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Strong Family Values Bring Family Business Success

by **Jamie Moullé**

When Robert Porter Sr. founded Porter Truck Sales L.P. in Denver in 1975, his mission was to create a business he could build with his family. His priorities were selling high-quality products, delivering great service, and treating customers and employees like they were members of the Porter family. In 1981, he moved the company to Houston and has since expanded to add a facility in Dallas. Today, Porter Truck Sales L.P. is a leading company for preowned truck and trailer sales, and is also the home to three generations of the Porters.

While Robert Porter Sr. is still involved with the company today, he transitioned the business to his children three years ago. His son Robert Porter Jr. (Bobby) and daughter Sharon Munro manage the business together, and his grandson Brandon Porter works for the company, as well. Since the company moved to Texas, the Porters have sold more than 25,000 trucks and are continuing to grow each year. Here are a few of the Porter family's keys to family business success:

Establish Clear Roles and Responsibilities

Having clearly defined roles for everyone helps the business run smoother, and also limits the potential for disagreements between family members. Sharon says, "Bobby manages our sales and service side of the business, and I manage all of our accounting operations. We have our own areas of responsibility."

The importance of maintaining separate roles also extends to managing family members. When Bobby and Sharon attended the recent Zions Bancorporation Family Business Conference, a major take-away was the concept of separating your roles when working with family.

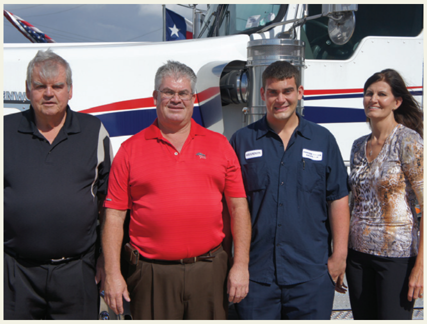
"The conference emphasized that you essentially have to wear two 'hats' that represent your separate roles as a member of the company and family," Robert recalls. "Because my son works for the company, I have a 'dad hat' and a 'boss hat.' I was reminded it's important to keep my roles as a father and manager separate for my son and business to be successful in the long run."

Plan Early for the Next Generation

When Robert gave leadership of the company to his children, the transition went smoothly because he had prepared Bobby and Sharon for the change gradually over time.

"My children got involved in the business early and took on more responsibility over several years as they earned it," he says. "By the time I was ready to transition the company to them, I was comfortable taking a step back because I knew that they were doing a great job."

As Brandon begins his career, the family feels strongly about him learning the business from the ground up and is creating a formal plan for his track with the company.



Strong family values are the cornerstone for Porter Truck Sales L.P.'s success for three generations. From left to right are Robert Porter Sr., Robert Porter Jr., Brandon Porter and Sharon Munro.

Bobby adds, "I think that it is important for him to have the exposure to all areas of our business if he is going to take a leadership role one day. And the formal plan we are creating will help make sure that we all have clear understanding of what the expectations are for the future."

The Culture of Your Business Starts at Home

The culture of a family will translate to the culture of the business. For Robert, the values he instilled with his family at home have been the foundation for the way the company is run today.

"My wife and I raised our children to work hard and not be greedy, and we taught them to trust and communicate openly with each other," Robert says.

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Bobby and Sharon agree that these values have influenced the way they work today. Sharon says, "We find that there is harmony in working with family when everyone has a mutual respect for one another. We trust that when we come to work every day that we are going to do our jobs well and are focused on the greater good of the company. There is no competition between us, and we work together as equals."

Robert adds, "We take good care of our employees and have a family-oriented way of doing business that they appreciate. We do business by our word, and our employees, as well as our customers, can see that." ■

Decision-making on Family Business Matters

by **Christopher J. Eckrich, Ph.D., and Stephen L. McClure, Ph.D.**

Decisions, decisions — how do business families make them? To begin, decisions can be divided into four different categories, each according to the respective roles of an owner; a board member; an employee (or manager); and, finally, a family member in an organized setting such as a family council.

As the family ages and grows, family leaders may respond by allowing family decision-making to evolve.

Among owners at stockholders meetings, decisions such as electing directors are generally made by casting votes according to one's ownership percentage, with a simple majority (51 percent or more) carrying the decision. Boards typically operate with a one-person, one-vote method, regardless of shares owned by the individual directors. A simple majority is usually required for a decision on most board matters, but good family business boards utilize a consensus style, seldom calling for a vote. For management teams, consensus decisions are often utilized to gain broad acceptance and valuable support when it comes time to implement the decision, an important feature when, for example, one department must give up its funding to support another's strategic initiative. Decision-making authority is often very explicitly defined in business management, so that one knows when s/he can make an independent decision and when, for example, the CEO must involve the board.

Family business matters on which a family has primary decision responsibility include:

- Family values/mission/vision;
- Communication in the family;
- Family education;
- Family relations;
- Aiding troubled family members;
- Resolving family conflicts;
- Philanthropy;
- Family/business relations;
- Family employment policy; and
- Vacation home economics and use policy.

These matters must be decided by families, often in family meetings, family assemblies, or family councils — or their subcommittees. How do families who take on these issues make good decisions?

Centralized Leader

When faced with tough issues, many families default to a senior generation or senior family member. Parents, for example, are the leaders of a first-generation family and have natural decision-making authority. This makes decision-making very clear and efficient. Sometimes, in second-generation businesses, the family decision-making authority will reside with an older brother or sister and be passed down to successively younger siblings as an older one relinquishes control of the business voluntarily or for health reasons. Decisions on family matters related to the business may be made by the one who controls the business.

As the family ages and grows, family leaders may respond by allowing family decision-making to evolve. Faced with growing interest and pressure for involvement, a leader may opt for an approach that retains centralized decision-making (the last word), yet only after checking in and listening to the views of all other family members. Thus, in considering all opinions, the leader's decision may be regarded as more satisfying to all concerned, even those who might disagree with it. A key factor, of course, is the level of trust and respect commanded by the leader … the more trust and respect, the more others will feel that the decision has been made with consideration of broad input.

While centralized decision-making may serve some families, it rarely lasts beyond a generation or two. In many second-generation business families, and even more after the second generation, it is groups who make the decisions. One person making or controlling decisions becomes unfulfilling in that it does not allow all members of the family to feel they have a voice and may even contribute to apathy and reduced commitment to the family business. On the positive side, opening up decision-making to a broader group makes it more likely that all positions will get a fair hearing; helps form the teamwork skills that are required for maintaining unity; helps maintain boundaries, in that family members with a voice in family matters will be less likely to inappropriately get involved in management and board decisions; and increases the likelihood of all family members feeling that their input is valued and utilized, and potentially solidifies their commitment to the family business.

Voting

Families who make group decisions may adopt a one-person, one-vote rule. As with any decision-making method, voting eligibility must be defined, and it varies by the forum and each family's own rules for "who will have a voice." For example, a small family may have a family council that consists of all family members age 16 or older. Some families give the vote only to bloodline family members and exclude spouses, while others include spouses. Larger, extended families may elect representatives to a more formal family council.

It is healthy for families to engage in voting on family matters. Voting can bring decisions to quicker resolution, and as long as everybody understands what the voting rules are, the group generally will be able to support the outcome. Part of the understanding everyone needs in advance is what it takes to decide. A full discussion of all viewpoints followed by a vote with a simple majority rule is a common practice. Families who vote find that they are able to quickly move through material. However, they may not achieve the same buy-in that would be gained by those who seek consensus decisions.

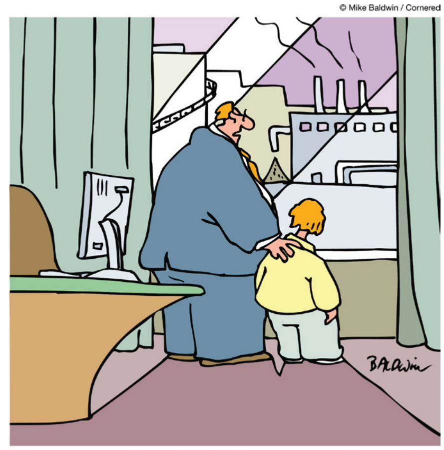
Some families require a supermajority vote (e.g., two-thirds, 70 percent or 80 percent) for key decisions. Their theory is that a simple majority may result in splitting the group in half. They feel more support for the decision after the vote comes only from more agreement at the time of the vote. However, we have seen families who use a simple majority to make decisions work quite well and feel very good about their accomplishments.

Consensus

We know families who have successfully used consensus decision-making for years. Consensus offers the opportunity for greater implementation success due to the broad support derived from the way the decision is made. However, some families define consensus as "100 percent of the group must agree on a decision (unanimity)," and we have seen these families at times struggle greatly as consensus decision-making increases real conflict as the group tries to sway outliers to the group decision. Consensus decision-making also takes time as a group tries to formulate the questions under consideration so that they may decide as a group. The group can easily wander and frustrate its members unless they have excellent group process and negotiation skills, the assistance of a good facilitator, or both.

Most families realize that unanimity is not realistic and causes too much pain in their families. One person can stop a good decision or frustrate the group to the point where families abandon family meetings. So if it is not unanimity, what is a good definition of consensus that allows forward progress and a fair hearing for minority viewpoints?

One method of defining consensus is a majority vote, with an individual veto feature. This method allows each person to cast a vote in one of four ways. The person can support a decision by voting For it, can oppose a decision by voting Against it, can Abstain from a decision (e.g., if the family member feels he or she does not have enough information or that perhaps the decision would in some way benefit him or her and the person wishes to allow the rest of the group to make the call), or can Object to the decision.



"One day, this will all be yours. But right now, I need you down in the warehouse."

If there are only For, Against, or Abstain votes, then the majority will decide, and the family assumes that a consensus decision has been made. This is because an Against vote is understood to convey, "It's not my first choice, but I can live with it." However, if there is even one Object vote, the proposal is defeated (no consensus). The reason only one Object vote is needed to defeat the decision is because everyone understands that Object vote to mean, "I cannot live with this decision." In the case of one or more Objections, some families follow these steps:

1. Modify the proposal right away and vote again. It is important to note that casting an Object vote obliges an individual to lead the process to finding an alternative that can potentially be approved. The individual(s) who objects can explain further the concerns with the proposal, then he or she must offer an alternative (or someone else may, or the entire family group may seek to find an acceptable alternative) that considers all views, and another vote can be taken right away.

2. Discussion and development of an alternative proposal at another date. Discussion takes the form of seeking alternatives and exploring the interests that are being served and not being served by the proposal. Again, the one with the Object vote leads the process. The objection may not be resolved during the current meeting and may continue until the next scheduled meeting or until an agreed-upon deadline. Everyone must agree by the deadline.

3. Impasse. If, as a result of an honest effort on the part of all to resolve the impasse, there is no change in positions or acceptable solution found, the objection remains intact and the proposal does not go through.

4. Breaking a deadlock. This is not in all policies, yet some families insist on a procedure that keeps them from getting stuck or controlled by an "unreasonable minority." They may adopt mediation or arbitration procedures, or require a supermajority that includes representatives from all family branches, for example, to move beyond an Objection.

We like this method because it clearly defines consensus, it allows individuals more choices than voting for or against (people are more complex than that, and they want their specific views to be heard by their relatives), and the method does benefit from the efficiencies of voting. Individuals must understand that they should use Object votes only in rare circumstances, and the practices of many families provide evidence that it is very rare that such a vote is cast. Family discussion will flush out early those who would Object, and a consensus alternative is sought rather than taking a decision to a vote too soon. Other variations on the method include the following:

- Requiring a 30-, 60-, or 90-day cooling-off period in order to allow further study and explore an issue or get more data. Sometimes back channels and further research will help all members overcome whatever objection there was to the original proposal or will allow the proposal to be modified so that it will be palatable to all.
- The family may commit to writing the arguments on both sides of the decision and allow a third party (such as a council of advisers or board of directors) to weigh in and render an opinion. This allows an outside group to share their objective feedback as to what they view would be best for the family and business.
- A task force can be assigned to study the issue and attempt to draft a new proposal that will take into consideration the needs of all parties.

Another variation is credited to the Quakers. An individual who originally Objected, after listening to the discussion, may choose to "stand aside." Standing aside means that an individual is subordinating their interests in favor of the family group's interests. An individual is indicating that it is best for the family group to proceed and actively removes oneself from blocking a decision. A decision to "stand aside" can be viewed as an additional kind of vote, short of Objecting, but stronger than an Against vote, and sometimes just the point someone needs to make before allowing the group to come to consensus and move on.

Families have adopted many different procedures for decision-making and rather than recommend one for all, we support families coming together and discussing among themselves how decisions will be made, in order to adopt a decision-making mechanism. The healthiest situation is one in which the entire family agrees ahead of time, unanimously before a procedure is needed, as to how decisions will be made and then sticks to the decision-making mechanism to which they have agreed. ▪

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Do's and Don'ts for Bringing the Next Generation into the Family Business

by **David P. Ransburg Jr.**

We often tell our client families that there is no "one size fits all" formula for transitioning a family business from one generation to the next. There are multiple variables in every family and business that impact how to best address the process in a given situation, making it challenging to offer tools like checklists to help with preparations. Yet, while each situation is unique, there are some experiences most businesses will face for which there is some common wisdom. One such situation is the experience of getting the next generation of family employees started professionally in the business.

Any transition is essentially a hand-off, much like runners in a relay passing the baton. And, just like a relay team requires each successive runner to be in position and ready to run hard and well, the transition of a family business requires a new generation that is ready to take the baton — both in the right positions and adequately prepared. And, just like getting ready for the big race requires years of training and dedicated effort, preparing to transition the day-to-day management of the family enterprise from one generation to the next takes years of preparation before the successor generation is sufficiently ready to assume that tremendous responsibility.

While it is important to remember that succession of management authority is a process that should evolve over many years, it should be lost on no one that first impressions count. Anyone who has ever begun a new job can attest that early accomplishments often play a significant role in one's long-term success. Of course, there are no guarantees for success, but a family member who starts his or her career in the business with strong objective success or as a clear contributor on a team will be more valuable to the company and likely have continued success than a family member who does not. With that in mind, here's a checklist of "Do's and Don'ts" for onboarding new family employees in a family enterprise:

The most important preparations happen years before the new family employee actually joins the family business, ideally when they go to work at another company.

DO…

Plan ahead. The most important preparations happen years before the new family employee actually joins the family business, ideally when they go to work at another company. The self-confidence, credibility and learning of outside best practices that come from working elsewhere have immeasurable value for the new family employee once they join their family's enterprise. Outside experience gives the new family hire instant credibility with other employees that can otherwise take years to develop, as some nonfamily team members may assume successes the family employee has at the business are thanks to their family connection. Even more important, however, is the self-confidence that is developed when a family member knows that he or she can succeed in the outside world, too.

Start the new family employee at an appropriate level. If you start them at a level that's well above their skills and experience, then you risk overwhelming them and sending a signal to the rest of the organization that they will be given unfair advantages. If you start them at a level that's too low — because you started at the bottom and they should, too — even if they come with years of outside experience, then you risk putting them in a boring work situation or causing them a lot of frustration that could lead them to leave. Of course, many families believe it is important that their family employees experience all aspects of their business (tiresome jobs included), and that approach has great merit; the only caveat is you may not want to have a college-educated and well-experienced manager bagging groceries for more than a few weeks.

Announce the new family employee's arrival in a matter-of-fact manner. In most cases, it should not be a secret that the new hire is part of the family, and the rest of the company will figure it out quickly, so why hide it? A simple email from the CEO along the following lines will typically work well: "I am happy to announce that my daughter, Jane Doe, will be joining the company as our newest marketing manager."

Have the new family employee report to a longstanding employee and well-regarded nonfamily member. It's not always possible, but there are great advantages to having the new family employee report to someone who is not also a family member. Most importantly, this kind of reporting relationship will increase the chances that the new family employee will receive accurate performance feedback.

At a minimum, provide the new family employee with the same performance feedback process as all other comparable employees. If all employees receive an annual formal performance review with informal "check-ins" quarterly, then that's what the new family employee should receive as well. As it can be challenging for a mid-level manager to provide objective feedback to a member of the owning family, it can sometimes be helpful to develop some support from the HR department or other senior leaders in the business for this process. In addition, there may be a desire to take a more proactive role in the professional development opportunities for family employees if they have the ambition and potential to eventually move into more senior roles in the business.

Involve the board. An outside board member can be helpful to both the older and the younger generation during the time when a new family employee first joins the family enterprise. This board member can provide an important perspective of impartiality to both generations, particularly during episodes of conflict.

Communicate. Too often, the new family employee or the incumbent feels frustrated, angry, confused or even delighted about a particular situation … and they keep that feeling to themselves. It's important for all key parties to check in with each other frequently and informally, simply to keep the lines of communication open. Establish a tradition of a weekly breakfast or monthly lunch to ensure communication stays strong. Family members may have many qualities, but mind-reading isn't one of them!

DON'T…

Create a job for the new family employee. This is really an extension of the second bullet point above. Just as it's important to bring the new family employee into the organization at an appropriate level, it's equally important that a job is not created for them. If the position is not genuine, then others in the company will know that and they will likely resent the new family employee as a result. In addition, it can be difficult to objectively assess the performance and development of the family employee if they are not in a role or job that has to be done, that provides some accountability.

Put all the responsibility for the career entry and development of the new family hires on just one generation. Onboarding a new family employee in a family enterprise is a complicated and sometimes difficult process that is too big for any one person. It's not the new family employee's sole responsibility to make it happen; nor is it the sole responsibility of the incumbent. Successful onboarding is a responsibility that is shared by both generations.

If you keep the above items in mind while planning for the transition of your family's business, you will take an important step toward increasing the likelihood that your family business will continue long into the future. ■

David P. Ransburg Jr., a consultant with the Family Business Consulting Group Inc., assists businesses with resolving intra-organizational conflict and building effective team-oriented organizations. He has served on the faculty of Loyola University's Family Business Next Generation Leadership Institute.

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