YOUR OWNERSHIP JOURNEY

12 SECRETS FOR PERSONAL AND BUSINESS SUCCESS

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All stories and case studies in this book are based on true stories, but names and some details have been changed to protect confidentiality. These stories are included for educational purposes, to help business leaders better understand the points that are being made.

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SECRET #1

Why The Ownership Journey Is A Rocky Road

What to do when your house catches fire, when the levee breaks, or when you are buried alive?

Yes, it is a dangerous world out there. Despite the dramatic leaps we have taken in technology, medicine, and global awareness, danger still lurks beneath the surface, around the corner, and behind the door.

That's the view of a great book that has been a twenty-year international bestseller: *The Worst-Case Scenario Survival Handbook.*[1] The guide offers techniques, advice, and info that could save your life, limbs, and loved ones. Because it's a dangerous world out there.

I feel the same about the lurking dangers of owning a business. I intend to give business owners valuable information so they can survive the worst-case scenarios the world can throw at them.

The Ownership Journey Is A Rocky Road

If you have ever been to an Irish pub, you probably have heard the nineteenth-century standard of Irish folk music, "Rocky Road To Dublin." The song describes the trials, troubles, and travails that the protagonist encounters on his travels. At the beginning of the song, the story's protagonist states that he is off to seek his fortune. Along the way, he encounters many adventures and troubles.

If you are on the ownership journey, you know about troubles.

Why can the ownership journey be a rocky road? In a nutshell, it's because nobody is there to guide you, tell you when you need to make a decision, or what's the question you're trying to answer. The search for answers separates the leaders from the managers and the managers from the followers.

A catchphrase I often use is this: It's not about finding the right answers in life. It's about asking the right questions. If you don't ask the right question, you'll never get the right answer. This is true as a business owner, and it's also true as a consultant. I press clients because after I ask a number of questions, when I finally ask the right ones, they say, "Yeah, that's what I really meant."

Those who don't have the wherewithal to understand when a decision needs to be made probably shouldn't be the boss. That might sound harsh, but it's the truth—because defining the decision to be made and understanding when the decision has to be made really determines the outcome. A too-narrow definition, made so painful decisions can be avoided, means the real issue is being avoided.

Consider the most important question: "Why are you in business?" Most owners don't stop to dissect that question into its parts. Many people do not distinguish between "Who do you want to be?" from "What do you want to do?" What this is asking is:

- What are your life goals, and how does the business help you to achieve those goals: financial security, happiness, family harmony, enjoyment of time well spent? You can make more money, but you can't make more time.
- How does your business strategy enable you to achieve your life goals? The business is an asset, and it should be used to help you achieve your life goals.

From that perspective, it is easier to define a process to help owners achieve their life and business goals. Where they are today is Point A. Where they want to get to is Point B. Once the two endpoints are defined, it is more straightforward to construct a road from A to B. Success is about perseverance and adapting to changes beyond your control.

The discipline of execution is the responsibility of leadership, with board oversight. If there is no functioning board, as is often the case with private companies, then it is a matter of what the owners will accept.

A Worst-Case Scenario For A Private Company

When you see a company get into trouble, it is usually because management failed to adjust to market conditions. This is often because change is hard, uncomfortable, or inconvenient to their lifestyle. If the owners tolerate it, then it is fine.

In a recent conversation with the chairperson of a $750 million family business, she expressed her frustration that the company has been losing money for years and couldn't get the management team to right-size the business. The market had shrunk due to COVID-19, and the business could only support about $300 million in revenue. Too many vested interests were being protected.

Once I explained the difference between an ownership strategy and business strategy, a lightbulb went on. Ownership strategy defines what the owners want from the asset they own. A business strategy is what you do to get there. She realized she was letting the highly paid management team drive the ownership strategy. That was fine with them since it was not their money being burned, and they did not want to execute the painful staff reductions needed to make the company solvent.

The Lazy Path To A Lifestyle Business

Another issue is when owners get too comfortable and start to focus on having a lifestyle business. This is what blue water sailors call "harbor fever." They want to avoid potential storms, so they stay in the harbor. Owners are not accountable for their behavior to anyone but themselves. Many businesses get in trouble because things are allowed to slide until an outside force steps in to stop them. And that usually happens when they get in trouble with the bank; they then fix their business, going through a brutally painful and avoidable process.

The bottom line here is that while it's great to be a private company owner, there's this unspoken responsibility when it comes to self-discipline. When owners get in trouble, it's because they got too comfortable with the status quo, failed to adapt to changing market conditions—and typically waited too long to act.

Leadership, Decisiveness, And Corporate Rejuvenation

An adage says that private company owners can do whatever they want, so long as they pay their taxes and their bank is happy. As the owners move through the decades of life, material success tends to damper commercial drive, and people become increasingly comfortable with the status quo. This is one reason why many private companies tend to become lifestyle businesses, and young people create start-ups.

Choosing the path forward, dynamic growth versus comfortable continuity, is a test of ownership, not management. If the ownership likes things the way they are, management will follow their lead. If the ownership and management are the same individuals, they may not even realize their decision since no one is challenging their perspective.

Here are two examples of situations that demonstrate the point:

Rejuvenation: It is easy for owners to get disinterested, bored, or somewhat lazy as time marches on. For owners in their sixties and seventies, it can be difficult to fix a business they have run a certain way for twenty to thirty years. If the company gets into trouble, it almost always needs an external actor to drive substantial change. Hence the adage about taxes and the bank.

In a recent situation, a seventy-year-old family business had missed the window to move online, and its revenue fell in half. Now in semi-retirement, the owner realized his mistake yet knew he didn't have what was needed to fix it himself. To his credit, he hired an outside CEO from the digital world to lead the transition. He also rebooted his board of advisors to provide oversight and keep things fresh. While he had made a serious mistake, he recognized his mistake and acted while there was enough time to avoid calamity.

Stasis. Opposing this decisiveness is a second-generation family business that had decades of success but was now deadlocked on what to do next. One set of cousins, the three sisters that were passive owners, wanted to sell their interests to the brother and sister who ran the business. The operating cousins liked things the way they "used to be" before the digital age. The company was healthy, debt-free, and had piles of cash. But competitive pressures were building as the competition went digital. What was also true was that the business could double in size and become quite exciting for everyone if someone would lead the way forward. No one wanted to jeopardize personal relationships, even though it created substantial unhappiness for everyone.

This company had a board of directors comprised of the five cousins but lacked effective governance mechanisms. While the company was profitable, the dividend policy was meager, such that the returns were well below market. This caused frustration with the passive owners who viewed the business as an investment, more than a family legacy to protect. The outside cousins recognized that their investment could grow significantly if a new CEO stepped in to drive growth. No one was against that, and all were in favor of the change, but, also, no one was pushing to make it happen.

There was no way to break a tie vote, and the outside cousins were not allowed to sell their interests to anyone but the inside cousins. The inside cousins could sit on their hands if they wanted. Over the years, the frustration built up, and the situation became tense.

Leadership is about recognizing that a decision needs to be made and making it before it is too late. Governance defines how the decision gets made. That is true no matter how large or small the business may be.

In the first situation, decision-making was streamlined because only one vote mattered. The second situation proves that when there are multiple owners, governing the business is a job above and beyond running the business.

These situations provide contrast to highlight what is needed to keep a private business vibrant. The hardest part of initiating corporate rejuvenation is deciding to make a big decision.

Make Decisions Faster Than The River Runs

When I went to summer camp as a child, I was taught to row a canoe on a river. The secret was to always paddle faster than the river was running. If you are faster than the river, you can control where the canoe goes. If not, you will end up on the rocks.

Similarly, in business, if you make decisions faster than the pace of change, you can control your destiny by adjusting course based on changing circumstances. If you slow down to enjoy the comforts of success, you may also end up on the rocks.

This is the story of how my family's business avoided the rocks. In the 1970s, the Werner Co. had come a long way since Richard D. Werner founded the company in 1922.

The company became a leader in plastics extrusion during World War II restrictions on civilian metal usage. After the war, Werner started working with aluminum and developed an emphasis on producing aluminum ladders. The main factory was in Greenville, Pennsylvania, and there was an assembly plant by O'Hare Airport in Chicago. The Chicago plant was built to service major retail customers: Montgomery Ward and several major wholesale hardware distributors.

But, in the 1970s, the second generation, three brothers and a cousin, were college-educated engineers coming into their most productive professional years looking to secure their futures. After all, they needed to provide for the third generation, which they hoped would succeed them in the family business.

Werner Co. faced a tough decision on its ownership journey. It needed to assess its leadership if it was to continue to grow and be positioned for generational succession.

This is a cautionary tale about the possible consequences of not making business decisions at all—a decision in itself.

Werner Co. had established itself as a reliable supplier with competitive product and manufacturing technology. These advantages, along with novel marketing and great customer service, drove continued growth. Part of the strategy was to assure that customers never needed to buy niche products elsewhere, which is why Werner Co. had a full catalog of industrial, commercial, and residential products.

But production capacity was limited to two small extrusion presses. Due to extrusion capacity limits, Werner Co. reluctantly began to outsource its extrusions. The company disliked doing so due to significant cost penalties and lost productivity.

Being a private company, Werner Co. had limited access to capital, and a new extrusion facility would cost tens of millions of dollars. If the company was going to make this investment, it needed new technology, which would leapfrog the competition by a generation. The company knew the unique technical features it wanted, but no one was building that sophisticated equipment. So, Werner Co. had to find an equipment builder capable and willing to do so, which it did to get the productivity required.

Richard D. Werner had retired some years earlier but was still in charge of the company. His younger brother, Leo, was the president and had helped to professionalize the business. While the founder was a true risk-taker, at this point, his younger brother, a widower, had become much more conservative. He was at the end of his career, the business had grown substantially, and he did not want to make a strategic mistake. So, he avoided making decisions. The idea of betting the company on a new investment with unproven technology was not something he could condone.

So, this became a generational conflict, as often happens in family businesses. The younger generation wanted to drive growth, and the older generation was becoming more risk-averse. The four second-generation men knew that customers would go elsewhere if they did not add capacity soon, and growth would be stunted. It would personally impact them. They were young, smart, aggressive, and confident that they could do great things with the business.

The president stalled making a business decision for several years until it became clear he was avoiding the issue. So, on a bright day in May 1977 in Manhattan, following the weekend that the second grandchild was married, the four second-generation leaders met with the founder.

Fortunately, the founder, who built the business through wars and depressions, understood the need to make timely decisions. He realized that the right thing to do for the company was to put the customers first and satisfy demand. He had faith in his nephews, as he had seen them work together for over twenty years. He realized that it was time for his younger brother to step aside and let the next generation lead. The owner turned over control to the younger generation and authorized the expansion.

The increased capacity was built using proprietary new technology that raised the bar on quality and productivity. The company did this again in 1986. These decisions laid the foundation for the Werner Co. you see today.

No Business Decision Is A Bad Business Decision

This Werner Co. story demonstrates that avoiding making business decisions, especially tough ones, is the same as making a decision. This is too easy in family businesses where decisions are hard or emotionally difficult. This is one of the burdens of ownership.

Successful leaders understand this and do not vacillate when a decision needs to be made. They take the time to gather the information needed to be fully informed and talk to all stakeholders to get buy-in. But the challenge of leadership is that no one tells you when you need to make a decision or what the right answer is. You need to figure out the answers to those questions, often alone.

What you need to know is that on this rocky road, ownership strategy decisions come first. That will be examined in the next chapter.

Your Ownership Journey

Secret #1. Why The Ownership Journey Is A Rocky Road

» It's not about finding the right answers in life. It's about asking the right questions.

» While most of your time is spent working *in* the business, the high-impact decisions you will make pertain to working *on* the business.

» Ownership strategy defines what the owners want from the asset they own. A business strategy is what you do to get there.

» Private company owners can do whatever they want, so long as they pay their taxes and their bank is happy.

» When you see a company get into trouble, it is usually because management failed to adjust to market conditions.

» It is easy for owners to get too comfortable as time marches on.