

FAMILY BUSINESS

newsletter

Family Attitude Drives Schommer Construction

“It was crazy,” is how Diane Schommer describes the first year of running Schommer Construction, a commercial drywall company formed in 2002 by her husband, Howie Schommer.

In that first year, Howie worked and commuted upwards of 15 hours each week from their home in Woodland Park, Colo., to where the majority of work was located in Colorado Springs, Colorado.

“It takes a while in the construction business for people to trust that you can get the job done and do it right,” their son Mike says. “The first year was hard.”

Mike saw firsthand his parents putting in long hours to grow the company successfully and quickly. He was 20 years old when he started helping his father during his summers off from college. Mike then graduated and moved home to work full time for Schommer Construction.

“My dad has the best work ethic of anybody I know,” Mike says. “He will do anything that is needed.”

Work and Family Balance Breeds Success

After Howie’s employer of 17 years was bought by a corporation, he branched out on his own, starting the business with just \$20,000 and a loan from Vectra Bank Colorado. The company grew so quickly Mike

was able to afford his own home in the second year. Thirteen years after inception, Schommer Construction now employs upwards of 100 people and estimates it will earn \$8 million in revenue in 2016.

Howie credits his 30-plus-year relationships with past clients and vendors as a big part of his company’s success. He also treats his employees like family, ensuring they are paid, trained and treated well.

“He never comes first,” Mike says of his father, who never took a bonus during those 13 years.

“Everything goes back into the business,” Diane added.

Howie also credits open lines of communication and an open-door policy as key to making family businesses a success. “You have to be prepared for all and any conflicts and be willing to talk,” he says.

Family Support

When Howie began Schommer Construction, Diane’s hopes of leaving work to stay home with their daughter were snatched away. In fact, she had two jobs at the time. “I was scared. Howie had to keep convincing me it would be OK,” she says.

She supported the family during that first year, working both full time at Mountain National Bank, which later became Vectra Bank, and also working in the new family business.



Mike Schommer and Howie Schommer plan for the future.

For two years Diane acted as office manager, bookkeeper and anything else to keep the place running.

“She’s the glue that kept everything together. Mom carried the weight for both of us,” Mike says.

Family Transition

Next year a succession plan kicks in, and Mike, now 33, will have a majority share in the business, as Howie, 60, eases into more of a senior management role.

“The way I see this business is that it’s been an opportunity to spend a lot of time with my dad. He’s not just my dad — he’s my best friend,” Mike says. “He’s given me the tools I need.”

Overcoming the Inability to Change

By Dana Telford



The Sphex wasp is an insect lacking the ability to adapt to unexpected circumstances — a trying pattern we sometimes see with our family business clients. When a family member displays sphexish behavior, it will impede all significant progress until it is overcome.

It's a bit gruesome, but it's nature: The Sphex wasp finds a nice fat cricket, paralyzes it with a sting and then lays her eggs in it. She then drags it to her nest, where she'll place it with her unborn larvae. Before doing so, however, she makes one trip inside to ensure all is safe and secure. Only then will she drag the bug and her babies inside.

This is where the sphexish behavior enters the picture.

Entomologists have discovered that a Sphex wasp finds it extremely difficult, if not impossible, to change its process. While the wasp is inside her nest inspecting, researchers test her by moving the cricket a few

inches from where she left it. Upon emerging from the hole she finds the prey missing, commences searching for it and locates it. Instead of simply dragging it directly into her lair; however, she returns the cricket to the original drop off point and inspects her nest again.

A scientist can assign some poor grad student the task of moving the cricket back and forth all day long, but the stubborn little wasp will not deviate from her process. Making no allowance for multiple safety checks previously performed, she refuses to drag the cricket straight into the hole. And she'll do this over and over again, until she, or the grad student, runs out of steam.

In honor of the Sphex wasp, Douglas Hofstadter, an American professor of cognitive science, coined the term "sphexish," which refers to the act of repeating irrational behavior indefinitely despite valid data proving that alternative behavior would provide more benefit. Among our clients, we occasionally see a member of a family business who exhibits unrelenting, irrational behavior in the face of an obvious need to change. This inflexibility can put family relationships, the business, or both at serious risk.

This very scenario first played out for me years ago when a colleague and I had the opportunity to work with a Brazilian family business that was created in the wake of a family tragedy. The father, a successful entrepreneur and inventor, committed suicide after the abrupt failure of one of his most promising start-ups. His wife (name

changed to Helena for this story), while struggling through intense counseling sessions in the wake of her husband's passing, decided to create a new business as the glue to hold the struggling family together. She liquidated her husband's assets and used the funds to start an after-school learning center, leveraging her training as a teacher to provide tutoring and education to children in her city. One of her four children (name changed to Paulo) became her operations manager and together they led the company to success through sacrifice, dedication and luck.

Over the next 15 years, the business expanded to include multiple locations. The brand was well established and respected in their industry. Though not excessively wealthy, the family enjoyed a comfortable lifestyle, and family relationships were stronger than ever. Then an election occurred, a law was changed, and the way government funding flowed to educational facilities was affected, pushing the business into a tailspin.

Key employees left for greener pastures, student enrollment dropped, receivables increased, and cash and profits dwindled. For the first time in 15 years the business faced the prospect of having to close its doors. But once again the family rallied together to face the challenge. The two remaining brothers and lone sister dropped everything to support their mother and brother.

This is where the sphexish behavior enters the picture.

Paulo was upset by the sudden arrival of his siblings. Rather than welcome them, he circled the wagons (emotionally and organizationally) to protect his hard-earned territory. His siblings desired only to ensure the ongoing success of the family business and were

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disheartened by his reaction. What's more, they possessed the business acumen and emotional flexibility to make valuable contributions in this time of need. Paulo, however, remained unbending in his method of maintaining business as usual rather than adapting to the new reality. The tension between siblings grew as he dug deeper and deeper into his inflexibility. He was sphexish.

Helena faced a tough situation. The business was in trouble and her children were feuding. As president and founder of the company she felt a responsibility to save the business. As head of the family she felt driven to protect her children's relationships. To stave off a crisis she retained our services as family business specialists.

Through interviews with family members and key employees, we learned about the current situation. This gave us the opportunity not only to understand the state of the business itself, but also to discover the family's guiding principles and observe emotional dynamics at play. We set up an all-day meeting to provide suggestions for moving beyond current problems and restore business success and family harmony.

But harmony was not in the cards. Paulo consistently deflected constructive criticism and refused to engage in the problem-solving process. After counseling with colleagues, I felt the optimal next step was to engage Helena in an honest discussion about options. In our private conversation, we discussed a variety of potential



Impact on the Organization? – Negative, Neutral or Positive

Solution	Family	Business	Ownership
Ask Paulo to resign.			
Ask all family members to resign.			
Find executive coach for Paulo.			
Sell the company.			

solutions and their impacts on the family, the business and owners.

The options were framed in a simple four-column matrix (see above). It displays a list of four possible solutions: 1. Ask Paulo to resign; 2. Ask all family members to resign. 3. Seek out an executive coaching relationship for Paulo; or 4. Sell the company. Columns listed each of the three key constituents affected, and Helena needed to answer one of three possible ways the corresponding stakeholder would be impacted by the proposed solution.

The first option, to ask for Paulo’s resignation, would have a significant negative impact on the family. However, given Paulo’s inability to adapt to new realities, Helena and I agreed that this scenario would most likely improve operations and morale at the company. Improvements in operations would in turn benefit the owners by providing increased dividends and market value.

The second option, to fire all members of the family, had a more questionable overall impact. The action would most certainly disrupt family relationships. It would also take talented operators out of the business, which would diminish profits even further, thereby causing financial harm to the owners.

The third solution, finding a coach to help Paulo identify and work on areas of personal and professional improvement, would most likely benefit the family. However, if Paulo continued to resist change despite counseling, all stakeholders would find themselves right back at a frustrating square one.

The fourth option, to sell the company, appeared to present a positive outcome. The company continued to enjoy a strong brand presence and reputation despite a downturn in revenue and changing government funding. It had low debt and a 15-year track record in an industry that most agreed had a bright future (as long as the new funding model could be figured out). Selling the company would provide financial benefit to Helena and the family. Yet, the main reason Helena created the business was to provide glue to her family in the aftermath of tragedy. Selling the business would feel like an abject failure to reach that goal, especially to Helena.

Helena ultimately decided that she would counsel Paulo to seek out a business coach. He chose a trusted board member and has been able to make significant changes that have positively affected the family business organization.

Over the course of my career, I’ve learned that people become more amenable to change when new information compels them to consider it. This usually happens in one of two ways:

1. The individual is finally able to see the situation through a new filter; for example, the realization that failure to change will result in pain for them or those they care about.
2. Nonthreatening, trusted, objective and respected individuals are introduced into the process, helping the individual conclude that change is not only necessary, but also beneficial to family, owners and managers.

We all wish a single, magic solution to dealing with unreasonable people existed. Although such a “sphex pill” doesn’t exist, there are methods to increase the probability that people will choose to change (and let us not forget, sometimes the person in the mirror needs to change more than anyone). As a family business owner, frame your options with risks and benefits. While not always a resounding success, it has often helped to expedite a successful outcome, while minimizing negative impact on individual stakeholders.

If there is a “sphex” in your family business, it may take a lot of effort and objectivity to persuade that person to change. Hopefully, this tool and case example may give you some ideas on how to change this difficult pattern.

Dana Telford is a senior consultant with The Family Business Consulting Group, Inc. He has advised business families in more than 18 countries in succession planning, family governance, board effectiveness, strategy, entrepreneurship and conflict management.

Who's Responsible for What in Career Development?

By Amy Schuman



Nothing could be more important to the continuity of a family business than the preparation of next generation leaders — both family and nonfamily members. Yet, career development is often neglected in family firms. Family business founders and CEOs frequently take an attitude of “sink or swim” toward the next generation. “That’s how I did it,” they may say. But most family business leaders want to nurture next generation development and do not know where to begin.

“Sink or swim” is unlikely the method to provide an expanding and increasingly complex business with the leadership required for continued success. Talented leaders may emerge on their own, but the odds don’t favor that rarity. To improve the chance of survival and success across generations, a family business should engage in a deliberate program of planned, strategic career development.

Who’s Responsible for What?

Nearly everyone plays a role in career development in a family business. Here is how those roles shape up:

The family serves as the guiding light. It provides the overall vision and values that frame the entire process. If the family holds a strong belief in work-life balance, it can influence family members to consider working part-time while their children are young. By contrast, another family might say, “Anyone who chooses to work

part-time will never be seriously considered for a top management position.” Another family might place great emphasis on community involvement, saying, “We expect our leaders to serve the community in some way.” If so, voluntary activities become a part of career development.

The family also establishes, ideally in writing, the policies that govern employment and promotion of family members in the business. An employment policy sets forth answers to questions such as: Do we always want to develop a family member as the CEO, or will we select the best person for the job, family member or not? Do we want to actively encourage the next generation to work in the business? What are our requirements for family members who want to join the business? What are our criteria for promoting family members? Shall

Everyone plays a role in career development in a family business.

we make internship opportunities available early on to children, whether or not they're motivated to work in the business?

If the board of directors has been charged with the responsibility of choosing successors for the company's top leadership positions, family members need to resist lobbying the board. It's important that they accept and support the board's decisions, even when outcomes are not precisely what family members had hoped. If there's no board, a fair career development process helps to lessen family politicking around promotion decisions. However, the family must agree on the results and avoid behind-the-scenes maneuvering. It helps to devote time at family meetings to explain the career

development process so that family members fully understand and give it their full support.

The board of directors holds the company's top management accountable for defining competencies needed for the future and for making career and leadership development a priority. It supports management's efforts to devote adequate resources, time and attention to the process. It shows its commitment and intent by regularly asking about and discussing leadership and career development. Board members regularly check in on the topic with the CEO and other key executives by asking, "What are you doing about developing your successors?" Where active boards exist, they have the final responsibility to

select successors for key company positions. Board members can make it known that they want to interact with high-potential candidates who have the performance record, skills, knowledge, and experience to fill future strategic needs. Indeed, presenting to the board is an outstanding developmental experience.

The individual — that is, the person whose career is the subject of development — is responsible for his or her own learning and growth. If that's you, it means pursuing education, job experience and community service — wherever you can find opportunities to stretch yourself. Understand yourself; define your talents as you see them, think about what you really want and what makes you happy. Seek feedback and act on it. Be willing to try something new and be willing to change. Be open to the fact that you can change; even if you're 50 years old, it's never too late. If you get discouraged and upset, try to maintain a positive attitude. One family member became very discouraged by the feedback she received but she finally made the decision that she wanted to continue with the process. "I can do better and I want to do better," she said. She knew the responsibility was in her hands.

The organization, meaning top management in the family business, is responsible for initiating, designing and implementing a career development process that will assure future leaders for the organization's needs. Top management may delegate the actual responsibility to someone else, such as a human resources director, but management



is ultimately accountable for results. Management must define the key competencies called for by the company's strategic plan. They must budget and make available development opportunities, including time with potential mentors. Management makes sure that people get time and financial resources for their education. And, most important, management sets the bar by providing honest, constructive feedback to individuals who report to them.

The Role of Nonfamily Executives

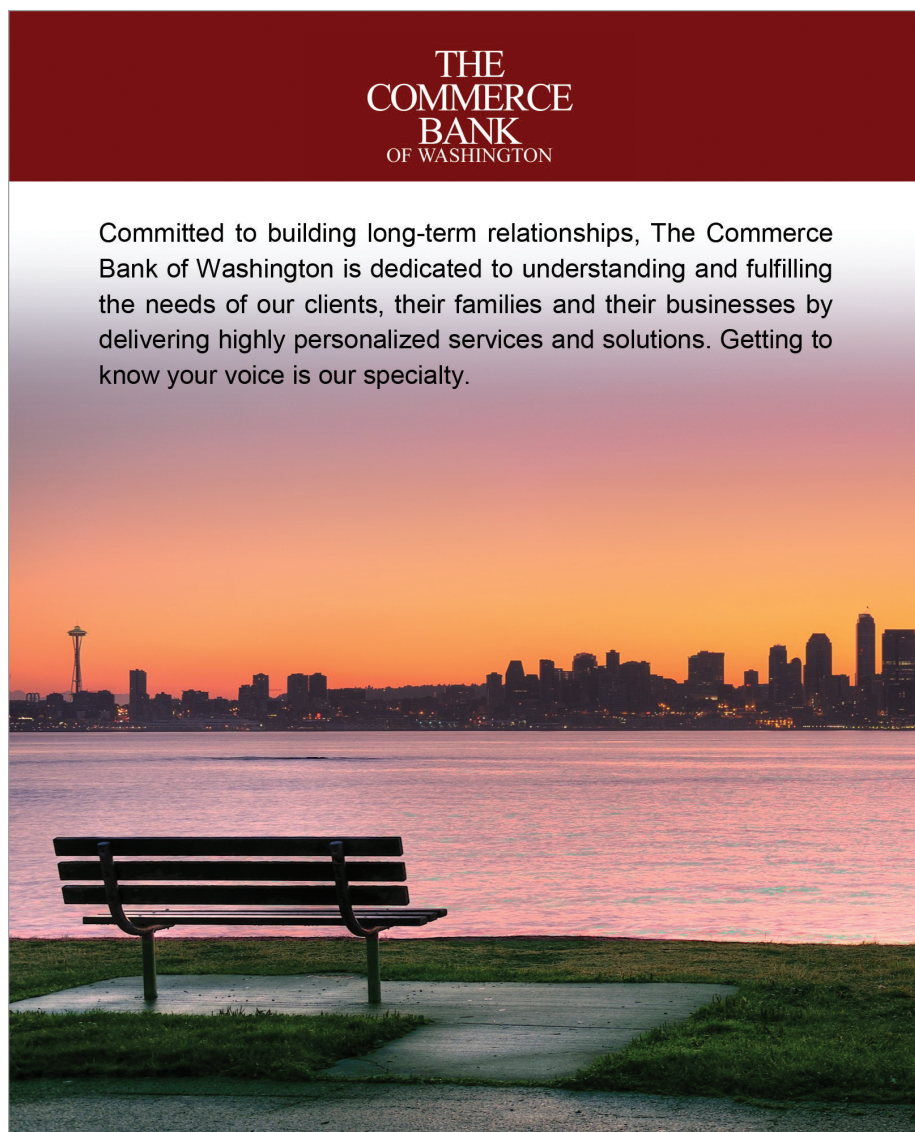
The support of nonfamily executives is essential to successful career development in family businesses. In many family businesses, family members are expected to hold top positions. In these cases, nonfamily managers must understand and accept with grace the fact that they will never be CEO. They must be truly devoted to the development of the next generation of family members. These nonfamily executives need to be prized and shown appreciation by the family. The teaching they offer to young family members reflects incomparable generosity. Reward such nonfamily executives well. Be aware, however, that this kind of support for career development is not always present — particularly when it comes to preparing family members for future leadership. A nonfamily manager may not have his or her heart fully engaged in the process of bringing young family members along in their careers. Often such nonfamily managers cling to an ill founded belief that they will one day be CEO, no matter how clear the family has been that only a family member will hold

the top position. When nonfamily executives nurture this illusion, they could sabotage the development of high-potential next-generation family members. They may assign family members to tasks beyond current abilities or withhold support or information needed for success. Nonfamily managers also have been known to foster dissent or gossip, worrying parents unnecessarily. Be clear with nonfamily executives when the family has set a goal of keeping family members in the top

spot. Be prepared to take action if a nonfamily manager doesn't "get it" and, as a result, undermines the career development process.

If all roles in the company work together, future company leaders will succeed in your family business.

Amy Schuman is a principal consultant of The Family Business Consulting Group, Inc., and author of the new book: Human Resources in the Family Business: Maximizing the Power of Your People.



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for our next
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7 KEY QUESTIONS FOR FAMILY BUSINESSES

Thursday, March 3, 2016
10 a.m.

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