

## **How to Bring Your Children into Your Business**

By Raymond P. Kolak

Pat took over his engineering services firm from his father in the 1970s. The company had just lost its largest client, and was wobbling. Pat had come from a larger engineering firm, and was well-trained to take over. He is one of the few business people I've met in my legal practice who has all of the skills to run a growing business: technical production skills, sales ability, financial acumen, people skills, and a determination of brute force – lots of brute force.

Pat's father moved to out of state soon after Pat arrived, and Pat grew the business in the '80s and '90s. He branched out into new services, and the firm expanded. Pat was on top of all departments, choosing to make the executive decisions himself. The people he hired were not at his skill level, but he was there to make certain that the proper decisions were made and implemented. Pat's style of leadership was to rule by fear, not by cooperation. If you did not perform, you were replaced.

Pat's son Tom began working for the firm during summers while in high school, and continued through college. After a stint with a larger engineering firm, Tom joined Pat to continue the family name in the firm.

Tom had been an outstanding student in engineering school, aceing his courses and winning prizes and academic honors. His technical skills outshone everyone around him, even his father. Unlike his father, Tom was soft-spoken and withdrawn. Perhaps the force of his father caused Tom to recede from developing strong relationships with others. Yet, together, father and son had many successes in the engineering field.

It was Pat's wish that Tom gradually take over the business, so we gifted stock to Tom over a period of years. Pat backed off his administrative responsibilities, and left more and more of the decisions for Tom to make on his own. Pat knew that everyone in the firm depended on him, so he made himself absent from the firm for long periods of time at a vacation home, to eliminate the temptation to run the business as he had since his own father left. I admired Pat for the knowing he had to do that to make Tom successful.

But alas, Tom was not successful. He had a few great technical successes in design work, but other aspects of the business suffered. Tom was uncomfortable in making sales presentations, so the flow of new projects diminished. Tom had no interest in administration of the firm, and his lack of supervision and follow-up caused embarrassment with clients and the firm's professional advisers. Tom hired poorly for positions in the firm, and could not bring himself to direct and discipline the new hires when necessary.

The firm went downhill, fast. The new departments that Pat added years before were dropped. As the firm consolidated, over half of the employees were let go. Pat came back, full time, and now heads up a firm about the same size as when he took over from his own father. Tom still works at the firm, but father and son are no longer a team. The succession plan for Tom to take over is kaput. Pat is now trying to decide what to do with the firm, since he is now retirement age.

From the outside, I observed these events occurring over the past 15 years. I had my doubts, but I thought Pat's strategy would work. Tom is a very bright man, and I believed that he would either learn the skills he lacked, or find people with them to continue the company's success.

It is easy to criticize Pat and Tom for the failure to continue the firm's success, but what could they have done differently? I suppose the Pat could have put Tom in a subordinate position, recognizing his weaknesses, but that was never an alternative for him. In Pat's eyes, Tom was destined to take over the firm by right of succession: Pat's father to Pat to Tom.

Tom lacked important leadership skills, and also lacked the desire to learn them. He was more interested in technical matters than expanding the firm's customer base. He failed to give his employees direction, so they floundered about, uncertain of the firm's priorities and goals. It's easy to assign blame to him for all this, but to ask him to fill the shoes of his father in many roles is like asking me to paint a portrait; try as I might, I can't, because I simply lack that talent.

I have seen other client families in the same situation, but with a happier outcome. Here are some patterns that worked.

One set of parents, recognizing the ability and interest levels of their children, put them into secondary positions and vice presidents and department heads. The CEO was a long-time non-family employee, who earned the position through hard work and loyalty. The company's success has continued, the second generation of leadership is now in control, and the children are earning a good living. The parents have insured that the CEO will remain in charge after their deaths, because non-family members will have a controlling interest in the company's stock by that time.

Another company made the founder's child the CEO, but surrounded him with hand-picked managers who had the skills he lacked. The child is mature enough to acknowledge his limitations, and works cooperatively with the managers and department heads his parents brought in. The managers received a small equity share in the company, and are paid at healthy levels to keep their interest.

These solutions work if your company is large enough for a secondary level of management, but suppose your business can support only one person at the CEO level? Every parent wants to give his child a chance, and every child deserves that chance. Give your child a position below you, and allow her to test her skills, abilities, and mettle. If

she fails to meet the same standards you would expect from a non-family employee, for her good (and yours), don't put her in charge. Eventually, she will want to leave your company to find a place where she can achieve success. If you make her dependent upon the company, by giving unwarranted promotions or bonuses, it will not be economically possible for her to leave, and then you have a problem.

While every child deserves a chance, it's cruel to put and keep your child in a position where she cannot succeed. Keep that in mind.

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