PERSPECTIVE

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The change factor

Family business CEOs must be able to adapt.

BY GERALD M. SHERMAN

Most people who read about the recent rash of business failures would cite the economy as a major cause. Closer consideration, however, suggests a much more complex analysis. In fact, in the 28 years I've spent as an adviser to troubled privately held and family-owned businesses, it's become apparent that owners with CEO responsibilities hold their companies' fate in their hands. Furthermore, it's become painfully clear that every one of these failed owner/CEOs had crucial weaknesses in their management skill sets that contributed significantly to their companies' demise.

With those thoughts in mind, it seemed worthwhile to review my experiences and look for the lessons they would offer. I decided to review information on 50 owner/CEOs I had worked with. The basis for selection was simply that each owner/CEO was, for whatever reason, memorable. Despite this random selection process, the data spoke with great clarity:

- All 50 owner/CEOs had held the position for the first time.
- Only four of the 29 family business owner/CEOs had ever worked full-time at other another company.
- Only two of the 50 actively sought out professional training focused on how to do their job—*either before or after they became CEO.*
- Only four of the 50 owner/CEOs had active boards of directors or advisers.

These findings are both telling and entirely consistent with my experience. As a group, the 50 owner/CEOs were relatively inexperienced. Despite this, they showed little interest in acquiring formal professional education or taking advantage of the knowledge and experience others could offer. Not surprisingly, to the extent that these behaviors suggest a lack of openness to new and different ideas, the inability to change and adapt was a dominant aspect of all 50 owner/CEOs' management style.

Sal (not his real name) was a dynamic, sales-oriented entrepreneur with close to ten years of experience as a sales manager. He left to start his own company and built it to $10 million in annual revenues within five years. Despite this, the company had never generated meaningful profits. The reasons for the chronically weak performance were easy to discern. The company closely reflected his personality—aggressive but undisciplined, always looking at the "big picture" but overlooking critical details. Given his style, Sal's company lacked many of the basic management practices typical of successful companies. Unrealistic planning practices, ineffective internal communications and a lack of accountability were consistent shortcomings. Sal also tended to avoid difficult issues; "de facto" decisions resulting from the avoidance of problems were commonplace.

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Sal had been able to attract several investors to support his company as it grew, but he continued to hold voting control. Despite the investors' efforts to help Sal address his performance issues, he wouldn't change. Eventually, he agreed to hire a professional CEO, but it was too late. Less than a year later, the company was shut down, and Sal and his shareholders lost their entire investment.

The situation with Sal is quite typical of failed owner/managers: Even when confronted with the need to change, they really don't want to.

Another owner/CEO I considered—Richard Miller of Milson & Lewis LLC, an importer of leather goods and home accessories—understood his issues but wasn't able to change. He had bought the company after having worked there in middle-management roles for seven years. "I quickly realized that I wasn't very good at managing people," Miller said. "It just wasn't something I could do and it really cost me. Looking back, I really wasn't that well-equipped to run the company." After 12 years, he liquidated the business.

In larger businesses, poor performance can be dealt with easily—people are either terminated or reassigned. In privately held or family businesses, that solution is not available much of the time—for better or worse. Given that competition often grows, markets typically change over time, the economy is cyclical and business practices evolve, the owner/CEO has a choice that's both stark and simple: Adapt effectively to challenges or risk the worst. FB

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