

RAGS TO RICHES TO...?



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A delicate situation: communication between the founder and second generation could be the key to holding both family and business together.

The Builder family is a large clan that is well-known in the Middle East as successful experts in resort development and management. The patriarch of the family, Ahmet Builder, is a classic example of a 'self-made' man. He began life as a labourer, rose to a high level of responsibility in the labour unions, and eventually started his own manufacturing company. In the past 10 years they have been aggressively developing hotels and resort communities. It is a challenging market niche for many reasons, among which is the unpredictability of government policy, and the importance of good relations with officials.

He has three children – oldest son Suat, his second child and only daughter Sema and youngest son Ali, have all joined him in the business. Additionally, Ahmet's brother, and many of his cousins, nieces and nephews are among his 1300 employees. In many ways the founder's company has become like a village and he the village chieftain who is responsible for the welfare of all the villagers. This patronage comes in the form of employment and financial assistance to the extended family.

As with many successful first generation family businesses, most of the company's structures, policies and procedures are a collage of improvisations that were reactively implemented over many years in response to immediate unrelated situations. Now these improvisations have become institutionalised and very difficult to change. Ahmet has several organisational issues to address. There are informal management systems that have led to lax performance measures and no accountability for the family members.

Family members love Suat but are concerned about his judgement and sensationalised public image. There is profound disagreement among family members about the level of spending by Suat on 'marketing and public relations'. Suat asserts that his very public role is necessary to sell their resort properties, while his family sees it as excessive, a waste of collective

family resources, and contrary to the values of the rest of the family. The founder hopes that Ali, his youngest, will mature into his eventual successor. However, his father and sister have concerns about the work ethic he shows by being regularly late to work, and taking long vacations.

Sema is the most professionally and personally prepared of the three for leadership. She is willing to consider becoming the next leader, but has some reservations due to her young children, her political aspirations and her concerns about holding her brothers accountable. She wishes that one of her brothers were ready for the job.

The second generation needs to 'speak with one voice' but they do not. There is a risk that Sema, Suat and Ali are not really compatible business partners and that this incompatibility will become magnified when Ahmet passes away.

The employment of, or subcontracting with extended family members is sometimes a liability to the company that Ahmet regrets but doesn't know how to remedy. He is now looking to his children to implement new employment and performance policies as a way of showing their collective leadership to the company.

Currently the only regular meetings are in the form of the 'management team' (Sema, Suat, Ali and sometimes Ahmet, and his brother). In an attempt to prepare for succession the founder has instructed his children to come to him for decisions only when they cannot reach consensus. As it turns out Ahmet is still making many of the decisions.

This founder is worried that his personality is all that holds his children and his company together. Upon his death he fears there will be serious conflict among his three children.

There is no gift or estate taxes in their country but the estate laws require a father's assets to be equally divided among his children upon his death – but, if he so chooses, he can gift his assets to them in unequal amounts before he dies.

COMMENTARY 1

Although Ahmet has built a very successful business as an entrepreneur, he clearly needs help from a consultant to professionalise his business practices and to implement an effective succession plan to preserve his legacy.

Ahmet should be encouraged to employ a broad scale family business assessment tool to clarify the core family values so that a family business mission and principle statement can be developed. All constituents should be represented in this process.

Ahmet needs to set up a board of advisors/directors consisting of both family and non-family members and to change the management team to a management committee with non-family professionals. This Committee will be responsible for approving all budgets, including marketing and public relations.

Ahmet would be well advised to review his estate plan, complete with analysis of his personal and corporate assets, and liquidity plans for both.

There should be clear clarification between management and ownership, and the obligations and benefits that flow to each one of those distinct groups. With Sema's competency in the area of leadership, she could leave management but assume the role of vice chairperson, with Ahmet being chairperson of the newly created board. Ahmet should be encouraged to find a non-family business confidante to mentor Ali. A conflict of interest policy covering the employment or sub-contracting with extended family members needs to be a key focus for the board of directors.

A great way to prepare additional family members for key leaderships in the future would be to form a family council, and invite members from all generations to serve in this advisory capacity.

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COMMENTARY 2

The case displays some common consequences of an informal business culture where a charismatic entrepreneur has allowed the emotional needs of his children to take priority over business requirements. To someone unfamiliar with the regional culture it may appear simple to create lines of responsibility and accountability, set up committees, and to create an independent board. However, in Middle Eastern family culture such interventions can be premature and thus short lived.

Any consultation needs to begin with an assessment of the attitudes, perceptions and level of trust in the family, the maturity of the successor generation, and the level of transparency that the family can tolerate.

Ahmed needs to distance himself from the executive decision-making process so the next generation can develop a common voice and a culture of formal responsibilities and accountability to each other. While ultimately important, it may not be practical to involve independent outsiders in this process too soon due to the historic lack of transparency in this region of the world.

Sema should be encouraged and coached to assume the role of the CEO and set up clear lines of responsibility and division of labour among the siblings.

The consultant needs to coach each sibling individually and as a group to establish individual developmental goals so they can all work toward a common business vision and a deeper sense of unity.

The father needs to write his will (and contingencies) for protecting the business from possible threats coming from the next generation, if possible in the form of a trust or else he should consider pre-distributing the shares.

Once the siblings are comfortable with their new and formal roles, the consultant can help the family establish more formal and independent forums for management and governance of the company.

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The case series was brought to you by the Family Firm Institute, an international professional organisation providing interdisciplinary education for family business advisors, educators, researchers and consultants. This case study was written and coordinated by Joe Paul a partner in the Aspen Family Business Group LLC and can be reached at familyfirm@aol.com. Margery Engel Loeb, president of Loeb & Associates LLC is the editor for this series (mloeb@loebgroup.com).

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