outside help

AFTER FOUR AWARD-WINNING DECADES developing well-regarded real estate projects—some of them credited with reviving inner cities in Georgia and Maryland—Harold Dawson Sr. is in no need of publicity. Neither is HADCO, the company he chairs and of which his son, Harold Jr., is president. ¶ But it still takes ego control—of a kind not associated with a Trump or a Helmsley—to stay on the sidelines the way the Dawsons did in April. That was when the *Baltimore Business Journal* profiled the family company's

Few families can do it all alone. But hiring and retaining nonfamily talent is an art in itself BY JILL HAMBURG COPLAN

new $92 million Centerpoint development, a joint venture with Bank of America, in downtown Baltimore. There wasn't a Dawson in the story—though along with father and son, two spouses and Harold Sr.'s daughter are active in the business. ¶ Instead, the spotlight shone on two nonfamily executives: Stan Stanfield, vice-president, and architect Baily Pope, vice-president of design and construction. Harold Dawson Sr. finds that only fitting. "We think that public

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recognition of these individuals is important," he says. "We are a family business, but [our nonfamily managers] feel that they are a part of it." That approach seems to be working: Outside expertise has helped the company double its annual revenues in the past five years, from about $10 million to $20 million.

Few families have the depth of talent needed to take on all the key roles in the running of a business, making outside managers essential to growth. Unfortunately, it's the rare family-owned company that manages to hire and retain the outside execs they need. Family-owned companies face several difficulties in recruiting and retaining managers, as outside managers will likely have to accept a cap on advancement and less-than-significant equity. And there's always the minefield of the office's family dynamics.

SMALL IS BEAUTIFUL

The challenges are hardly insurmountable, especially as smaller family-owned companies have the advantage of, well, not being big companies. To attract the right management candidates, family companies need to articulate the intangible benefits of working at a smaller outfit, provide proof that the company is indeed a meritocracy, and be flexible in terms of compensation. Once the right person is found, a trial period of three to six months for the new exec, along with the maintenance of open lines of communication, will be helpful to both sides. One possible reward for all this effort: an increase in profitability, which can encourage family members to keep their long-term money in the family business, and, in turn, helps ensure continued family ownership.

Start by seeing things through the eyes of a potential hire. When an executive considers working at a family business, financial concerns rate high on his or her "this worries me" list. Outside managers "don't get access to [the company's] financials and never know if the company is going to be acquired," says Michael Parbs, a senior vice-president at recruiters and consultants Ajilon in Saddle Brook, N.J. Plus, outside managers rarely receive substantial equity.

Worse, family-owned businesses are often viewed as hotbeds of dysfunction. Ernesto J. Poza, principal of E.J. Poza & Associates in Chagrin Falls, Ohio, author of *Family Business* (Thomson SouthWestern, 2004), and a professor at Case Western Reserve University, is finishing an 11-year longitudinal study of 109 U.S. family businesses—one of the most comprehensive studies ever. Some early findings give family companies an idea of what they're up against. Many outside execs believe the casual culture of many family companies helps create unclear goals. Outside managers often feel cut out of strategic planning, and they find owners' hands-on, 24-7 commitment to the company to be suffocating. Outside managers add that they routinely hold their breath when issues crop up between family members. Worse, they say they're sometimes used as family spies or message carriers. Against such a backdrop, it's hardly surprising that family businesses have a difficult time hiring outside executives, much less retaining them.

In a new survey, nonfamily planning—or being asked

In general, the prognosis for making a good match is lousy. In his 2002 study of 20 outside managers brought in to replace retiring founders, 75% of outsiders didn't last a year, says Harvey Wigder, principal of Newton (Mass.)-based family business consultants Fulcrum Resource Group. "There are no bad guys in this," Wigder says. "It's just a hard human dynamic." He does have some good news, however: One-quarter of the owners who failed to keep the new manager got someone who worked out just fine on the second try. Clearly, an understanding of the pitfalls in hiring and

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SELF-EFFACING: The Dawsons don't want the family to hog the spotlight

retaining outsiders—and a game plan to address them—can work wonders.

First, remember that small size can be a valuable asset. Some veterans of the corporate rat race may find a family-owned smaller company an irresistible change of pace. There's a deep psychological allure to a relaxed, unstructured work environment. Emphasize that there will be ready access to owners and directors, without rigid hierarchies. If the company is ready to support an executive's commitment to achieving work-family balance or volunteer work, make this clear.

Then, Poza suggests, reassure potential hires that they're entering a serious, professional workplace. Of course, recruits should know it's a given that family members are treated professionally while on the job. Adherence to a family constitution—a document laying out business and social values, and providing guidelines for hiring family members—will show you're aware of the unique conflicts that can arise in family companies, says Poza. A board of directors or advisers that includes independent outsiders, along with well-defined family-employment policies, will also go a long way toward showing that nonfamily members will be treated fairly.

Compensation could well be the deciding factor for an outsider weighing pros and cons. Two New England sisters, Sarah Speare and Lesley Lutyens, used a flexible approach to compensation to bring new talent to Chomp, a pet treat and breath mint company they founded five years ago. About two years later, when they hired veterans from Kraft Foods and Nabisco Group as their CEO, CFO,

workers complain of being left out of strategic
by one relative to spy on another

and vice-president of sales, the sisters understood that they needed to offer something special in return for the credibility this team brought to the table. So the three execs were given equity of almost 10% each, though the sisters still retain a controlling stake. The outside execs live wherever they want—Florida, Illinois, and Massachusetts—and stay in touch via teleconferences. Speare, president and vice-president of marketing, lives in Cambridge, Mass., while Lutyens, vice-president of product development, lives in Portland, Me. Chomp has grown to nine employees and has annual revenues of $5 million. Its dog and cat goodies are sold in 20,000 stores and hotel minibars in 18 countries.

Harold Dawson's company, HADCO, also makes a special effort to reward nonfamily execs. The top handful receive equity interest in projects, bonuses linked to profitability, and appreciation trips—this past spring, to Barbados and Las Vegas.

To make sure you've got the right person for the job, consider a new-hire trial period, where the candidate is invited in as a consultant for a fixed period of time. If it's successful, Wigder suggests that the owners vanish for a couple of months, take that dream trip to the Caribbean or an African safari, and allow the new person to establish authority.

TESTING ONE, TWO, THREE

After the threat of a potentially ugly merger led Dick Garner to quit his job as vice-president at a major chemical company, he agreed to a six-month trial run consulting for a Grand Rapids (Mich.)-based chemical distributor, Haviland Enterprises. Haviland, now with $50 million in annual revenues, was at the time a loss-making, second-generation family company owned by—hold on to your hats—12 siblings. Three were active in management, while 9 others sat on the board. The company needed a complete turnaround.

But while Garner initially worried about the potential for family conflicts and flat-out disaster, he found the family extremely cooperative and willing to compromise. As the trial period came to a close, Garner was made president and CEO of the 120-employee company. When Garner decided to shut down subsidiaries that were bleeding money—eliminating a job held by a family member—the family backed his decision. Such support paid off: Within a year, Haviland was breaking even. By the end of Garner's second year in charge, it was posting double-digit revenue growth. The company averaged 12% growth each of the seven years Garner was CEO. When he retired in 1999, the family—including the man he had fired—named him chairman of the board. "We're still friends," Garner says with a laugh.

For companies fortunate enough to bring someone like Garner on board, keeping the lines of communication open is key to success. That's the philosophy of Robert Wolfe, president and founder of Moosejaw Mountaineering, a 12-year-old outdoor-gear retailer with its own clothing label. The Madison Heights (Mich.) company, which Robert owns with younger siblings Julie

ROW, ROW, ROW: Moosejaw's Julie, Robert, and Jeffrey Wolfe hired a general manager from J. Crew

CLEARING THE WAY? The Smahliks may let a nonfamily director take over

and Jeffrey, began with one store and nightly staff meetings at the local bar. It now employs 80 people.

Two years ago the siblings signed up Brian Lively, formerly a senior manager at J. Crew Group, as their general manager. The Wolfes needed "someone smarter than us who knew retail better than us," says Robert, to lead an expansion.

Daily debates between the owners and Lively make the relationship work, says Robert. "We talk and e-mail all day long, meeting formally once a week," he says. "I'm a control freak, but I understand that because he has better skills than me in certain things, it's better for Moosejaw if I move out of the way."

Thanks in part to Lively's expertise, Moosejaw has opened two new stores (bringing the total to six), has doubled sales of its self-branded clothing in the past two years, and has increased revenues from $9 million in 2002 to $12 million in 2003. Says Robert: "We're fond of Brian—we call him cousin—but I hope we disagree about something every day."

Those companies with stellar outside managers, not to mention the managers themselves, eventually are faced with a pressing question: How far can a nonfamily member go? Depending on the circumstances and the company, very far indeed.

WE REALLY LIKE YOU

To make a family business attractive to outside managers, offer:

{1} Cash Start with a market-rate salary **{2} Benefits** Small family companies are well- positioned to create tailor-made, one-of-a-kind packages. Speak to a benefits consultant to understand the options in your price range, then question the executive extensively to see what's important to him or her. **{3} Equity** Equity participation is rare beyond startups that have little cash to offer. Established family outfits that offer ownership tend toward symbolic shares—between 1% and 3% of the company. **{4} Phantom shares** Phantom shares are pegged to real (nontrading) family shares. They're priced the day the exec joins and are revalued periodically. They don't dilute company ownership, but reward the executive with a sum tied to the company's increase in value during his or her tenure. Phantom dividends can be distributed to key execs when real dividends go out to family owners. **{5} Share information** Boost motivation by sharing information about revenues, profit margins, and market share.

Diane Smahlik, chairman of Oakland (Calif.)-based Ettore Products, counts herself and her company lucky to have had Patrick Murphy on board for the past 13 years. Ettore is the company whose founder invented the squeegee; Murphy is a sales specialist who previously had transformed lock-and-bolt manufacturer Schlage Lock from a commercial supplier into a consumer company.

As he has risen steadily from executive vice-president of sales to president of the company, Murphy has certainly made his mark. He fired one of Smahlik's relatives and reassigned others, but he has also nurtured the consumer side of the business from zero to more than 60% of sales by cultivating profitable relationships with Home Depot, Lowe's, and Wal-Mart. Now, Diane and husband Michael, Ettore's CEO, are preparing for retirement. Suddenly, the question has become whether a family member or an outsider will lead the company.

Generational transition is, by far, the most difficult passage for nonfamily executives. They may find themselves grooming a younger family member they believe is unfit for the top job. They may not feel free to take the steps they believe are necessary to keep the company—and their job—safe. "When you're doing annual reviews of a third-generation 25% owner of a company who reports to you, how forthright or direct do you want to be?" asks Murphy, who says other outside managers at family companies face these same issues. "Blood is thicker than water, don't kid yourself. If push comes to shove, where do you think the allegiances are going to lie?"

This is something Diane Smahlik thinks about every day. And slowly, it seems, she's making peace with the idea of choosing the best person for the job rather than the person she loves best. "As hard as it is to accept, you may not have all the talent you need to be CEO," she says. She readily praises Murphy for turning what was an endangered company into a thriving business. She notes that while her children—daughter Nicole, 28, who's in marketing after stints in systems and accounting, and son Christopher, 32, a statistical analyst at the company—are working hard, perhaps what they've been acquiring aren't actually skills "to run the business, but the knowhow to select people to run it." In the end, the family will probably find that its company's viability rests on being able to let go. SB

TIMOTHY ARCHIBALD