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Succession Journeys

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ERVING INDUSTRIES
Erving, MA
Lessons

1. Don't expect your successor to be a clone of you.

2. Talk openly about differences in management approach, rather than hope they'll go away.

3. Learn to appreciate your successor's strengths—and build your business strategy around them.

IN a Winter 1997 Family Business article, Charles Housen reported that he had told his son it was "time to learn my job," and that the son, Morris, had informed him he didn't want the job. Yet in a companion article, son Morris revealed that he had indeed decided he wanted to follow in the footsteps of his great uncle, grandfather, and father and become a paper maker at Erving Industries.

It was a fairly typical story of the generations talking past each other—rather than to each other.

Charles is the third-generation president of the $100 million holding company, made up of businesses that include everything from a paper mill and paper product companies to an environmental consulting firm. He wrote in his article that he had offered the position of COO to Morris, then 33. He thought Morris would enjoy moving the company into the next generation and eventually becoming CEO. At the time, Morris had been running his own company for only a year and had just developed a strategy for doubling its sales. "Why should I come back to Erving Industries," he asked in his article, "when my business is doing well and yours is facing problems?"

Morris told his father that he needed two more years on his own before he could give him an answer. Charles gave him two weeks. Morris accepted his father's offer.

That was the second time Charles had approached Morris about following in his footsteps. A year earlier, Morris had turned down the offer, saying he couldn't leap from a staff position to the presidency without first having bottom-line responsibility for a smaller division. He proposed carving out a new division from three of the company's niche businesses, which he would then run. Charles told Morris that if he wanted real bottom-line responsibility he should buy the businesses. They negotiated a deal and in 1996 Morris incorporated his company, Birch Point Paper. While Morris appreciated the opportunity to have his own business, he was initially disappointed. "What I wanted," says Morris, "was to be part of the Erving Industries family."

In 1998, Morris and Charles negotiated his return to Erving Industries. They agreed Morris would assume the positions of executive vice president and COO in January1999, giving him time to find a manager for Birch Point Paper. Morris didn't start to look until April. It took him seven months to find the right person—his father would say "the perfect person"—to replace him. Morris was pleased with the hiring process he designed, but Charles was impatient. "I thought he set the hurdles too high," he says. "If I had used the same criteria to hire Morris as COO," Charles adds, "he probably wouldn't have the job."

Except for a two-year hiatus when he worked for a paper distributor in the Southeast and earned his MBA, Morris has worked at Erving Industries since high school. Starting off in the warehouses and factories, he climbed the ladder to assistant treasurer. Morris's temperament and style of working couldn't be more different from his father's. Charles operates on intuition and a willingness to take risks; Morris is analytical and cautious.

Charles relies on his own judgment in making decisions; Morris consults others. These differences take on more significance now that they are working together at the executive level. "My father is focused on growth," says Morris, "and I'm focused on the bottom line. That can make things difficult when making strategic decisions."

Charles has given Morris leadership opportunities to negotiate final agreements on acquisitions and coordinating projects. In one case, Charles supported Morris's decision not to make a pair of acquisitions, even though he himself would have made them.

Charles also doesn't approve of competition he says Morris sometimes provokes between Erving Industries companies. After working through some difficult situations, they agreed that before making a strategic decision that would result in significant changes for the company, they would discuss it together.

Although Morris returned to Erving Industries sooner than he had planned, he is happy to be there. Unlike his father who professes to have no feeling for the family tradition in the business, Morris feels the family connection strongly and keeps near his desk portraits of his grandfather and great uncle, the company's previous presidents. "I've always wanted to run the family business," says Morris. When he'll get to do that is uncertain. Charles, 67 and in good health, hasn't set a date for retirement. Morris doesn't want his father to retire now but he would like him to announce his plans. Despite their differences, father and son are clearly fond of each other and share a mutual respect for each other's business talents. By the same token, they seem to have trouble hearing what the other says because of their differences.

On one occasion they did seem to communicate, and that was shortly after their paired articles were published in Family Business. Together, they discussed their articles—and their differences—in a forum at the Northeastern University Center for Family Business. "It was terrific," Morris recalls. "Dad and I probably would never have had the discussion about the power differences between us on our own." Morris admits he and his father missed an opportunity to keep the discussion going following the meeting by not hiring a facilitator to work with them. "After the forum," he says, "we went back to business and our separate corners."

The situation the Housens face is common: how to prepare a successor to replace a leader when their talents, experiences, and inclinations are dissimilar. Leaders may find it easier to work with successors who have qualities similar to theirs, but an infusion of new skills and perspectives may be more valuable to the business in the long run. Market conditions are constantly changing, and leadership qualities that served the business well in an earlier stage of development may no longer be the best in the next stage. The important questions for leaders to ask are: What leadership qualities and skills are likely to be needed to carry the business into the future, and what are the best ways to cultivate those qualities and skills in the chosen successor?

Even when there are answers to those questions, however, it isn't much easier to forge a smooth working relationship between parents and potential successors who have divergent thinking and management styles. There are no shortcuts: You have to learn to talk openly about your differences, and work every day to understand and adjust to them. The successor has to attempt to remedy through additional training any managerial weaknesses identified by the parent. The parent may have to accept and live with certain shortcomings that cannot be remedied. Above all, the senior leader must be careful not to misjudge his offspring—and overlook their strengths—because those abilities are different from his.

MONSEN ENGINEERING CO.
Fairfield, NJ
Lessons

1. Involve senior managers in mentoring your successors.

2. Consider giving managers some equity as an incentive to seeing that the mentee succeeds.

3. Provide coaching for senior leaders on what they can plan to do in retirement.

In leadership transitions, there is no substitute for good mentoring. While the Housens are grappling with their differences on their own, Dick Monsen and his son, Eric, have reached out for help in dealing with theirs. In a Winter 1995 cover story, Family Business wrote about their 10-year succession game plan, which was to make use of coaches to see father and son through the process.

Monsen Engineering designs, installs, and services commercial air conditioning and air-filtration systems. When Dick Monsen, an engineer, took over the business from his father in 1978, he had the right skills to run it. When he started thinking five years ago about passing the company to his son, the challenge was how to prepare Eric, who had neither a technical education nor managerial experience. "I'm an MIT-trained engineer," says Dick. "Eric's background is in sales and marketing. I'm totally analytical; Eric is intuitive. I learn and make decisions one way, Eric in an entirely other way."

Given these differences, Dick knew he would need help in preparing Eric for leadership. He took two steps to ensure the survival of the business: He offered the top five nonfamily executives a 38 percent stake in the company, and he formed a team to mentor Eric. The team was composed of Dick, two managers, and an outside executive coach, Bill Glennon. They designed a 10-year plan called Project Merlin to groom Eric, who had been an account executive, for future leadership.

The team began by appointing Eric manager of business development and a member of the marketing committee. Since then, Eric, now 34, has progressed so well that Dick estimates the plan may finish two years ahead of schedule. Making Eric part of the team was the key to his development. His mentors didn't just prescribe for him, but took their cues from what Eric said he needed.

The Merlin group did a lot of the planning and laid a foundation for Eric's training, but it dissolved after one year. One factor was the loss of a principal team member due to illness. Another was the plan itself. Initially, the members thought the whole team would meet quarterly with Eric. Once they started, however, they recognized this amount of supervision was overkill; it was sufficient for Eric to meet quarterly with Glennon for coaching on management and to get on-the-job guidance from his father and other company executives.

Two years ago Dick appointed Eric vice president of service operations, marking the first time he would report directly to his father. The two get along well, but working with and around their distinctive thinking and management styles has been a constant challenge. Father and son look for ways to complement each other's strengths and weaknesses, and they talk candidly about who is the best person to handle a particular situation.

When they do clash, it is usually over Eric's tendency to run with ideas and ignore details. "Eric gets excited about something and immediately wants to change the world," says Dick. "My father said the same to me, so maybe it's generational." The conflicts have lessened in the past year as Eric has learned to plan before he acts. "That's the most valuable lesson Glennon has taught me," says Eric. "No matter what I do, I have to plan."

One of the experiences most important to Eric's development—one not planned by the Merlin team—was joining the board of a local charity. The board has some prominent business people on it, several of whom have become informal mentors to Eric. Besides broadening his business contacts, his charitable work has also connected him to his community in new and personally rewarding ways.

Dick, now 64, knows that succession affects both generations, and he turned to a friend to help him think through what he wants to do next. He has already had one revelation: His emotional stake in the success of the business is greater than he thought. Initially, he planned to sever ties with the company. Now he wants to stay on as a consultant—a choice Eric encourages.

Dick has two remaining items on his succession list: building a younger management team to run the business whose talents complement Eric's, and forming a board of advisers to see the company through the transition. The latter would be composed of senior management plus outside business and financial managers familiar with the company and its goals. Dick serves on a similar board for another company that is going through a generational transition. Although that board meets only twice a year, he is impressed by its influence on the company and by how much of what he learns applies to his own situation.

Project Merlin was the catalyst that kick-started the Monsen's succession plan. Dick and Eric's openness to learning from others and acting on what they have learned has kept them on track.

SENGSTACKE ENTERPRISES
Chicago, IL
Lessons

1. Diversify assets, or heirs may have to take desperate measures to keep the business.

2. Unresolved family conflicts may be passed down to the next generation.

3. Grandchildren may feel most keenly the potential loss of the business.

For the past two years, Myiti Sengstacke has been fighting to preserve the legacy of the grandfather she adored. John Sengstacke was the powerful second-generation leader of Chicago-based Sengstacke Enterprises, publisher of four African-American newspapers. When Family Business spoke with Myiti last year (Summer 1998), the family was on the brink of losing the business it had controlled since 1905. Myiti was leading an effort to raise the cash to pay $4 million in estate taxes and keep the company in the family. Her father, Robert Sengstacke, who had at first voted to sell the business, had decided to back Myiti but maintained she wasn't ready to be publisher and needed guidance from him.

The grandfather was a strong-willed entrepreneur who ran the family business as if he would live forever. Robert Sengstacke had dreamed of succeeding him as publisher of The Chicago Defender—once the most influential African-American newspaper in the country—but was repeatedly rebuffed by his father. John Sengstacke had failed to groom a successor or revise his estate plan. Now his family was paying the penalty.

With all the company stock held in trust for the family, there were no other assets to pay estate taxes when John died in 1997. His appointed trustee announced the estate would have to sell the newspapers. Myiti and five other grandchildren held 70 percent of the stock; the rest was split among nine family members. The minority shareholders approved the sale, but Myiti, the oldest grandchild, backed by her two oldest brothers, blocked it.

Determined to save the family newspapers and succeed her grandfather as publisher, Myiti, only 26 years old, hired new lawyers and set out to find a successor trustee and investors to pay the debts and recapitalize the business. If that weren't enough, she had to simultaneously build a management team and placate family shareholders who wanted their money. Most delicate was her relationship with her father. Robert, John's only living child, had himself aspired to lead the company. Now he was in the awkward situation of helping his daughter assume the position he had sought.

One year later, Myiti is moving forward in her efforts to keep the newspapers in the family. After interviewing several potential investors, she chose Don Bardon, an African- American entrepreneur and former journalist and publisher. "On paper, he was perfect," says Myiti. "When we met, I knew he was the right one. We share the same vision for the newspapers, and he even knew my grandfather."

An initial injection of capital from Bardon was not enough to pay off the family's debts and keep Sengstacke Enterprises afloat, however. Myiti had to go to Bardon for more money. Bardon's second investment boosted his share of company stock to 51 percent, but Myiti believes he has no interest in running the company himself.

From the beginning, Myiti has fought for family control of the business. She says she trusts Bardon and the agreement her lawyers drew up to protect the family's interests. Bardon can't sell the business for the next five years, and the family has first rights to buy it back. The deal with Bardon is still unsigned because of the legal maneuverings of a few relatives tempted by larger and larger offers from competing corporate media groups. Coping with family conflicts has been stressful, but Myiti is undaunted. "I know I'm doing what my grandfather would have wanted," she says.

What looked to be Myiti's thorniest problem—a workable relationship with her father— has been happily resolved. Myiti and her lawyers offered to sell two of the newspapers to her father and his cousin. They are currently raising money to buy the newspapers and set up a separate enterprise. That will leave Myiti, her siblings, and Bardon as partners in a Sengstacke Enterprises consisting of the legendary but weak Chicago Defender and the most profitable newspaper, The Michigan Chronicle. The arrangement has eased the tension between father and daughter and transformed them from competitors to colleagues. "My relationship with my father is much better now," says Myiti. "We talk more and more easily."

As for the problems she inherited from her grandfather, Myiti partially excuses him on the grounds that African-American business people hadn't been educated about succession and estate planning. She also doubts that he could have acted differently given his difficulties in facing his own mortality and letting go. Besides, she views the hornet's nest he bequeathed her as a gift, a test of her mettle. "In this business you need a fighting spirit, and the one who survives is the one who should be publisher."

Not many family businesses can count on a Myiti coming to their rescue, and not many family members would want to spend years untangling problems that could have been avoided. By ignoring succession and estate planning, John Sengstacke left his business in jeopardy and his family in conflict. It remains to be seen whether Myiti, smart and determined as she is, can salvage the business and retain family control.

TELFDA CORP.
Biscoe, NC
Lessons

1. Having a different career first may help an heir take over a family business in mid-adulthood.

2. Successors have to surround themselves with good people.

3. Patience is a virtue in dealing with founder-parents.

In 1989 Julia Smith Atkins was in line to be a school superintendent in Texas. She enjoyed her profession, but she also wanted “real-world” business experience. Surprising all who knew her, she chose to gain that experience in the family business, Telfda Corp., a manufacturer and finisher of women’s and children’s hosiery. Her parents discouraged her. Why would a 35-year-old Ph.D. at the top of her profession want to start over in a business tightly controlled by her parents? Atkins persisted until her parents gave in, but they set tough conditions: She would have to start at the bottom and work her way up.

As she wrote in Family Business in Autumn 1995, the first several years were harder than she imagined. She clashed with her parents over policies and daily operations and faced opposition from middle managers and supervisors who resented her as a woman and as the bosses’ daughter. When she grumbled, her parents reminded her that she had invited herself into the company. Determined to prove herself, Atkins systematically learned all the jobs in each department. Only then did her parents let her run the finishing department. When she surpassed their goals, they gradually increased her responsibilities. In her sixth year, they appointed her vice president of plant operations, but Atkins wasn’t content to stay in that position; she wanted more authority. Her parents, only 20 years older than she, showed no signs of retiring or selling the company. In fact, they never discussed future plans. Moreover, Atkins’s father held 100 percent of the stock. Would she ever reach her full potential, she wondered, or would she always be under the scrutiny of her parents?

In 1999, Atkins is closer to answering those questions. After testing her managerial skills over a decade of good and lean years, her parents trust her to run the business. This year, her mother retired and her father relinquished the presidency to her, although not all control. He still comes to the office three days a week to consult with Atkins, and he is still sole owner of the company.

Atkins has accepted that ownership of the business is not up for discussion, now or ever. After working with her parents, she better understands their emotional investment in the company and their difficulty in delegating authority. Those insights have helped her come to terms with her father’s need to retain ultimate power. So while Atkins has day- to-day authority to run the company, her father, as owner, can, and sometimes does, override her decisions.

Now 45 and the mother of a three year-old, Atkins has mellowed and so has her father. “Patience is a virtue when dealing with founders,” she says. “If you want to work in the family business, you have to acknowledge that your parents got there first, and you have to learn to work with them.” While it still rankles when her father vetoes her decisions, Atkins says they are better able to talk through their differences, and she is better at choosing which battles to fight. No longer resisting her father’s authority, she now welcomes his counsel, especially on the technical aspects of manufacturing—her weakest area.

Although Atkins understands her parents need to control all aspects of the business, she believes it has cost the company opportunities to grow. In the last five years sales have stagnated. “No one can do it all,” she says. “You have to surround yourself with quality people and delegate authority.” In the past two years, Atkins has begun building a team approach to managing the company. Her father is watching the changes, and she assumes he approves because she hasn’t heard any criticism. The lack of praise is something else she has learned to accept. While her parents are supportive, they do not express their approval in words.

Looking back over the past 10 years, Atkins now believes that joining the family business at age 35 was an advantage. “Having achieved success in another field helped me maintain my balance while climbing the ladder here. When I needed my ego stroked, I could draw on previous successes to sustain me.” Atkins’s maturity was a factor in helping her deal with her parents’ need to control. Equally important was her ability to stay focused on her goals of running the business well, while having to earn their approval.

ROBINSON HELICOPTER CO.
Torrance, California
Lessons

1. Succession and estate planning is doubly vital if you live dangerously.

2. It's just as important to plan ownership succession as management succession.

3. Advise family members of your plans even if you don't intend to transfer the business to them.

Frank Robinson still test-flies the helicopters his company designs and manufactures. In a March/April 1991 cover story, Family Business raised the question of how a man in such a high-risk occupation could ignore succession planning. Eight years have passed and Robinson, president of Robinson Helicopter, hasn’t yet selected a successor—even though he is now 70 and sales have doubled to $100 million a year.

To be fair, Robinson has thought about succession in general terms. He makes a distinction between succession of management and succession of ownership. Succession in management is on his mind. He’s taking more time off these days and hoping that his absences will force division managers to make decisions without him.

Robinson rejects the idea of grooming one person as his successor. “I started this company from scratch and developed skills in every area of the business,” he says. “No one else in this company or in this industry has my background.” He has considered forming a team of managers to lead the business, although he still hasn’t thought about who would head it.

In 1991, it appeared that Robinson’s second wife, Barbara, and his oldest son from his first marriage, Kurt, might be in line to succeed him. Barbara has since retired from the business to be a full-time mother. Kurt has worked at the company for 22 years, but Robinson doesn’t believe in choosing leaders on blood lines. “Kurt has potential, but he’d have to compete with other managers for the top spot. I’ve never talked with him about what role he’d play in the future. He seems content working in customer service.”

Robinson, the sole owner, would be willing to sell the company to his children, but not give it to them. He has thought about offering Kurt and the management team first rights of refusal if he puts the business on the market. Since he doesn’t believe in inheritances, he is considering options for giving his wealth to charity. Recently he gave $1 million to a small high school he attended to provide college tuitions to graduates. He wants to do more charitable giving, but because the IRS doesn’t allow a foundation to run a business, he will have to find a way to sell the company to fund a foundation.

Robinson denies having any psychological resistance to succession planning. He is aware of his age and the risks of flying helicopters; and that he still has two young children dependent on him. Why, then, hasn’t he taken action? “I’ve been busy with other things,” he says, “and I’m not totally sure of what I want to do.” So when will he put something in writing? “I plan to attend to it in the fall,” he says and then laughs, “but I said the same thing last fall and the year before that.” ▪

Deanne Stone is a business writer and freelance contributor to Family Business Magazine, who specializes in writing about family foundations and family businesses.

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