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WHY FAMILY BUSINESSES ARE BEST

It might not be easier to run a business with family members. But when family businesses work, they possess an inborn competitive edge no other company can match

Forget for a moment everything you've read in Inc. about family businesses.

Forget the spousal cat fights. Forget the destruction wrought by tyrannical fathers. Forget all those battles waged by all those children trying to get their parents to view them as managerial peers. Sure, when businesses get messy, family businesses get messier than most. But the messy ones are the exceptions.

The rule, on the other hand, is this: a business run by a team of family members is more resilient and more likely to succeed than any other kind of company. Not as likely. More likely. For despite the sometimes emotionally taxing challenges of family-based management -- and no one is saying it's easy -- there are things about family businesses, about the ways they function internally and are perceived externally, that other businesses simply can't replicate. The result is that family businesses enter the commercial fray with a head start smart managers can exploit to keep them ahead. By their very makeup, family businesses have an unparalleled competitive advantage.

Here's why. ...ST-Familiarity Begets Speed

Family businesses have one indisputable defining quality: the individuals reporting to one another, confiding in one another, and growing the company together understand viscerally what makes their compatriots tick. Whether dealing with a sibling or a parent or a spouse, they know what inspires, what threatens, what elicits compromise. The best family businesses turn that understanding into an efficiency that breeds speedier management.

"We're absolutely faster," says Crystal Ettridge, who with her brother Steven has grown Temps & Co., a Washington, D.C., temporary agency, into a three-time Inc. 500 company with current billings of \$32 million. "We have a telepathic relationship. We don't waste time."

For instance, when the company opened an office in Atlanta during a period of heavy growth in the late 1980s, and it floundered, Ettridge went to survey the situation and brought back the bad news. "I came home and said, 'Unless you are willing to move down there, or I move down there, it's not going to work. The staff we have is not prepared to run the office this far from home.' I told him my recommendation was to close it down. And the decision was made in, like, one minute. He said, 'Fine, it's closed.' And we moved to quickly cut our losses."

Ettridge says she pulls no punches in telling her brother what's good, bad, and ugly about his ideas. "It's just part of the dynamic we've had from growing up together. We don't spend a lot of time saying please and thank you, or typing up plans to present to each other. I think if you know how to utilize that undercurrent and knowledge of each other, you really can have the edge."

Paul Kennedy, president of Kennedy Die Castings, in Worcester, Mass., calls it a shared intuitive sense. "We can talk in shorthand," says Kennedy about working with his father and brother, who help run the company. "We can get things done in shorthand. The family-business structure can be amazingly quick-footed."

Leverage, part one:
Family members have
star power with customers

Some customers don't want to speak to a nameless -- let alone faceless -- person in your operation. They want to speak to the person in charge. You know, the person whose name is on the door.

How nice, then, if there are 2, or 3, or 10 people in the company whose name is on the door. In the world of symbols and perception, the experience of dealing with a family member can reassure a customer as much as speaking with the one person who holds the title of president. Family members become a way of leveraging and multiplying a chief executive's presence in the marketplace.

Joseph P. Goryeb, who founded Champion Mortgage Co. as a sole proprietor in 1981, now shares management of the 143-employee, \$21-million Parsippany, N.J., company with two sons and a nephew. His wife and daughter also are in the ranks. And he's found that the more people named Goryeb around, the better.

"I'm very, very visible on TV," says Goryeb. "I do all the commercials, and we're on television about 50, 60 times a day here in the New York-Philadelphia area. So everybody recognizes the name. And every time a Goryeb gets on the phone, the customers are impressed that someone at that level is handling them."

That response depends partly on each individual's competence. But Goryeb says the name alone counts for a lot. "I just brought my daughter on board," he notes, "and she's learning the business; her job is to send loans to different investors for preapproval. She's a Goryeb also, and I think it helps."

Family Breeds Sacrifice --
and resilience in tough times

During short-term crises -- the hurricane that leaves physical destruction, or the sudden cash crunch that temporarily pinches operations -- solid, team-spirited staffs often come together in support of the company.

But longer-term crises -- such as a slow and confidence-draining decline in sales during a recession -- can test businesses in deeper ways. Family businesses pull together with a unique kind of durability during those periods, because family members know it's their business they're sacrificing for. They are simply more likely than nonfamily employees to willingly give up pay, time, and status if the call goes out. They're less likely to bolt. Anita Roddick, founder of \$185-million cosmetics manufacturer and retailer the Body Shop, based in Littlehampton, England, likens family businesses to tightly woven fabric: there are hidden strengths that show under pressure.

Computerware Inc., a \$50-million computer retailer with corporate customers, knows that hidden strength. Run by four brothers, their parents, and one outsider, the Bristol, Pa., company drew from that strength during down cycles.

Budget tightening, says president and eldest brother John Kovalcik Jr., was easier to impose on family members. First went perks like afternoons of golf. Next were the company credit cards, so that managers had to fill out T&E forms for reimbursement of expenses. Salaries were frozen for everyone in the company, and the seven owners took 10% pay cuts.

"It was just done, and it was accepted," says Kovalcik. "Our family said, 'OK, we'll pitch in.' And this was a good amount of our income; what we earn right now isn't even within industry standards."

That's a different reaction, he thinks, than he may have gotten from nonfamily managers. "It's hard to forecast," he says. "It's unknown how devoted your people are. The really good ones are really devoted. But most companies have a spread of people -- good people, clock punchers, and people in-between." In difficult times, family businesses have fewer unknowns. (Continued)

Inherent trust produces
a stronger team

The difference between us and them -- the competition -- is completely clear in a family business. Few people in business with family members have cause to second-guess the motives of their partners. Rarely do they have to worry about a team member jumping ship to the competition. And trust, they find, has the potential to make family partners more secure, more open, and subsequently, more informed than any team of unrelated people -- all to the competitive advantage of the business.

Michael Pelosi, for instance, figures his father would have fired him long ago if they didn't share the same DNA. Not for poor performance, but because Pelosi adamantly and unrelentingly insisted that the business his father had founded had to shift direction.

Airo Clean Engineering, in Exton, Pa., designs and builds clean rooms used by hospitals, pharmaceutical companies, biotech outfits, and the like. When Pelosi joined full-time, in 1981, the battles over marketing more aggressively and broadening the customer base began. "It was very much a question of his philosophy versus my philosophy," recalls Michael Pelosi. "Certain industries we were selling to were dying out, and we needed to change. We went head-to-head many times." The confrontations, he says, were rougher than what he thinks his father would have accepted from an outsider. "If we had not been related, I wouldn't have been able to get away with the things I did. He would have fired anybody else."

Maybe it was a sense of job security that allowed Pelosi to push so strongly; along with the entitlement to his position came a burden of responsibility that, he believed, obligated him to speak his mind. Maybe it was his father's certainty that his son knew he wasn't betting just the boss's company but his own company on the new strategies. The senior Pelosi now credits his son's aggressive sales-and-marketing approach -- both toward him and in the marketplace -- for the company's tripling of revenues to \$3.5 million since 1987. In December 1990 he retired. "Michael has fallen beautifully into the CEO's role," says his father. "He has new ideas, a fresh approach, and maybe more ambition than I have. I can relax."

Those are the dynamics of a family team: arguing prodigiously over strategy or execution even when another family member has great ego invested in one option or another. And relatives can do that because they trust one another and care about one another.

Echoes J. Paul Grayson, cofounder of the \$30-million graphics-software company Micrografx, in Richardson, Tex.: "With my brother and me, it's possible to disagree, get mad, and promptly forget. With a nonfamily member, it's easier to harbor a grudge or have personal conflicts. We never hold long-term grudges."

Leverage, part two:
Perceived commitment
Means great PR

There is a mystique to family businesses, a belief among customers that these companies have uncommon integrity and an uncommon commitment to their businesses. There's an expectation that families care more because their names are on the line. And sharp companies milk that perception for all it's worth.

For instance, the Longaberger Co., in Dresden, Ohio, has taken its warm and fuzzy product -- handcrafted wooden baskets -- and surrounded it with equally warm and fuzzy photo-album-like brochures and catalogs with children who look like Huck Finn and Becky Thatcher. The sales pitches tout, implicitly and explicitly, the idea of family heritage coming "from our home to your home."

"This wasn't a marketing strategy we put together in the home office with some M.B.A.-ers or something," insists Tami Longaberger Kaido, vice-president of marketing. The approach grew, she says, from the

company's real-life legacy of Longaberger men -- Kaido's grandfather and then father -- who made well-crafted woven baskets. What's impressive, though, is the company's ability to sustain that approach even while employing 2,000 people and bringing in roughly \$140 million in 1991 sales. "No doubt about it, I think people are buying the intangibles that come with the product," says Kaido. "They're buying tradition and the idealistic values of a family: church socials and wholesome, honest, rural America."

Businesses can also play off stereotypes of family relationships for the greater glory of customer awareness. Columbia Sportswear Co. has done that exquisitely. The Portland, Oreg., company's revenues in 1986 were \$19.5 million; over the next four years they exploded to \$117 million, owing in no small part to a tongue-in-cheek advertising campaign that extols the finickiness of the company's chairwoman, "Mother Gert" Boyle, and the attempts by her son -- company president Tim Boyle -- to placate her. Previous ad campaigns had earnestly presented the technical advantages of the company's outdoor gear. By contrast, a later TV spot had Mother Gert making Tim walk through a car wash to demonstrate how waterproof their parkas are.

Even high-tech companies have found marketing value in emphasizing We Are Family. Brochures from Computerware Inc. open by telling customers straight out that it's a family-owned computer reseller, and close with a photograph of the five Kovalcik men and their one nonfamily manager. "There are so many bigger companies out there touting We're Bigger, We're More Businesslike," says John Kovalcik Jr. "We want to take a totally different tack. Our sales are strictly corporate, and if you can pull off another angle -- We're the Owners, We'll Make Sure You're Taken Care Of -- a lot of people will buy because of it."

Continuity projects stability,
making customers and
employees feel secure

Some family businesses shy away from emphasizing their "family-ness" to customers, employees, and their communities; the characterization, they think, doesn't project appropriate professionalism. It's pejorative. But others have found that presenting themselves as a family operation enables them to take advantage of an assumption that family companies, more than any other kind, are in business for the long haul -- and will provide continuity for customers and employees alike. Family businesses can make their constituencies feel secure.

"Family-run companies have a lot of flexibility to respond and plan, because you can say, 'I don't care about next quarter or next year. I'm going to build something that will do really well in years 6 through 10,' says Bruce Woolpert, a third-generation manager and, with his brother, Steve, copresident of the Granite Rock Co., a supplier of concrete and crushed stone in Watsonville, Calif. Adds Steve, "There's no doubt about it: working here goes deeper than the relationship with my parents and my brother. We are advancing something that was begun by our grandfather, which makes for a certain responsibility to continue and progress. There's no greater motivation than that."

Granite Rock honors that historical bond visually, through sepia prints from its early days, hung along its office walls. And it reconfirms that bond by long-term thinking: the company's policy is to maintain a supply of rock deposits that ensure not a 5-year or 10-year supply of raw product for customers, but a 50-year supply. "We don't mention it in our brochures," says Steve, "but I think the word is out that Granite Rock, having been around more than 90 years, is operating as if we're going to be around another hundred. We project stability."

And woe to those who impugn a family company's name -- more than any other kind of company, family businesses will fight fiercely to maintain their reputation among employees and customers both. That was part of the motivation behind a court fight mounted by Pittsburgh-based Abarta after the federal Justice Department investigated one of the company's Coca-Cola bottling plants and charged it with price-fixing. CEO John Bitzer, maintaining the company's innocence, says he spent \$5 million in legal fees before the case was dismissed, even though a fine, he says, wouldn't have been more than \$1 million (albeit with residual fallout in future business).

Why? The reasons involved more than just the financial repercussions, says Bitzer. "In all its history, there had never been any taint to the family name," he says. Longtime employees called in before a grand jury

"were subjected to intimidation and misinterpretation," as prosecutors dived into their inquiry; wanting to vindicate employees, he says, was one reason he didn't plead guilty and pay a fine.

"When the lawyer told me we had won and were cleared, you know what my first reaction was? Anger. I thought, Who's going to make up for all this? The answer was nobody. Then there was a great sense of relief. I was thinking about how people weren't going to have to have this stigma." The battle ended up enhancing the company's image among personnel. In an employee survey done in July 1990, the statement that got the highest rating was this: "Abarta acts with a high level of integrity."

Running any business is difficult, and running a family business is no exception. But managers whose compulsions are shared at home -- rather than begrudged -- are more likely to be engaged by their work and less likely to feel stress from trying to balance their personal passions and their business appetites. "If we weren't working together," says Kelly Mayorga, half of a husband-and-wife team running R&E Electronics, in Wilmington, N.C., "I might resent the hours he spent here, and not relate to him the same way."

"This business is just part of me. I couldn't separate it out," says Marilyn Schulman, CEO of Van Mar, a \$30-million East Brunswick, N.J., manufacturer headed by Schulman and her husband and son. "I'm fanatical, excessive, compulsive. My son Scott is also. This is our family's labor of love."

A labor of love. Ultimately, family businesses are better, say those who have them, because building a company with people you care about can be more satisfying than building a company with people who don't share so fundamental a connection. New dimensions of affection and admiration surface when family-business partners depend on one another and find that dependence rewarded. Twelve-hour workdays take on a meaning more significant than the missions of serving the marketplace or feeding one person's pride, because family businesses enable people to work hard for something more important than either opportunity or ego: family.

Working with family -- and for family -- is good for the soul. What luck that it's good for the business, too.

Anne Murphy and Edward O. Welles contributed to the reporting for this story.

PHOTOS: 'We have a telepathic relationship. We don't waste time,' says Crystal Ettridge about the advantages of teaming with brother Steven to lead their \$32-million (in billings) temp agency. Facing page: the Ettridges together as children. (KIT WALLING)

PHOTO: The perception that family pride begets quality products makes for great PR, according to Columbia Sportswear chairwoman Gert Boyle and her son, CEO Tim Boyle. (KRISTIN FINNEGAN)

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By LESLIE BROKAW and LESLIE BROKAW

## NOW FOR THE HARD PART

**A family business can't exploit its built-in competitive advantage unless it overcomes the special challenges of family-based management first. Here, some tips**

Legions of companies in the United States -- the vast majority, according to most people who count businesses -- are managed by families. Of the fast-growth Inc. 500, 46% of the class of 1989 were directed by family teams. Clearly, not only do an overwhelming number manage to subsist year in and year out, but many thrive as well.

How do they do it? How do they make it work? Many follow more than the standard advice of avoiding shoptalk over Thanksgiving dinner or having plans that lay out who gets not only the

Hummels but the front office in the event of an untimely demise. Here are some other suggestions that family-business managers say help ease the strain of working with the ones they love.

- **Write a combination business plan/family plan.** When Tina Smith and husband Mark were preparing to take on management of a second company in the transport business (their main company, Hub City Kansas City Terminals, is now a \$30-million shipper), they sat down one morning and separately wrote their personal and professional goals. By evening they'd combined their lists, prioritized issues, and developed clearer ideas of each of their visions.
- **Create an outside board of advisers.** Too many family companies have boards made up only of insiders. Outsiders "make you do your homework," says Kelly Mayorga of R&E Electronics, in Wilmington, N.C. Her husband, Ed, is in the process of setting up a board for their Inc. 500 company.
- **Divide the turf explicitly.** Sheila West spent three years managing the archery store she and her husband, John, bought before he was able to quit his job and join her. But moving to shared power almost broke up their marriage. The Wests' solution: John took charge of the retail operation, and Sheila became head of the wholesale operation, Archery Center International, in Monroe, Mich., which eventually became a two-time Inc. 500 company. The Wests consult each other but have clear-cut autonomy, too.
- **Formalize regular meetings.** "If you do meetings hit or miss, no one shows up," says John Borthwick, who manages pharmaceuticals manufacturer Derma Sciences Inc., in Old Forge, Pa., along with his mother (chairwoman and head of research), stepfather (head of stockholder relations), brother (chief financial officer), and stepbrother (operations officer). The family-only executive group meets alone once a month, and every two weeks with an additional five people on the senior team.
- **Use the same accountant for company and individual taxes.** That's especially the case when a company is making transition plans or looking for ways to protect children in a business from having to pay exorbitant inheritance taxes when the owner dies.
- **Allow other family members to offer perspective.** When Tami Longaberger Kaido of the Longaberger Co., in Dresden, Ohio, was going crazy over something her father (also her boss) had done, she turned to her uncle. More than anyone else, he was able to help her understand her dad's personality. "A year or two later my dad said, 'You know, we get along so much better now.' I said, 'Well, let me tell you, I've had several talks with your brother.' He agreed it had helped."
- **Take annual retreats to revisit the company mission.** The four brothers and their parents who run Computerware Inc., in Bristol, Pa., take semiannual daylong retreats, along with their spouses, to hear a family-business speaker/moderator and go over their "family charter," a 10-page document that encompasses everything from retirement plans and compensation issues to personal goals and ideas about harmony.
- **Remember what's important.** "After working in the factory at General Motors as a manager, I think I'm a little more mellowed here," says Gerald Kruger, CEO of \$14-million Baseball Card World, a card-supplies manufacturer in Anderson, Ind. "I still push people pretty hard, but I bite my tongue from time to time because it's family. And I think they do also, because it's Dad or husband or whatever. And I'm not sure that's all bad, because it's still just a business. It's still just a job."

PHOTO: Customers love dealing with anyone who shares the name on the door, says Joseph P. Goryeb (center, with nephew James Goryeb, a VP, and wife Marguerite, treasurer). (CHRIS WADE)

family, but there are other aspects that you can. What family means to me is a relationship among the people in a company; how they deal with each other and the company. We're not a family business, but I think we're a business that feels like a family of people. It comes, I think, from David and I dealing with each other in a relatively personal way. We don't set up a lot of these corporate structures, and we don't reinforce corporate behavior. We never argue about anything. There are plenty of professional disagreements, and we always resolve them with lots of discussion, but I can't recall a single door-slammer or a call late at night to apologize or any of those kinds of situations. Those sorts of outbursts don't happen here.

**BLOHM:** In our case partnership works. And the closer you get to making all your employees feel as though they are partners, the better performance you get out of the business. Look, the essence of a family business is that people have a vested interest in its success, that they feel an ownership and a passion. And nonfamily businesses can create that same ownership, absolutely.

**RAZDOW:** We have quarterly meetings; we're very open about the financial condition of the company, what our plans are, and why we're doing things, and we try to be vocal about other people's accomplishments and recognize their promotions. We manage the company with a planning committee of 10 people; everyone on it owns some stock options, and we regularly give ownership in terms of responsibility.

**BLOHM:** For example, one of the things we like about Mariann Ivey is that she takes ownership of the fact that customers are satisfied when they call up on the telephone. She was a tech-support person before becoming director of product development, and she feels a strong responsibility for the phones. And it shows. I regularly get letters complimenting tech support, and I never fear that if reviewers call tech support, they're going to get somebody who's rude or insensitive to their needs. It comes from us, Allen and me, who have insisted that that's the way we operate, but she's picked up on that, and she's an advocate of that.

**RAZDOW:** People's career paths just sort of happen here without a lot of planning. It's the same way when you're growing up in a family business, that as you get older you take on more responsibility. We make allowances for people's individuality -- we've had some people who've gone on maternity leave and come back part-time; some people who've taken machines home at times when they had to; our famous members of the R&D team who refused to wear shoes and caused problems with our insurance vendors. I don't think we're by any means a zoo or a place that encourages odd behavior, but we make accommodations for other people's working styles. We're more results-oriented: people produce and they collaborate, and I think they do well here.

**BLOHM:** I think you said the basic philosophy, which is being results-oriented. That's the key point. As long as you don't deviate from that, people respond and take ownership. Is it familylike to let people operate in their own style? Give them an objective and let them go out and meet it? What we're saying is, 'You're smart and I trust you,' and we get much better performances. People enjoy their time here more. Many telesales organizations are structured less personally: they say, Here's the script, here's what you say, here's how you sell. We say: Here's your comp plan, here's what you gotta make, here are your materials. You figure out what's best for you.

**RAZDOW:** I don't know how to put a name on this thing, but when you're with different people in your life you act differently. You're one way with your parents; you're one way with your friends watching a ball game, still another when you're at the dentist's office. I think there's a way we interact with each other here that is like a family, even though there's not a lot of socializing outside the office. When we're working together, there's a kind of comfort. And a kind of purpose. Certainly, other companies I've been in don't operate that way: they're more formal; there are more hidden agendas. When you talk to someone the conversation is loaded with all sorts of things. That's not happening here at all. We work well together in a very direct, no-BS kind of relationship, and it makes business a lot easier.

PHOTO: MathSoft cofounders David Blohm and Allen Razdow have tried to create a family-business environment at their nonfamily company. (RICHARD MITCHELL)



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