

## When Junior Takes Over

Michael W. Palumbos, a wealth management consultant in Syracuse and an expert on family-owned business, talks about pitfalls, succession, managing relationships and the divide between dinner table and boardroom.

Interview by Melissa Stefanec

*What are some of the biggest problems families in business encounter?*

The vast majority of the issues that family businesses face are the same as every business. They'd include sales and marketing, growing at a controlled pace, the rising costs of employee benefits, hiring and retaining employees, etc. The biggest problem is when there is family involved. The emotions are typically higher and it is difficult to separate business life from family life. There are some issues that are unique to family-owned businesses as well. For example, sibling rivalry can be an issue, how to treat non-family members versus family members, compensation amongst family members, who will be the next leader of the company and is she/he prepared and is the business big enough to support all of the family members that want to be involved.

*What is some advice for passing on the business to the next generation?*

Ensure that they are properly trained. Allow them to make decisions while you are still around to help. Be sure that all key employees have a vested interest to stay active in the company. Don't be afraid to transfer the control (not ownership) of the business to a non-family member in the absence of a strong leader within the family.

*How should a current owner decide which members of his/her family will take over the business?*

This should involve open discussions over a period of time with key family members and potentially an informal board of advisors. The decision should be based on having the skills necessary to run the business and not based on position in the family, age or sex. Ultimately, there doesn't need to be a consensus but all family members should respect the decision of current management and

support the future leader for the benefit of the business.

*Should an outside mediator be consulted when problems arise between family members in business? Who should be consulted?*

Each family is different. Once it gets to the level that there are conflicts, the true problems can get masked, so working with an outside mediator that has worked with family businesses can be very helpful. The real key is to learn how to manage the relationships within the family and the business. If the relationships can be managed, then honest and meaningful communication will flow. That doesn't mean there won't be problems, but at least they will avoid becoming conflicts.

*Should business talk be kept out of the home and leisure time for a family in business?*

Business talk should be kept out of the home and leisure time but that can be easier said than done. Family members need time away from the business to express their thoughts, concerns and ideas. One potential solution would be to hold family meetings on a monthly basis. Family meetings, done with and without the team of advisors, can be helpful for all family members because it provides a specified time when all business issues can be discussed openly.

Any new topics, questions, concerns or proposed changes within the business should be introduced at these meetings so that all family members are informed and up to date. By providing the time to voice opinions and concerns it may help to curb the amount of time that is spent talking about the business at social family events.

*What are some of the benefits of being in business with family members?*

Increased time with the family can be very rewarding. There is implied trust within the family system that you don't find in non-family businesses. Working toward a common goal and common purpose can give a sense of direction to the family.

*What are some of the most ordinary mistakes families in business make?*

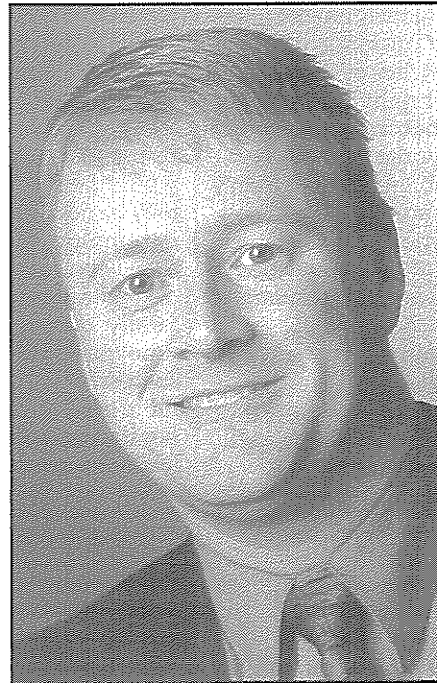
Some of the most ordinary mistakes the leaders of the business make are not sharing the intricacies of running the business with the next generation or key employees, not establishing a business succession plan and not separating ownership from management of the company (people should be paid market value for their job in the company. Ownership rewards should be separate).

*Should family members treat each other like family at work, or should they treat each other as professionals?*

I believe treating each other as professionals makes the most sense. It helps to provide a distinction between work and home. It shows a level of respect and is more businesslike.

*Should families take time away from each other if they are in business together?*

I think time away from each other is healthy. If you don't work together



Michael W. Palumbos

it just happens naturally so, of course, spending time away can be helpful. For families that live together as well as work together I think it's a good idea to also find a way to buffer home from work as much as possible. Some families have used the ride home to transition, others have used the sight of a kitchen table free from business papers as the signal that work is over and it's time to focus on the family.

*What are some of the difficulties a family business faces that a non-related employee business would not?*

In a family business it's often difficult to separate family and family history from the successful operation of the business. In other words, emotions and past history may drive the decisions instead of qualifications and abilities of the family employees. Communication as I have mentioned previously is often more difficult in a family business, it's hard enough to tell the owner of a company that something isn't right and needs to change but what if the owner is also your father/mother or favorite uncle? How do you tell your older sibling that they aren't pulling their weight around the business and still feel comfortable sitting down to Sunday dinner at mom and dad's house? It takes work and skill to manage those relationships. Another big issue is showing non-family members that there is a career path and advancement opportunities within the family business. The talents of non-family employees will be needed as the business grows so it is important for them to see opportunities and growth potential.

*Do you have any advice for a family planning on going into business together?*

Talk often, talk honestly and continue to talk to each other. Look for a good circle of advisors (CPA, attorney and financial consultant). There are a number of Web sites dedicated to family businesses, use them and the articles they have as a resource. Check with your local chamber of commerce to see what types of support they offer for family and closely held businesses.

*Should age and time put into business always dictate power?*

The first thing that has to be evaluated is who is the most qualified to lead. It's not always the oldest, although that is the default answer many times. It may be necessary to ask an outsider's

## *Managing relationships is one of the biggest keys to success for the family business.*

professional opinion as to who is the most qualified to lead the company. Family business or employee consultants may be able to help evaluate your workforce and potential candidates for leadership, business knowledge and other abilities.

*What are some warning signs that roles need to change in a family business?*

Times change and so will the business. What was successful yesterday might not work five years from now. The leader of the business has to be able to adjust to those changes. The inability to adjust to new business trends would be a big warning sign. A change in attitude, management style or an inability to effectively complete their respective job responsibilities are warning signs that would be apparent that a role change may be necessary regardless of whether the employee in question is the CEO or a division manager.

Roles and job functions within the family business need to change over time for the company to grow and run successfully. The problem is that because there is an inherent tendency to run the family business more informally, it can lead to issues that become harder to deal with the longer they are left unattended (i.e. wrong person in the wrong job or it's getting close to the time for Dad to retire). All businesses need to change using the disciplines that good companies use - workflow management and clear understanding of job duties and responsibilities - can help employees to understand how their contributions affect the company's future success. When warning signs appear the focus is on resolving the business issues instead of family issues.

*How should a family set up a finance plan for assets, profits, and losses?*

Families should have a team of advisors that help them to establish, monitor and achieve long term personal, business and family goals, as well as help them to protect the assets for future generations. The team should consist of a trusted CPA, attorney (business and estate) and

a financial planner. Utilizing a team of advisors will allow the family to concentrate on business operations while their advisors are working on helping them achieve their financial objectives. The team approach to financial and business planning is valuable to ensure that the family has several viewpoints available to them to help in their decision making process. There are several ways to implement financial plans today and being exposed to the pluses and minuses of as many ideas as possible can safeguard the family from making uneducated decisions with their assets.

*Should each family member have a different business consultant or lawyer?*

I don't think each family member needs a different advisor or attorney especially if there is a team of advisors involved. There will be enough differing opinions and varying ideas being shared that everyone within the family should feel comfortable that their interests are being served. The family should make sure that the long-term affects of decisions and agreements made today are thought through and explained to all parties involved.

*What does it take to make a family business successful?*

Communication and managing relationships are the biggest keys to success for the family business. Running the business operations comes naturally for many people but it's the ability to communicate openly and honestly with all family members that will take the business to the next level. Working together to avoid relationship challenges is a skill that isn't taught in business school but without it, family members and their emotions can be distracted from the successful operations of the business. Monthly family meetings are a wonderful way to disseminate information and ask for thoughts and opinions from all family members in regards to long term strategic questions for the business.

*Michael W. Palumbos is a private wealth advisor for PS&E, LLC/Sagemark Consulting in Rochester and heads the Greater Syracuse Chamber of Commerce's Family Business Group. The group is a resource for ideas, employee guidance and other issues for family and closely-held businesses in the chamber. The group also holds seminars for area business owners.*