Managing and Marketing the Family-Owned Firm

The Seven Pitfalls Facing Family-Owned Operations

What are the unique growth and development problems of ‘family-owned’ general and sub-contracting firms? How can these difficulties be resolved successfully for the betterment of the business as a whole and for both family and non-family employees?

It’s a common fact that the construction industry has an extraordinarily high percentage of family-owned and managed businesses. Unfortunately, solutions to the host of specific problems relative to the family-owned business are not as apparent or easy to accept, because emotion too often replaces common sense, says one expert.

According to John R. Kubasek, President of John R. Kubasek & Associates, Inc. (JRK, Inc.) however, the ‘human condition’ itself lies at the core of the difficulties faced by the family-owned general and sub-contracting firm.

“No matter how objective people tell themselves they may be,” Kubasek explained, “Most people can’t adequately segregate their personal feelings and emotions toward family members from the hard realities of business. Consequently, the firm principal’s tendency to judge the performance of family members by their personal assets and liabilities, rather than industry standards, is one of the core problems confronting the family-owned firm.”

By John R. Kubasek

This philosophy or ‘attitude’ in evaluating the performance of other family members definitely (and sometimes dramatically!) restricts both the growth of the company and its potential profitability at any stage of development. Furthermore, Kubasek believes, the first stage in creating home-grown ‘dead wood’ occurs when excuses are made for poor or inadequate performance on the part of one or more family members of the firm.

A unique marketing/general management/public relations firm located on Staten Island, NY, John R. Kubasek & Associates, Inc. has been serving clients exclusively in the construction industry for over 21 years. JRK, Inc. has worked with in-house marketing departments and has served as the marketing, general management and public relations consultants for a wide variety of family-owned and managed general and sub-contractors throughout the United States. In addition, JRK, Inc. has assisted many of these family oriented generals and subs in restructuring their corporate organization and/or forming their own marketing divisions.

To help recognize and solve the many dilemmas family-owned and managed contractors face on a sometimes daily basis, Kubasek has outlined seven ‘pitfalls’ . . . or things to avoid . . . when managing and marketing the family-owned contracting firm.

1) Don’t use marketing as a dumping ground!

“If cousin Larry is a proven foul-up in every other job you’ve given him,” Kubasek declared, “don’t make him Director of Marketing!”

Though generally unappreciated, the marketing function is one of the most important and critical positions in a contracting company. Too often, however, the title is given to someone who has not been able to perform anywhere else, basically because the marketing function is so misunderstood.

Therefore, that person is not really expected to achieve or perform the marketing function. Lack of marketing understanding gives the incompetent relative a ‘shield of protection,’ because no one really knows whether
that person is or isn’t doing the job properly. In Kubasek’s mind, this is a particularly deadly mistake that can lead a contractor down the road to corporate bankruptcy.

2) Give your relative a salary . . . not an ‘allowance’!

The President of a contracting firm should forget the fact that any person in the contracting company is a relative.

Compensation (salary) levels should be set based on equivalent industry norms... no more and no less! To determine these levels, a contractor should simply read the local newspaper’s classified want ads. A few telephone calls to industry friends may also be in order.

Kubasek described certain ‘unfair and absolutely ludicrous’ situations where in one real case the President of a family-owned contracting firm draws the same salary as his brother running the company bulldozer . . . although their levels of responsibility are certainly worlds apart! While this may be an admirable attitude, both morally and familistically, Kubasek commented, it is ultimately a non-constructive one, because personal growth and development will ultimately become stifled and illusions of grandeur are grossly overrated.

3) Let the boy alone!

According to Kubasek, if you are the President of a family-owned contracting firm and have a son in his early 20’s or 30’s looking to find his place in life . . . let him find it by himself!

While it may be disheartening for you as a parent to accept the fact that your offspring may not be a ‘born builder,’ as an executive you should realize that you have no choice. Your son (or for that matter anyone) with an absolute aversion to the dirt and grime of contracting should not be pressed into the family business to ‘find his niche.’ It just doesn’t work.

Furthermore, ‘forcing’ someone (by virtue of economic pressure, status, harassment, etc.) into a role that they have absolutely no interest in, is not going to benefit the profitability of your company nor provide the firm with the talent it needs to expand and grow. Growth and expansion in the contracting business requires a 110% commitment to the work and without this devotion, any effort is almost totally doomed to failure.

4) Promote non-family members to responsible positions

Make certain that the ‘executive’ ranks of your firm include some non-family members. Otherwise, attracting new talent for the company will prove to be extremely difficult. Kubasek observed that a common mistake made by many family-owned contracting businesses is to keep the executive ranks of the company exclusively in the hands of family members. Unfortunately, there is nothing quite as effective as this philosophy for ‘turning off experienced, skilled construction people who will apply to the firm for employment.

“If you must ultimately attract specialized talent to your firm to insure growth and development,” Kubasek asked, “how long do you think the
“Make certain that the executive ranks of your firm include some non-family members.”

best and highest paid non-family salaried employee will last when day after day greater responsibility is given to (possibly) inept family members only because they are family members? It doesn’t take long for that talented and sensitive employee to realize that there will be no personal growth in the company, simply because he or she is not a member of the ‘clan’.

5) You are not one big corporate family . . . You are a team!

On this subject, Kubasek related a comment he once heard from the President of a family-owned contracting firm, who said: “All of my employees are members of my family. I treat them as though they are one big corporate family.” Kubasek answered this statement with a terse reply: “Bull!”

Both the family members and the hired employees know they are different in a family-owned contracting firm, and no other illusion should be created. The President of a contracting firm doesn’t eat dinner with his employees every night; doesn’t sit across the table from them at a wedding; doesn’t generally go to their children’s bar mitzvahs; doesn’t lie on a beach in Miami with them and certainly doesn’t sleep with them. It may have been possible to create this ‘one, big, happy, family’ illusion 40 years ago, Kubasek remarked, when a high school education was an exception rather than a rule. However, it just can’t be done today.

If a crisis befalls a firm, family members will get preferential treatment, and all ‘happy family’ illusions will go up in smoke—along with employee morale! Instead of working under this foolish, outdated philosophy, Kubasek advises Presidents of such firms to establish one standard of fairness for family members and employees alike.

“People who work together are not a family, but they are a team,” Kubasek emphasized. “Team members do have affection and feeling for one another and if they are professionals they will help each other and realize that greater benefits for all rely on cooperation and team work. Unlike a family, however, team members are traded, they retire, change teams, etc . . . and a family member is a family member, for good, bad or indifference.”

6) Transfer of power and authority: Father to Son

“No matter where I go across this country,” Kubasek declared, “the most commonly asked question is ‘How do you facilitate an easy and effective transfer of corporate power and authority from the founding father of a company to his son?’ I have listened to every kind of formula and procedure conceivable to minimize this traumatic situation. However, there is only one single, correct answer:

“The founding father, after years of training his son, must turn the key in his office door, clean out his desk, put the company checkbook on his son’s desk, walk out the office door and never set foot in the office again. With one possible exception, there is rarely any other answer or compromise solution possible that really works!”

The ‘father’ of the firm must know when to let go. More importantly, he must have the courage, extraordinary character, tremendous self-confidence and assurance in the success he has achieved to entrust the business he has built to his offspring. Countless alternatives to this scenario have been applied and all have failed, usually for one or two reasons. Either (a) the founding father is permitted office space in the company and . . . because he comes into his office regularly . . . has a tendency to consciously or unconsciously meddle in the affairs of the firm; or (b) the father turns complete control of everything over to his son . . . except the checkbook.
In the first instance, even if the father does not directly participate in firm decisions, his interference, or even mere presence in the office, casts a shadow over the new management/leadership. In the second case, without control over the company's fiscal reins, many management decisions can be mistrusted by almost anyone in the firm. “Very few people question the judgement of the person who signs their paycheck,” Kubasek stated.

What is the one exception to this hard and fast ‘let go’ rule?

Kubasek explains that when it came time for the founding father of one contracting firm to retire, his sons arranged for him to be picked up each morning at home by a chauffeur-driven car. From 7:30 to noon, the limo would take dear old Dad to anywhere from two to three job sites. There, the father would talk to the project superintendents, eyeball material supplies on the job site, inspect the work completed the preceding day and, in general, take a quick tour of the site and note any operational problems he felt were worth reporting.

At 12:30, the father would be dropped off at his favorite restaurant, where he would call the office and report to one of the sons on the conditions he found on the site that morning, including progress being made, missing materials, etc. He would then have lunch, talk with some old friends, and go home by 3:00 or 4:00 p.m.

He never set foot in the office.

“This magnificent solution may seem costly considering a chauffeur-driven car each day,” Kubasek stated, “but it is an idea of pure genius—and quite cheap in the long run! Dad was kept active; his sharp eye on the site could spot trouble; he never went to the office to participate in solutions—yet each morning the Project Manager knew that the old man would be around and there was very little slackening in the work-progress once construction began.

“In my opinion, the cost of the car was the cheapest investment the firm ever made and it was paid back to them 100 times over by having small problems flagged down daily before they became monumental losses.”

7) Start planning early to sell the company

What can you as a key executive do to protect yourself (career) and the operating management team if the boss decides to sell?

**Answer:** Not a darn thing!

The boss may be right, wrong, mad as a hatter, but if he decides to sell the company to a group of Pakistani and Mongolian businessmen on camels, the proverbial ball game is all over.

There are only two ways to ensure this never happens—and both call for great foresight on the part of both parties. The first strategy is for the boss to recognize he will want to retire one day and set up an employee participation plan that calls for employees to gradually buy stock over a period of years that will ultimately result in the company becoming employee-owned.

The second strategy works toward the same goal, but is usually a formal proposal by employees (when a buyout of the company seems imminent) to buy control of the company, normally-through some long-range pay-cut plan that is (tax-wise) unacceptable to the boss.

Start planning early for the day the boss wants to throw in the towel—or you’re going to be working for some Arab Sheik!