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Passing the baton

The most successful family businesses have mastered the art of change in leadership, methods and business

San Francisco Business Times - by Lizette Wilson San Francisco Business Times Contributor

MEDIA

In family companies, business is always personal.

From hiring and firing to taking on debt and adding new technologies, management decisions often follow bloodlines and emotion rather than black lines and spread sheets. While managing a business for the long term is always tough, family-owned enterprises have additional challenges navigating issues of succession, going public, bringing in outside advisers and innovating through the generations.

Little wonder only 30 percent of family businesses make it from the founder to the second generation and less than 3 percent make it past the third generation, according to the Family Firm Institute, a Boston research group.

"Succession planning is tough. It's ghoulish," said Eugene Muscat, a professor of management specializing in family business who teaches courses at the **University of San Francisco**. "What are you going to say? 'Hey Dad, you're old and going to die and I want your job'."

Although that conversation is a tough one to initiate, it's been done, probably more delicately, at family-owned businesses throughout the Bay Area. In fact, almost half of the 25 largest family enterprises in the area -- with annual revenue ranging from $27 million to $27 billion, are second generation or older.

One of them, **Nibbi Brothers Construction**, is in its third generation. Larry and Sergio Nibbi took the company over from their father, Marino, in the early 1970s and passed the torch to Sergio's sons Bob and Michael last year.

Sergio, 72, is semi-retired, coming into the office a few days a week. Larry, who is 63, is still CEO of the $150 million-a-year enterprise.

"I will stay as long as they want me to," said Larry Nibbi.

He said although the first incarnation of Nibbi brothers was rough -- Marino and his brother Pete split after one year -- the transition of power to him and Sergio was smooth.

"He (Marino) had a very optimistic attitude that the next generation could do even better than what he had done. He had no problem with us taking power. It was either sink or swim."

Larry said he and Sergio used their father as a role model for how to hand the reigns to the next generation. They prepared for it for more than five years and decided to bring in outside executives to complete the four-person partnership.

Although Larry has three daughters, only one, Michelle, works at the company. She is a receptionist.

"She didn't show any interest (in the partnership) and didn't want to be involved," said Nibbi "She's happy doing what she's doing." Likewise with the other two daughters. He said: "They're doing their own thing and are happy with what they're doing."

Not forcing family members to get involved is key to happiness at home and success in the workplace, according to Paul Tiffany of the Haas School of Business at **UC Berkeley**.

"Skills are not genetic," he said. "If you have doubts about your child's skills, then sell the business."

Hoping to spread that and other words of wisdom, Tiffany will help launch Haas's first-ever family business program in February.

The one-week intensive course will teach business basics, but a large portion will focus on the emotional overlap of work and family roles. An entire day will be devoted to psychology.

Being aware of emotional triggers and speaking a common language based on principles, rather than positions, can help owners surmount the major hurdles that kill most family businesses.

Muscat calls them the Five D's: divorce, death, disability, debt and disaster.

"When those things happen, you have to get people to move on and get them to go to the next step," said Muscat. "It's tough in any business, but it's even more complicated in family business because they're all in love with each other."

Clarifying the dual roles of parent/boss and child/employee and who's gunning for the top job was a top priority for John Schwartz.

As CEO of **Sam Clar Office Furniture** in Concord, Schwartz is the head of a $12.9 million-a-year enterprise now in its fourth generation. Schwartz said the transition of power was successful because he never reported directly to his father, never discussed business outside the office and had a pet project that was crucial to the company's next incarnation.

Although his father initially discouraged him from joining, Schwartz said he saw an opportunity to begin a customer service department and was passionate about making it happen to lighten the salespeople's workload.

He did, it was successful, and he moved on to work in warehouse, distribution and other areas of the company, ultimately taking over in 1996.

"When it became clear I was ready, he gracefully exited. There can only be one boss," said Schwartz, noting he and his father are philosophically aligned on debt and other major issues, and his father still serves as an unpaid adviser.

Schwartz said although he is exposing his two sons, ages 12 and 8, to some aspects of the business, he will not push them to take over the company unless they want to.

"At the end of the day, they have to do what makes them happy and fulfilled," he said. "That's what it comes down to."

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