Family Business

THE GUIDE FOR FAMILY COMPANIES
www.familybusinessmagazine.com
AUTUMN 2010

Reinvestment pays off at P.C. Richard & Son

The fourth-generation electronics store chain attributes its success to its conservative fiscal policies.

- The entitlement epidemic
- Making way for a non-family CEO
- Re-engineering a phonograph needle maker

Gary Richard, third-generation CEO of P.C. Richard (left), with his son, Gregg, the company president.

Entitlement: Epidemic of our era

How does entitlement present itself? What are its causes and consequences? And how do we cure it?

BY PAUL AND DAVID KAROFSKY

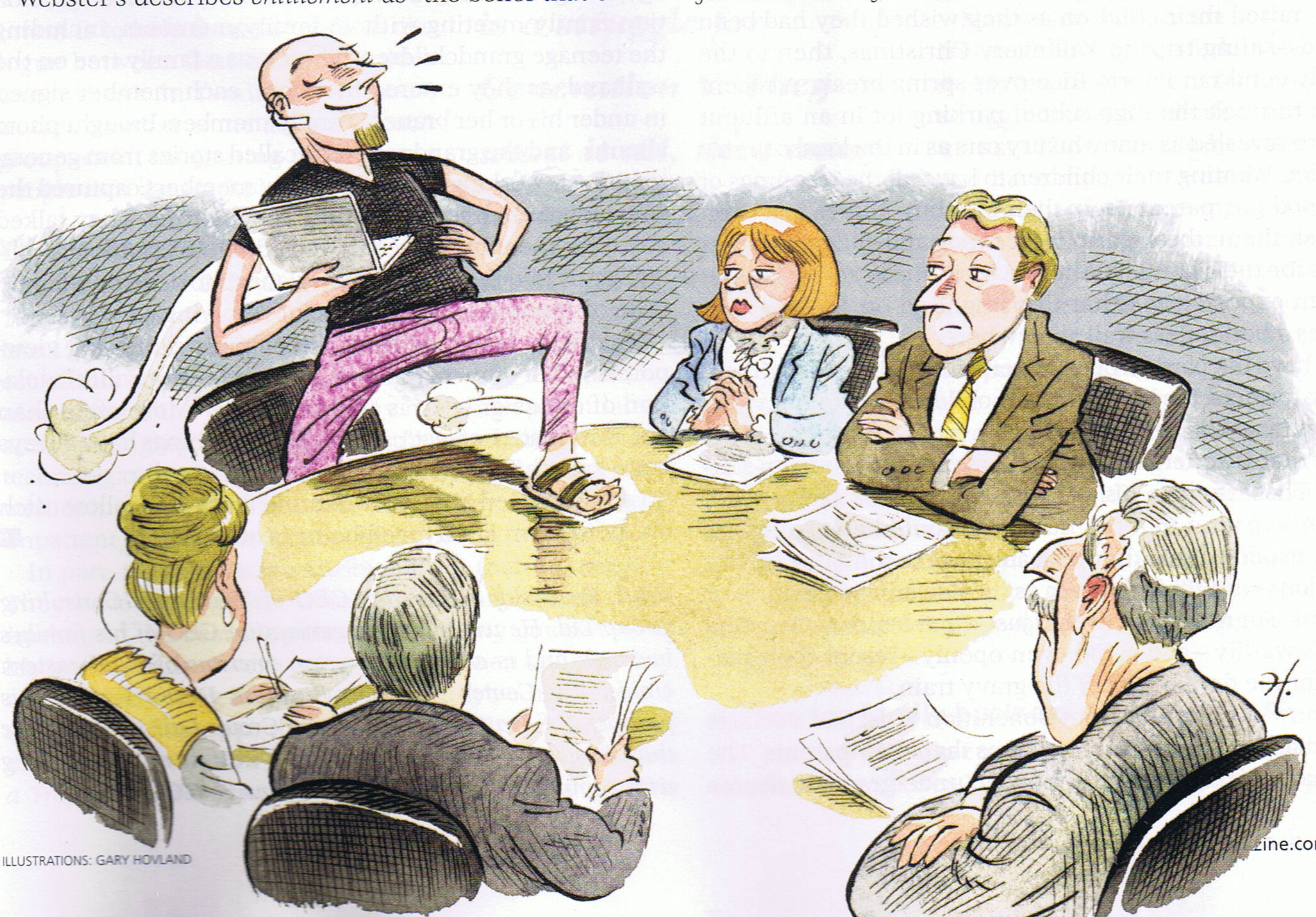
WHILE WAITING FOR OUR TABLE during a recent dinner with friends, someone in our party encountered a woman in her mid-20s speaking on a cell phone. The young woman, attractively dressed in designer garb, was overheard saying: "No, I told you we'll break the trust. Dad simply doesn't need all that money. He's already got three homes and three cars. What does he need all that for? Why should it go to his new wife? It's not right. We'll get him declared incompetent, but we've got to move fast. That money should be ours now. It's simply not right."

That conversation brought to mind a dialogue from an episode of *Desperate Housewives,* in which Sam says to Bree, "It's not unusual for children in a family business to have a sense of entitlement."

Webster's describes *entitlement* as "the belief that one is deserving of certain privileges." Family Business Wiki says, "Entitlement refers to a sense of being 'owed' such benefits as: wealth; employment; and status without having to work to achieve these benefits. Some children who grow up in a successful family business can be inclined to a feeling of entitlement."

Entitlement is more than *feeling* "owed" or "deserving"; it's about *expectation* as well. Indeed, usually the problem isn't the feeling of entitlement; it's how family members act, and how such actions are perceived by others. The consequences can be dire.

Consider the human resources director in a family business whose efforts at building a culture of responsibility and accountability become marginalized when members of the younger generation fly off for vacation in the corporate jet the same day there are staff layoffs. Or the payroll clerk



ILLUSTRATIONS: GARY HOVLAND

who's been asked to implement pay cuts for everyone but the family members—do you really think she keeps that information to herself? The accounts payable clerk sees the personal expenses that are being charged to the business.

Being the scion of a business family can carry handsome privileges, but the responsibilities are even greater. There's a whole constituency of stakeholders who expect business owners to act as careful stewards: employees, suppliers and even the banker, who, when times are tough, can cast a disparaging eye on a spouse's new Mercedes-Benz S-Class.

About 15 years ago, we encountered a 28-year-old son who was paid $750,000 per year for directing the sales efforts of the family business. His father had significant wealth and was trying to reduce his own assets through his son's compensation. The only problem was, he forgot to tell this to his son, and his son believed his efforts were worth $750,000.

Whatever happened to "fair market value"? And if fair means "just and reasonable," is fair market value even fair? One need look no further than the corporate executives on Wall Street, or the superstar athletes, to question the assumptions and calculations used in determining fair value.

What often occurs is not necessarily a willful violation of ethics or what is 'right' or 'fair.' More often than not, it is simply the way things have always been.

How did we get here?

Baby Boomers achieved staggering financial success in their family enterprises; their upward mobility is truly remarkable. Many Boomers, with conservative portfolios and minimal debt, were barely affected by the recession. They raised their children as they wished they had been raised—skiing trips to Vail every Christmas, then to the family condo in Puerto Rico over spring break. A recent drive through the high school parking lot in an affluent suburb revealed as many luxury cars as in the local country club lot. Wanting their children to have all the trappings of the good life, parents help their kids buy homes and even furnish them; they set up trust funds and college savings plans for their grandchildren. And in these actions, there lies an expectation—that this might go on forever, that there's a bottomless well somewhere.

So, have the parents been the enablers? Have they unwittingly fostered the belief in their children that money will always be available? Perhaps so.

For many Generation Xers, independence has been startling. Those in their 20s and 30s planned their careers with the anticipation that the numbers would keep going up. Many expected that they'd be able to take the same luxury vacations with their children as they've enjoyed with their parents. For most, however, it just won't happen. Gen Xers may inwardly—and some even openly—resent their parents for the derailment of the gravy train.

Meanwhile, the kids from Generation Y, despite a college diploma, have fewer career options than their parents. The job market is tighter and simply an undergraduate degree is often insufficient. As a result, many of these kids turn to the family business as a natural source of opportunity. But is that opportunity a path to further entitlement?

Finding a cure

For decades, educators, advisers and consultants to business families have touted the virtues of first working outside the family enterprise. If families hope for their businesses to prosper through another generation, rigorous entry criteria are no longer options; they are essential.

To succeed in an extremely competitive marketplace, the next generation needs qualifications and personal attributes that exceed the norm, a passion for the business, a sense of stewardship and respect for the contributions of their seniors. If business families hope to cure the entitlement epidemic, the senior generation must clearly define the younger generation's roles and responsibilities, keep compensation at fair market value and make sure their offspring have a mentor-coach-guide.

Family members must speak directly about how the perception of an entitlement attitude affects non-family colleagues. Family meetings can play an essential role in cultivating values that will reduce a sense of entitlement.

In her book *Reweaving the Family Tapestry*, Fredda Herz Brown speaks to the core of what's needed: "Stories are the fabric from which the family is woven." More than a decade ago, a legacy family enterprise convened a three-generation family meeting with 45 family members, including the teenage grandchildren. There was a family tree on the wall and, as they entered the room, each member signed in under his or her branch. Family members brought photo albums, and the grandparents recalled stories from generations past. Working in teams, family members captured the values that emerged in a family coat of arms. They talked about the meaning of wealth, including a discussion of philanthropy and their faith. They planned to develop a family code of conduct and a process for resolving conflicts.

It's critical to openly discuss the family's differing viewpoints. What often occurs is not necessarily a willful violation of ethics or what is "right" or "fair." More often than not, it is "matter of fact"; simply the way things have always been and, thus, are expected to continue to be.

Let's hope Gen Xers, Gen Yers and those who follow catch on. Long-term family well-being is at stake. FB

Paul Karofsky *is founder/CEO of Transition Consulting Group Ltd. He was the third-generation CEO of his family's business and is executive director emeritus of Northeastern University's Center for Family Business.* ***David Karofsky*** *is president of Transition Consulting Group Ltd. He has more than 15 years of experience coaching executives and working with companies across the globe (www.ForTCG.com).*