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Family Matters

Who Should Run The Family Business?

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Too often, the wrong person with the right last name gets the corner office. Here's how to avoid that.

Chris Carey

What are the chances that, out of thousands of candidates for the CEO spot, the son or daughter of the company founder is the most competent of the bunch? Slim to none.

Say you are a member of the Ford family, and your financial security lay in family trusts stuffed with **Ford Motor** (F - news - people) stock. Who would you rather bet on, William Clay Ford Jr. or Alan Mulally, the former **Boeing** (BA - news - people) exec now at Ford's wheel? In this case, Mulally had the presence of mind to secure $24 billion in funding prior to the recent economic collapse and thus avoided becoming a ward of the federal government, like GM and Chrysler.

The same can be said of the Walton clan at Wal-Mart. When founder Sam Walton died, much ink was spilled over fears that the culture, and thus performance, of the giant retailer would deteriorate. In fact, transition to professional management has yielded relentless revenue growth and profitability.

To be clear, I have met many family-member executives who were excellent leaders. But to be fair, the odds are heavily stacked against them.

We all have some vision of what the head of a company is supposed to look and act like--be it a swashbuckling robber baron or a by-the-book *Harvard Business Review* type. But archetypes don't matter. Maximizing performance is about finding the right person for the right job--and that means marrying someone's specific skill set with what he fundamentally enjoys doing.

The Passion-Performance Connection

I'll give you an example. We worked with a family-owned warehousing and trucking business in New Jersey. Annual revenue: $50 million. The father was active, although he was serving more as chairman, and had turned over the CEO role and day-to-day management to his eldest son, Jed.

When we got involved, Jed was spending approximately 95% of his time on operations and 5% on selling. His ineffectual sales manager hadn't closed much new business in three years, yet Jed understood customer service and so a lot of business came in from referrals. While the company's top line was growing at respectable 10% annual clip, the potential was huge.

Jed was an effective leader too. His employees were loyal and would log all-nighters to get rush orders to demanding customers--no questions asked.

When I spent my first day with Jed, he was continually on the phone fielding customer calls and pumping orders over loud-speaker systems in three buildings. He had a formal organization chart, but in practice the structure looked more like a wagon wheel, with Jed in the middle and all associates reporting to him.

That approach worked extremely well in the company's early years, but by 2006, when Jed boasted 60 warehousing customers and over 150 trucking customers, the wheels were wobbling. Revenue was still growing, but profitability and cash flow were ebbing. Inefficiencies abounded.

After working with Jed for a few weeks and joining him on a number of customer visits, I discovered a glaring disconnect. Jed was one of the best relationship guys I had ever met. Customers loved him; prospects wanted to spend time with him. He had grown up in the logistics business with his father and had tremendous knowledge. After just a brief discussion with a prospect, Jed could identify the major concerns and communicate probable solutions. He had uncanny command of metrics and could surmise throughput, turns and costs after just a few minutes of qualifying questions. All this--and yet he was spending only a small fraction of this time with customers.

Not only was Jed good at selling, he loved it. He loved meeting prospects and the challenge of converting them. Enjoying what you're good at is a powerful combination. We knew what we had to do.

Making Moves

We fired the sales manager and put Jed in charge. Then we moved all of the operations, administrative and financial resources (once under Jed's purview) under the chief operating officer. Jed weighed in on strategy, but he was no longer bogged down in daily details.

Next we created a management-training curriculum and ran weekly evening classes with required reading. We addressed accounting, customer service and the importance of delegating responsibility. The goal: to make Jed's lieutenants more self-sufficient and less reliant on him. With Jed out selling and his managers minding the store, revenue shot north of 25% for the next three years. Margins improved too.

Remember: It doesn't matter what the books say a CEO is supposed to do. Figure out what the organization needs, then pick someone who is good at--and passionate about--meeting those needs. And don't worry about whose name is on the door.

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