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Transfer of Control in Family Business David Bork

Family business is deeply intertwined with the psychology of the founder. Founders are entrepreneurs, and like all entrepreneurs, they are passionate, often single-minded about their business idea. They believe in the possibilities of their business, regardless of the product or service they provide.

In the early stages, entrepreneurs work night and day to get their business to the point where it is economically viable. They will do anything and everything necessary to achieve this goal, sometimes at the expense of relationships and even their health. They refuse to take "No" for an answer to the realization of their dream. The dream becomes their passion. In many cases, the business becomes equivalent to another child in the family and often that child/business takes over the life of the family and becomes the dominant force within the family system.

Entrepreneurs know everything about their business and it is not uncommon for them to want to control all the activities within that business. It is necessary if they are to get the business up and running. In the early stages of a business their arms are literally "around everything." They tell people what to do, how to do it and when. It is that passion that drives everything.

Finally, when the business is doing well, the entrepreneur must open his/her arms, stop trying to control everything, and achieve their desired results through other people. This is not an easy shift for such behavior is antithetical to the very behavior, the inclination or necessity to control, that got the business to its present state. Entrepreneurs who don't learn to let go of control are actually limiting the possibilities of the business going to the high level of success that they believe to be possible.

Transfer of control is NOT an event. It is a process that takes place over time as the

business grows. The entrepreneurial skills that made starting and building the business possible are the skills of a doggedly determined visionary, not those of a professional manager. Thus, the entrepreneur must become what is often NOT his/her strong suit, a professional manager. This fundamental shift from high control behavior to delegating as a professional manager is difficult and is the reason there are so many stories of unsuccessful efforts to transfer control.

A professional manager is not emotionally connected to the business in the same way as its founder, the entrepreneur. Professional managers are comfortable in the delegation of authority and responsibility to others. The founder/entrepreneur learning this skill will be evidenced by giving key employees complete charge of a task, making clear the specific objectives, including full authority and responsibility with check points or bench marks for the progress. Once the task is clear to the key employee, the entrepreneur must get out of the way and let that employee execute the task. It is important that there be continuing dialogue between entrepreneur and the employee. The entrepreneur, now acting as professional manager, must be very careful NOT to take back the responsibility that has been delegated. Here are some behaviors the entrepreneur must avoid:

- Telling the key employee exactly what they should do and how to do it.
- Insisting that there is only one way, "my way," to achieve the result.
- Not giving the key employee time to make the goal happen and instead constantly asking for progress reports before there has been time for progress to be made.
- Going around the key employee and giving instructions to the employee's subordinate. This is violation of the chain of command.
- Any behavior that undermines the relationship of respect between entrepreneur and key employee.
- Meddling in any way.

All of these behaviors are examples of poor management skills. The entrepreneur who

does any of these things will soon have a mess on his hands that includes a resentful key employee and a financial “pile up” that will cost the company time, money and loss of opportunity. That is not an outcome anyone would want.

The first time the entrepreneur delegates a task and has success, it becomes a foundation on which to build. After a successful experience it is useful to do a “post mortem” with the key employee and discuss what worked well and why it worked. Such an analysis becomes a solid foundation for building the next success experience.

How does this work in family business?

In other columns I have addressed the importance of family members building a solid base of experience, away from the family business. Family members benefit greatly from having three to five years experience working in another business. During this time they grow in confidence and in competence by showing up and doing what every other employee does: THEIR JOB. If they do it well, they receive positive feedback and if they don't do it well, they are schooled on how it should be done. In this process they grow in their understanding of the process. They learn how to manage vertical relationships – the relationship with their boss and with their subordinates. They also learn how to manage horizontal relationships – relationships with their co-workers. In effect, they learn how to be a good employee. No business can be successful if the employees are not competent. Thus, family members need to learn to be competent employees.

When family members have built their base of competence and experience *outside* the family business, they are ready to join the family business. There must be a real job and they must have the skills to match. Many of the family business problems I have had to address, are grounded in the violation of this fundamental principle.

When the family member comes to work in the family business, they must show up and do their job *at least as well*, and preferably better, than other employees. They must not come to the family business with an

attitude of entitlement. Such an attitude is a formula for disaster, either sooner or later. The family member must earn the respect of the co-workers as well as learn the relationship between effort and reward. Doing one's job well and having a humble demeanor earn respect. Too often family members are given an inflated salary and assume they have special privileges because they are from the “Lucky Sperm and Egg Club,” children of the owners. Family members should be paid “fair market” salary for their contribution. This is still another way they learn humility and build credibility within the family business.

When a family member is in a job, they must learn to take on responsibility and be accountable for their performance. When this has been demonstrated, then and only then are they ready to be considered for control of anything.

One of the great benefits of family business is the opportunity for children to learn from their parents. Actually, learning about the family business begins long before a job is even a consideration. Children learn from the discussions their parent(s) have about business. It starts early. Then there are the discussions about money, another complex topic that will be addressed in a future column. Children learn about work from their parents.

I believe that one of the most important things a parent must teach their children is that when given a job, their task is to complete it to the very best of their ability. This is a fundamental requirement of any employee. This learning takes place in the home, long before the child is considered for a job. It has been said,

“When you raise a boy like a prince, he will grow up and want to be king.”

This kind of entitlement must be avoided.

There is no substitute for an employee who can take responsibility for a job, carry it out to completion with pride and a sense of satisfaction. Family members must meet this requirement, just like every other employee. Only when a family member has demonstrated their fundamental

competence are they ready to enter into discussions about transfer of control.

Transfer of Control Takes Time – In my 42 years of serving family controlled business, I have orchestrated the transfer of control between the generations for hundreds of businesses. If you are starting from ground zero, it generally takes about ten years for the full and complete transfer of control. While many people focus on the transfer of control, it is the transfer of knowledge that is so important.

The critical knowledge to transfer:

- Knowledge about the product or service.
- Knowledge about the family values and ability to use them in the business.
- Knowledge about the people within the company and about the customer.
- Knowledge about the financial aspects of operating the business.

Graduates of a leading MBA schools often think they know and understand all of these. Of course they have book knowledge, and I credit them for that, but it is only through experience and dialogue within the family that they learn how the family values are reflected in and applied to these three areas.

The newly employed family member is given a job, they do it well, and little by little they earn the confidence of their parents and the respect of key employees. As this happens, they are given more and more responsibility – perhaps the leadership of a smaller unit. When they do well in that position, they then become qualified to take charge of a division, then multiple divisions. Along the way they must have been given full responsibility for each position and held accountable for the outcomes. This means for the product or service, for the manner in which they manage employees and for the financial success. They need to learn how to budget for their success and then manage the unit against the pre-determined budget. Thus, the opportunity to control is earned. It is not a birthright.

What happens to the founder after control has been transferred? Often I recommend that the founder become the “Chairman Emeritus.” In this role they continue to be informed about the business. They serve in an advisory capacity, “on call” as a senior statesman, ready to share their experience and give advice if and when asked. This is a delicate role and under no circumstances should the Chairman Emeritus intrude into the business and undermine the person to whom he has delegated control.

The British monarchy is an excellent example of how NOT to transfer control. Queen Elizabeth is soon 86, while Prince Charles is 64 this year. It has been said that he has been groomed for the job of King but when one sees the Queen, with her lips pursed and jaw set as she prepares to make a pronouncement, it becomes obvious who is still in charge. There has been no transfer of control in that case and it could be many more years before that happens.

Readers who are concerned about transfer of control in their business would do well to make a fully documented, comprehensive plan for all the things that must happen in the business and in their families so that transfer of control can occur in a timely manner, in their lifetimes, and hopefully long before their demise.

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