal” are not synonymous. These concepts, “Where is my place?” and “What is fair?”, became core family concerns as we worked to plan the future of Mitchells.

I helped the Mitchells recognize that there were three defining elements for the family and the business that had to be addressed, if they were to become the successful family business they envisioned. Families who understand the importance of these points are more successful than those who do not capitalize on the inherent potential of the family values that drive their business.

The three core elements of a successful family business are:

- Converting the strong oral traditions within the family into written, binding agreements.
- Differentiating the task of family and the task of business.
- Creating appropriate governance structures for the business.

Transition from Strong Oral Traditions to Written Agreements

The Mitchells, like so many families, have a strong oral tradition. It is not at all unusual for families to be reluctant to commit their agreements to writing. Whether I am working in North America or in a country on another continent, I see that to survive in our changing world, family businesses must shift from oral to written agreements, with legally binding terms and conditions. After addressing the interpersonal dynamics between Jack and his brother Bill, we crafted the “Family Deal,” and put it into a written agreement. The family business employment policy is but one of the oral agreements that became a written, binding document for the Mitchells. The policy reflects the values of the family.

Differentiation of Business and Family Tasks

The tasks of a family and the tasks of a business are not the same. In fact, some of the tasks of these two entities are incompatible.

TASKS OF THE BUSINESS	TASKS OF THE FAMILY
Fundamental task is to generate profits and to compound the asset base.	Fundamental task is to grow responsible adults who have high self esteem and can function independently in this world.
Acceptance is conditional, based on competence and must be earned.	Acceptance is unconditional.
Differences based on demonstrated competence.	Equality of all family members.

When the business is used as a vehicle to accomplish the tasks of the family, it creates complex problems, the roots of which, are intertwined with motivation. To fully comprehend this concept, it is necessary to first understand the classical research on motivation. The classic motivational research by Herzberg demonstrated that people are motivated in three ways:

Motivation
1. Recognition for their contributions.
2. The opportunity to have input into their circumstances.
3. Work that is intrinsically interesting.

Consider the following example:

Suppose a father gives a job to a son who is less than competent. That son will not be able to perform at an acceptable level and thus, will not receive recognition. Because the son is less than competent, he will not be invited to give input and will likely be given less interesting work assignments. The father made a serious mistake by placing the son in the position where he will actually become *de-motivated*. The decision of the father undermines the basic principles of motivation and makes it difficult or impossible for the son to develop high self-esteem. The mistake was to use the business to help the son gain employment, rather than direct him to channels that were more in keeping with his competence.

These three concepts of motivation are at the core of Jack's hugging principles. He is constantly seeking ways to motivate Mitchells employees. Whether family or non-family, Mitchells employees are in their positions because they have met the company's competence requirements. Clearly Mitchells sales associates are doing the things Jack has outlined. They are recognized for their efforts, their input is solicited and the work they do is intrinsically interesting.

Corporate governance means establishing the rules and defining boundaries.

Effective corporate governance in family business has all the same components of public corporations, but is complicated by the fact that the task of family and the task of the business are antithetical. They are fundamentally incompatible. Unless this is recognized and proper accommodations made, the family business is doomed to experience all the trauma that gives family business a bad name.

In the early stages of a family business, the presenting issues are often related to employment of family members. As the family business matures, the central issues become corporate control and the development of family members as responsible owners. The skills of being a responsible owner are fundamentally different from the skills of being an effective operator or employee.

A governance structure defines the rules of the game. For the Mitchells, the "**Family Deal**," determines how family members will enter and exit from employment, and how and by whom decisions will be made. Creating the proper structure reduces the arena of potential conflict that has plagued so many families in business.

Basic elements of good family business governance:

- Create and implement a **Family Business Employment Policy** that defines how family members can qualify for an opportunity to be employed within the family business.
- Create and implement a **Structure** that establishes how the family will interface with the business.
- Educate family members on the rights, responsibilities and benefits of sharing in the ownership of a business, including how to function as an effective, responsible owner. (See The Family Business Forum below.)

Family Business Employment Policy

The Family Business Employment Policy is a key element in a sound governance structure for family business. Such a policy sets down the terms and conditions for family members to be employed within the business.

Family business employment policies often include the following:

- conditions for education and experience before entry are defined and they apply to all family members.
- certain competency levels must be attained.
- “fair market” compensation practices are used.
- conditions for advancement and/or exit are delineated. (We often hear about entering the family business but *rarely is exit mentioned*. Explicit mention of exit sends the message that the employment door for family members swings in **AND** out!)

Mitchells adopted the following rule:

“Family members are required to work elsewhere for five years. A job will not be created for a family member. When family members enter the business, there must be a real job and they must have the skills to match.”

At the outset, Ed Mitchell, Jack and Bill’s father and founder of the business, was not happy with this principle. He was certain that, because of it, his grandsons would end up with careers outside of the business. That was not what he wanted. Today there are 5 of Ed Mitchell’s 7 grandsons working in the business while the remaining 2 are working elsewhere in the industry to meet the entry requirements.

Mitchell family members have built their skill levels and self esteem by working outside the family business. In *Hug Your Customers*, Jack has said that all seven sons are very intelligent and well schooled. That is true, and I will add that they all inherited their respective father’s strong work ethic as well. In jobs outside the family company they have earned, or are earning, their stripes based on their own merit. They have received balanced feedback about their performance and they have learned that competence, not entitlement, is the basis of advancement.

The self esteem of the 3rd Generation (G3) is grounded in their strong sense of competence and the accomplishments they experienced outside the company. Not one of the G3 suffers from an exaggerated sense of entitlement and each one is solidly motivated to do his very best.

In some family business employment policies, further dimensions are included, such as requiring the family member to have at least two promotions in five years. The underlying principle is that no business needs a less than competent employee. If you haven’t been promoted in five years, then chances are you are not a suitable employee for the family business.

The most successful family businesses have solid employment policies for family and non-family employees. Failure to have one is almost always a guarantee of conflict within the family and within the business. It is not uncommon for this conflict to pull the business and the family apart. (A prototype family employment policy can be downloaded from www.aspenfamilybusiness.com.)

Structure for how the Family will Interface with the Business

In addition to creation of a family employment policy, families owning businesses benefit from defining the “rules of engagement,” for how all family members, whether employees or not, will interface with the business. If a proper governance structure and decision making system is not established, chaos will result within the family and the business.

This principle requires a conceptual framework that can be modified to fit the unique conditions found in each family, since no two families are exactly the same. Refer to the Conceptual Model diagram.

The Business of the Business

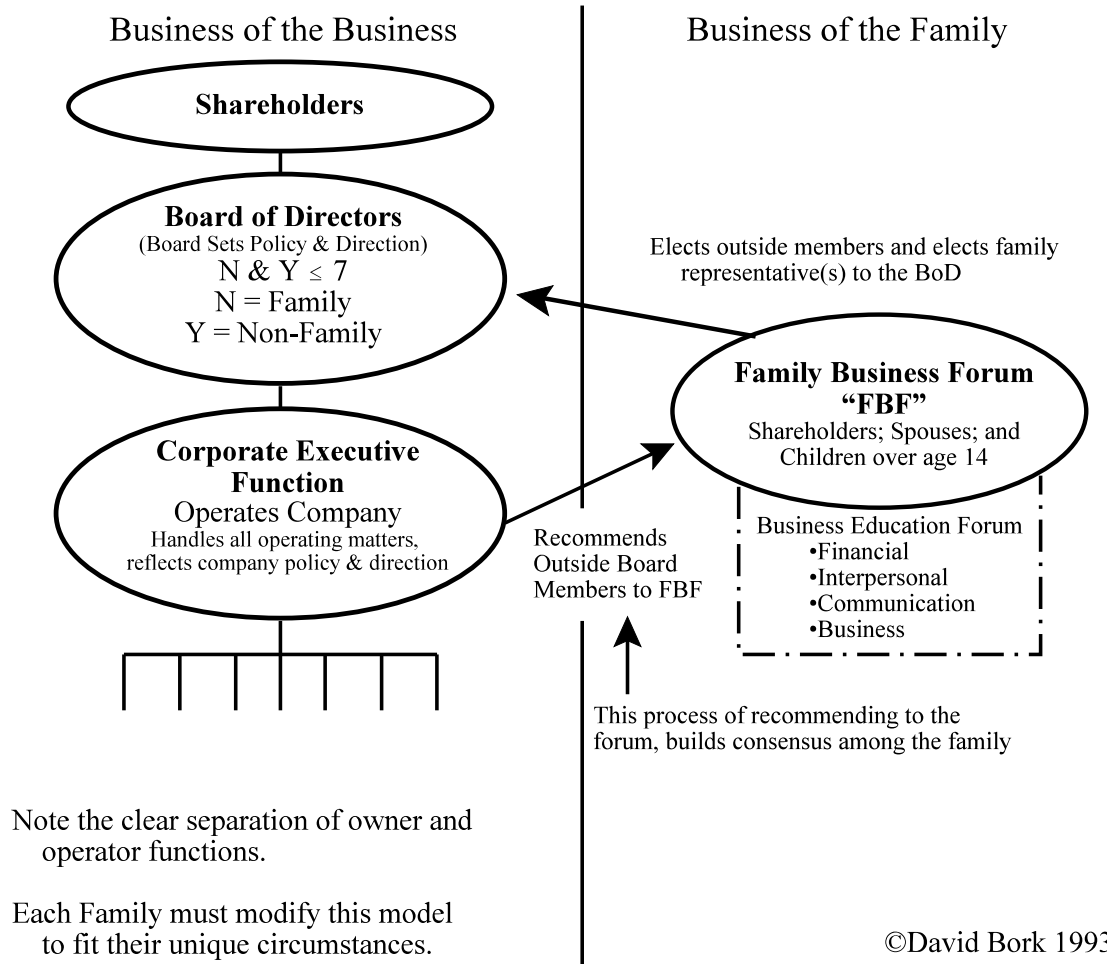
The left side of the model addresses the “Business of the Business.” It basically parallels a traditional corporate structure, with some differences in emphasis and staffing. The Board of Directors sets the policy and oversees the management of the corporation. It defines the nature of the business and sets the anticipated level of return on the asset base. The emphasis is on asset management as a fundamental concept.

The family business represents a pool of assets. Like any other asset, the business is there to be managed and maximized. Most shareholders will agree that the goal is to maximize their return. Mitchells does this by driving the top line, sales, and keeping the tightest possible control on costs. That is a winning formula for any business!

Board of Directors

In the conceptual model, the **Board of Directors** is comprised of family and non-family members. Each family creates a set of criteria or qualifications for the positions to be occupied by family members. This criteria can be best developed **after** the Family Business Forum is functioning. Non-family board members are selected for their industry-relevant experience. Positions may be allocated to finance, marketing, manufacturing and business development, any area germane to the business. None of these positions are to be filled by “cronies” or long-term advisors.

Conceptual Model for Family Business Boards and The Family Business Forum



Long-term advisors may continue in their advisory roles, but they are not to serve as board members. To do so, would violate the fundamental boundaries between the professional role in which they have served and the fiduciary responsibility that goes with serving as a board member.

As a general principle, I discourage having *all* owners on the Board. What every business needs are board members who have both competence and vision that will be useful in shaping the direction of the company. There is no guarantee that someone who has inherited ownership will have these qualities. It is especially important for the family members to recognize that the goal is to compound the asset, not to have a position on the Board or in the company. Jack has mentioned that there is no correlation between competence and the family gene pool. I agree!

Whether family or non-family, board members are paid. In most cases, a family member serves as Chairman of the Board. It is the Board's role to determine policy, set corporate goals, hire the chief executive, determine the compensation and evaluate the executive's performance. At times of succession, it is the Board that makes the final determination regarding the successor.

Advisory Board, an alternative to the Board of Directors

Not every family is ready to have a “full on” Board of Directors. In those cases, I advise that they form an Advisory Board. Family and closely-held businesses often lack the breadth of vision and diversity of experience they need to take a business to the highest level possible. Creation of an Advisory Board, made up of outsiders who are experienced business leaders, is a way to “push the envelope” and causes the owners to examine directions and possibilities they might not otherwise consider. Through this process, they make the business stronger, increase the shareholder value and better position the business to capture the opportunities that are available.

The benefits of this “added value” concept are substantial. It provides an outside perspective on the business, since the Advisory Board looks at all aspects of the business and does a comprehensive review of all business activities. It gives family business owners access to high-level executive talent beyond those employed by the company. In some cases, such as Mitchells, it has meant having access to millions of dollars of executive talent at only a fraction of such an expenditure. The Advisory Board creates a forum in which the views of active owners come up against those who have had different, complimentary or even broader experience within the industry, thus leading to a more thorough consideration of issues and decisions. Further, Advisory Boards create a forum in which active owners, in concert with these advisors, impact the strategic issues facing the company. Owner decisions are thus less insular and are tempered by the Advisors.

You will recall that Jack reported the story of their Advisory Board “**saving the Mitchell bacon**” when they said, “*No, now is not the time to expand...*” In a very powerful way, that story makes the case for having an Advisory Board.

One hurdle that some families see as a barrier to a Board of Directors or an Advisory Board is their sensitivity about fully disclosing the details of their finances. Jack will tell anyone that this sensitivity is likely grounded in foolish pride. Either that you have too much money or not enough. The benefits of Mitchells experience with its Advisory Board far outweigh such concerns.

The **Corporate Executive Function** operates the company. It handles all operating matters, interprets company policy and direction, and reports directly to the Board. The Board selects the person(s) to fill this position. Here family businesses often depart from the traditional corporate model. In some family businesses, the duties of the Corporate Executive are executed by a single person, while in other businesses it may be more than one person. The multi-person Corporate Executive is called “The Office of the President.” The success of designating co-leaders will depend on the individuals chosen. When this is the model, it is essential to clearly delineate responsibilities to avoid conflict between members of The Office. The Mitchells have elected this model, with the two oldest of the seven sons serving in that capacity. All

family members, including the mothers and wives have expressed comfort and satisfaction with this arrangement.

This model is not for every family. My experience suggests that it works best when those appointed to the position already have a solid relationship grounded in mutual respect and open, high-quality communications. If this is not what exists, or the parties cannot readily get to this point, then it is probably better to select a single individual for the function of Corporate Executive.

The Corporate Executive has a dual reporting responsibility. The Executive reports to and is accountable to the Board of Directors, and regularly *informs* the members of the Family Business Forum.

The Business of the Family

Family Business Forum, sometimes called The Family Council

The right-hand portion of the Conceptual Model addresses the business of the family. In this arena, matters of nurturing family members, helping them develop self esteem, self respect, independence and skills for living life are addressed. It serves as a vehicle for educating family members in communication skills, including interpersonal problem solving and understanding business *as a generalized* concept. Personal and corporate financial management are also discussed so family members know how to be responsible with the money that flows from the business.

Membership is open to all shareholders, their spouses, and children over age 14. When families exclude spouses, by limiting membership to lineal descendants, they create an "In-law/Outlaw" mentality that is very divisive. It is not recommended, and in fact, care must be given to not create any structure in the extended family that undermines the fundamental family unit of husband and wife.

Setting age 14 as a level of entry to the Forum is akin to a "rite of passage" in some families. It is an age when family members can learn how to handle confidential family matters, an important part of this education process. Programs follow an educational model, with segments geared to different levels of understanding. The purpose is to develop a broad-based, high-level understanding of business, among the extended family members. Financial matters and asset management are heavily emphasized.

The ultimate goal of the Family Business Forum is to create a comfortable learning environment in which everyone feels free to express themselves. This is enhanced through communications training. It is best to have one person responsible for administering the Forum. The Forum Leader is preferably a family member not in the business and certainly not the same family member as the Chairman of the Board or the Corporate Executive. The leader role in the Family Forum should have a time limit, with the leadership changing periodically, say every two years. The Forum Leader has the responsibility to establish the agenda, make arrangements for meetings, and handle the overall coordination of resources. In general, consensus is the preferred decision model and the group does not vote on matters. Neither do they discuss operational aspects of the business. This is another example of boundary clarity and the separation of business tasks from family tasks.

In the Mitchells' case **The Family Forum** is an important element because it creates a place where family members can be informed about the business. This is done by the Corporate Executive. It is important to stress that sharing information with family members does not mean inviting their participation in operating decisions. Policy is determined by the Board of Directors and operating decisions are made by appropriate persons in operating positions.

Compensation

Some families pay a family member to serve in the Forum Leader role. The most effective Family Business Forums are those where all persons are paid to attend the meetings. In virtually every culture, being compensated for an activity says that it has "real value." This issue of compensation should not be underrated. Often "who gets what," meaning how much money, is a critical matter in the family.

When competence becomes the basis for employment in the business, as specified in the family business employment policy, it is likely that some family members will be excluded from operating on the left side of the Conceptual Model. Compensating for contributions on the right side of the model serves as an equalizer. Those who function on the left side, i.e. Business of the Business, are compensated at the "fair market" rate for their contribution. All members of the Forum receive the same fee for their participation. Paying a fee for each meeting encourages participation by all family members.

The Family Business Forum should meet **at least** quarterly for it to be effective. The most effective Forums meet between 6 and 12 times annually. This frequency keeps communication at a very high level.

Family Forum Stages of Evolution

Every Family Business Forum will take on a life of its own as it evolves. This will reflect the culture, the unique family norms and the business itself. There are, however, some common threads to becoming effective.

The first stage should begin by emphasizing four things:

1. Interpersonal and group communications skills.
2. Problem solving skills.
3. Development of the family philosophy.
4. Understanding responsible use of money and other family assets.

The family philosophy is sometimes referred to as the Family Charter or Creed, or Family Values. It is recommended that an outside resource be engaged to take the family through development of the family philosophy. In the case of the Mitchells, it required a series of meetings to develop the "Family Deal."

It has been my pleasure to help the Mitchells maximize their asset. The success of the Mitchell family is directly related to their dedication and commitment to the following family business principles and their recognition that it is the Mitchell family values that will drive their business into the next generations.

In summary, those concepts are:

- **Recognize and honor the strong oral tradition of the family** - Then build on the strong oral traditions and create written, binding agreements that reflect the traditions.
- **Understand the difference between the task of the business and the task of the family** - Recognize that confusion over this matter is often at the core of the difficulties that arise in family business.
- **Corporate governance** - Educate all family members so they understand how things work and how to interface with the business using proper channels.
- **Family Business Employment Policy** - Create and implement a Family Employment policy so the terms and conditions for working in the business are well understood by family and non-family members.
- **Establish a suitable structure** - This sets a framework for how the family will interface with the business. All family members must know, understand and respect the proper boundaries within the structure.
- **Board of Directors and the Corporate Executive Function** - Create a “full charge” Board of Directors that sets policy and direction for the company, employs the Chief Executive Officer, or “The Executive Function,” sets his/her/their compensation package and evaluates the CEO’s performance. As an alternative, use the Advisory Board model.
- **The Family Business Forum** - Establish a Family Business Forum for education and grooming of family members in business matters. Make certain that family members understand that unless they are in an operating role, they must not interfere or meddle with any part of the operating business. Educate for responsible stewardship of financial resources.

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David Bork is founder of **The Aspen Family Business Group**, one of the world’s leading family business consultancies. The Group consults to families in business and offers a range of resources including full consultation projects, books, monographs, keynotes, workshops, and conferences. Since 1970, Bork has worked with family-owned business in many parts of the world and in the past 15 years has focused on the leading companies of Turkey. He is available for consultations, speeches and other events related to family business. He has been a resource to YPO, the Young Presidents’ Organization, for more than 18 years. For more information about family business matters, books and publications that can be directly downloaded from the internet, visit the web site www.aspenfamilybusiness.com also www.davidbork.com

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