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Family Business Is a Passion Play

by GWEN KINKEAD

Late one fall night nearly two years ago, five men converged on a cabin secluded in the coastal mountains of southern California. Three of them were brothers: Gus Hansch, 59, Walter, 53, and Noel, 52. The fourth was Gus's son Tom, 33, and the fifth was David Bork, a consultant to family businesses who had flown in from Frederick, Maryland. The Hansch brothers were in business together, and the business was in trouble. Not financial trouble. Family trouble.

The immediate question to be resolved in that cabin, away from the telephone, was how to bring the second generation into the enterprise, a $150-million Los Angeles life-insurance agency. The second generation was represented by Tom, who had worked with the agency's principal underwriter, Mutual Benefit Life. Tom wanted to join the partnership, and his father fervently supported the idea, but Tom and his uncle Noel had different notions about his job and his future.

The differences became clear the next morning as Bork flipped down some charts he had pinned to the cabin wall. He had asked the Hansches to predict what each other's salaries, titles, and responsibilities would be eight years hence, and the results were displayed on the charts. A discrepancy immediately leaped to everyone's attention. Noel had projected he would earn $50,000 a year, continuing in his position as staff coordinator for personnel, and Tom would make roughly the same amount selling insurance in the Los Angeles office. But Tom forecast that in eight years he would be chief executive, at a salary of $150,000. Gus, the hard-driving founder of the firm, broke the hush with the laconic comment, "Looks like we've got a few problems here."

Research associate: Patricia A. Langan

The emotional strains and psychic rewards are in a class by themselves.

The problems were more complicated than any of them immediately perceived. Bork told the brothers that if they wanted to see the firm perpetuated, Tom and other upcoming sons needed a chance to test their mettle. After considerable debate, it was decided that Tom should join the firm not as a salesman but as head of the Orange County office, and that all other sons entering the business should be supervised by nonfamily members. But Bork figured that Noel would surely clash with Tom when the older brothers retired unless they cut him in on more of the action. After several further meetings, the brothers decided to increase Noel's salary and equity by 25%, expand his job to include line supervision, and enlarge his office.

Looking back, Gus Hansch explains why the family needed an outsider to shake them up. "We're all imprinted with our images of one another from 30 years ago," he says. "I realized I tend to think of my brothers as I remember them on the farm as kids. It takes a great deal of education, maturity, and control not to assume the same relationship with them as you did then. Noel was just a kid when I joined the Navy. Today he's 52. There's not much difference between 52 and 59, yet I still regard him as a younger brother in need of protection. And I think my brothers resisted Tom's idea of setting up his own office because they still viewed him as a young child, playing football in the backyard."

Grudges from long ago

As any professional manager recognizes, emotions influence decision-making in all human enterprise. But the emotional strains that arise when people mix family with business are clearly in a class by themselves.

The principals in charge of a family company know each other too well to be dispassionate about one another's actions. To every decision about who will do what in the business they bring perceptions, and in many cases conflicts, dating from their earliest relationships, when roles were apportioned according to order of birth, force of personality, or prowess in the classroom or on the football field. Disagreements—inevitable among people operating any business—are freighted with old rivalries and ancient grievances over childhood injustices, actual or imagined.

Each generation of family ownership poses particular obstacles to a family's cohesion and the business's continuity. The trouble begins with the founder. Psychiatrists say that an entrepreneur who has raised a company up from a dream is the least likely executive to cede it graciously to the second generation. For someone who has invested vast emotional energy in building a business and sacrificed his family to its tending, the company becomes more his baby than his own flesh and blood. The notion that some younger person, kin or not, might care for it as well as he has is a mark of mortality he can't concede.

So the entrepreneur tends to run a "me, myself, and I" operation that frequently prevents his heir apparent from gaining experience or challenging his authority. That was the case at Shatterproof Glass Corp., a $66-million manufacturer of replacement windshields in Detroit, where William B. Chase, the founder and chairman, has held sway for 58 years. A courtly martinet with a full head of jet black hair at 83, Chase has never suffered from undue modesty. In 1922 he named the forerunner of his present business IXL Co. (phonetically, "I excel").

Chase has two children, Patricia, 49, and William II, 44, who worked for him throughout the Fifties and Sixties. In her strong-minded adversarial temperament, Patricia resembled her father and often challenged his autocratic leadership, but Bill, an amiable, easygoing follower, couldn't stand up to the old man. Among Chase's associates, the saying went that the daughter should have worn the pants. Chase would occasionally accept her proposals and would refer whatever suggestions his son offered to her for criticism. Then father and daughter would mercilessly pick them apart in Bill's presence.

Back in 1969, when Chase was a mere 72 and going strong, it dawned on both son and daughter that as long as their father lived they would be caught in an infuriating holding pattern. At a board meeting, they kicked Chase upstairs and replaced him with their surrogate, Patricia's husband, Jan Hartmann, then a vice president.

Chase promptly went to court, where he obtained a judgment overturning the election. All three dissidents left Shatterproof within three years. Bill acceded to his father's demand that he yield the voting rights to his stock for ten years. That made a repetition of the symbolic parricide unlikely.

Chase now claims to be seeking a successor. But he's vain enough about his health and mental acuity to tell some employees he might stay in charge till he's 100. "I doubt anyone in the last 40 years could have managed this firm as well as I have," he declares. "I still doubt anyone could." Although Bill no longer draws his father's scorn, he remains sadly cowed by the man he views as a colossus. He admits painfully, "I doubt I was actually confident enough to manage Shatterproof, though once I had delusions of grandeur." By doubting his son's capacity, by refusing to give him a chance, Chase seems to have done what many founders do—affirm his own belief that the company begins and ends with himself. That can be a self-fulfilling prophecy.

Guest room only

Even when the father welcomes his son's contribution to the business, the son remains a guest in his father's house. Twenty years ago, Philip Greitzer started manufacturing ladies' belts in a Los Angeles factory and soon branched out into handbags marketed under the "Phillippe" label. In 1972, he invited his son Michael, then 25, into the business as a 50-50 partner. By 1979, Beltline of California had grown to about $20 million in sales and Greitzer wanted to cash in. His son, president of the handbag division, didn't.

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"I had a burning desire to run my own show," says Tom Hansch (standing, center), whose entry into the family insurance business set off a crisis. Tom's father, Gus, chairman (seated, left), backed him, but Tom's uncles Noel (seated, right) and Walter (standing, right) thought he was moving too fast. Tom now runs a district office; his brother Gary (far left) and cousin David (to Tom's left) sell insurance.

Alan Bergman

"It's a problem in every family business," Philip says. "The younger generation has different ideas about what methods work. They're just starting out, whereas their parents have been through heartaches and the mill and want to ease up. My son wanted to grow faster and further but I'd had enough already. I have grandchildren to think of, and other children." Michael could not scrounge up the money to buy his father out, so they agreed to sell to Alberto-Culver. Michael is now running a business he no longer owns.

Proof of equal love

When children inherit a business, they frequently end up squabbling over who shall be first among equals. Competition for salaries and perks is most vicious when all inherit equal stock. To suppress potential infighting, families often resort to weird managerial structures in the hope of preserving concord.

At a small West Coast firm, the founder's widow rotates the presidency among her three middle-aged sons so they will know she loves them equally. The same scheme is used by three brothers who inherited equal ownership of a large international food-and-beverage distributor in New England. "From the standpoint of our egos," one of them explains, "rotating the presidency every year is the only arrangement that makes sense." In Cleveland, a pair of bitter fraternal enemies took the arrangement one step further. For 30 years, they ran their manufacturing business on alternating *weeks*. This spring, they finally concluded the plan was untenable and sold out.

An alternative scheme is to require that all heirs to a business agree about the way it is operated. After the death in 1965 of Marshall Field IV, son of the founder of the Chicago publishing empire, trustees of the estate ran Field Enterprises Inc. in tandem with its board of directors. Then, in 1977, when Ted Field reached the age of 25 and inherited 42.5% of the stock, the trust dissolved. This gave Ted an interest equal to that of his older half brother, Marshall, with four sisters dividing the remaining 15%.

It was eminently clear that, with the swing votes belonging to the sisters, any rifts between the two men would be particularly divisive. Nor would rifts have been surprising. Ted is a bearded amateur race-car driver who lives in Newport Beach, California, and invests in real estate and movies. His contemplative, conservative, and civic-minded half brother was raised in a different family by another mother. Lest one brother court the sisters to rule the roost, family and corporate lawyers persuaded the sisters to convert their holdings to nonvoting stock (bearing bonus dividends) and urged the Fields to formulate an "agreement to agree." Under its provisions, each brother elects six members to the board and exercises equal voting rights. Both must concur on all major decisions, ranging from dividend policy to divestitures, acquisitions, and the selection of a president.

According to one of the professional managers at Field, the two brothers tend to give in to each other's enthusiasms. Ted was lukewarm about the acquisition this year of Cabot, Cabot & Forbes, the Boston real-estate company, but went along anyway because Marshall favored it. Ted bows to Marshall's lead in managing the Chicago *Sun-Times* and other newspaper-related properties, while Marshall defers to Ted on West Coast real-estate operations. Daily management falls upon 16 nonfamily officers. "The agreement to agree gives stability to the company," says President Charles B. Stauffacher, who is soon to retire as chief executive. "People here know they can go ahead and not worry about one of the boys all of a sudden becoming the dictator."

Although no written document compels it, Ronzoni Macaroni Co. also runs by consensus management. An estimated \$50-million enterprise, the company operates out of a dreary factory in Long Island City, Queens, where the family keeps the spaghetti machines under wraps as if they were producing plutonium. Ronzoni dominates the Metropolitan New

Called the Boss, the man with the ditalini in his hands is Emanuele Ronzoni Jr., 76, the last second-generation member of the family pasta business. Now that Emanuele is semi-retired, the third generation has Ronzoni in their hands. They are (from left): Alfred, v.p., production; Ralph, comptroller; Robert, president; Richard, v.p. and manager of frozen foods; Ronald, v.p., sales; Emanuel, v.p., traffic.


Harry Benson

York pasta market, the nation's largest.

Until this year, the sole surviving brother of the first generation, Emanuele Ronzoni Jr., 76—known as the Boss—had the last word. The notion that father knew best kept the younger Ronzonis in their places and suppressed potential jealousies. Now that the Boss is semi-retired, the third generation is pretty much on its own. Six cousins ranging in age from 36 to 47, all intimately involved in day-to-day operations, formulate strategy by majority vote.

It pays to know father

Consensus management *alla* Ronzoni produces different results from the Fields'. The Ronzonis defer not to one another's enthusiasms but to their collective sense of caution. Now that the Boss has stepped down, deadlocks are broken by his youngest son, Robert, the newly appointed president. All the cousins say Robert received the presidency because he was best qualified. Robert, however, believes that being his father's son helped, and his explanation emphasizes the continuing need for consensus not only among the cousins but with the older generation. "It's always easier for me to work with my father than for my cousins to work with him," he says. "I know his objections in advance, and I have solutions to them prepared beforehand."

The Ronzonis believe that soliciting everyone's opinion keeps the peace and avoids costly mistakes because the risks are scrutinized from six points of view. "We're definitely a conservative company," says comptroller Ralph. "We will ponder a decision so long that it's too late. But not doing it turns out to be right half the time. Being involved in owning the company, I wouldn't want it any other way." The risk is that, weighed down by sheer numbers, decision-making could drag out interminably. That is hardly what the Ronzonis need now: they are contriving against great odds to take the company national.

The worst of all managerial schemes may be to have no mechanism at all for judging the performance of family members, resolving disputes, and taking decisive action. Nearly 30 years ago, three cousins joined a tiny regional retailer founded by their fathers. The family, whose members asked not to be identified, had always been close. The cousins treated each other with inordinate kindness, socialized regularly outside work, and once they took control awarded each other identical salaries and perks.

Judging one another was a family taboo. This slopped over into their management style, blurring lines of authority. They didn't hold each other or their subordinates to any standard criteria of performance. They shrank from firing managers, promoted everyone in a department rather than single out one person, and kept on relatives who had long outgrown their usefulness.

Until recently, this extraordinary management style didn't seem to interfere with the company's functioning. The cousins converted to a discount operation just as the discounting revolution began. Sales increased 60-fold, to over $100 million, and the company expanded across the country. Whatever mistakes the cousins made were covered up in the noise.

Then, in 1978, a major profit center began losing money. After years of reinforcing the managerial status quo, each thought it was the others' responsibility to stanch the hemorrhage, but no one could bring himself to say so directly. In the resulting turmoil, two of the cousins' sons hired a family-business adviser, who gradually persuaded the cousins that squarely confronting unpleasant problems didn't necessarily mean insulting one another. In the last year, the consultant and the sons, themselves aggressive M.B.A.s, have helped the cousins reassess their functions, turn around the faltering division, and talk straight to one another. "These men would have given each other the shirts off their backs," says one of the sons. "The company never had a bastard—somebody's got to take charge."

By the fourth generation or beyond, the tensions in family stewardship lose some of their potency as the familial bonds attenuate. Cousins twice-removed tend to love and hate one another with less ferocity than brothers and sisters. Incompetent heirs do not pose a great threat to the firm's future, since the enterprise doesn't depend completely on a single roll of the genetic dice. The larger the extended family, the more likely that self-selection will yield adequate leadership. Heirs need not assume positions in the company: indeed, a steady flow of income may turn many potential rivals into academics, professionals, and the idle rich. So long as the family accepts the dominance of one leader per generation, whose decisions produce profitable growth and dividends for the beneficiaries, the chief remaining quandary is how to structure the business to prevent too many relatives from horning in on the act and interfering with orderly growth.

"You have to be magnanimous"

A building contractor whose revenues exceed $100 million followed a simple stratagem to keep his many sisters from flooding the company with their husbands. "I made them rich," he explained with a Volpone-like smile. This c.e.o., who requested anonymity, continued, "You have to be magnanimous in a family company to keep everyone happy. I don't run this as a little empire. I run it as clean and strict and tight as I know how. Otherwise my relatives could come in here and pick at me, and I don't believe a construction company can be run by daughters, sisters, banks, or lawyers."

To provide for his sisters' financial independence and diminish their desire to second-guess his decisions, the contractor makes a point of supplementing their dividends every now and again with generous cash gifts from the sale of company assets. If a company is wealthy enough, interfering relatives can be dispatched to out-of-town branch offices or bought off with titles and perks.

The longer a family business continues down the generations, the more likely it is to take on a life of its own. What may originally have been the modest creation of a single man becomes bigger than any individual. It lends its identity to an entire family that takes pride in its traditions and accomplishments. The managers view themselves as caretakers of an ideal, the founder's original vision and standards. Being the custodian for a generation is an honor.

Crane & Co., the $65-million sixth-generation manufacturer of specialty papers, deluxe stationery, and U.S. banknote stock, illustrates the high-mindedness that can characterize a company after many generations of family ownership. In all of its 179 years, Crane has never deviated from founder Zenas Crane's principle of producing the highest-quality paper available in the country, even though this has resulted in lower sales than most publicly owned competitors would find acceptable. Stooping to cheaper grades to boost volume would, to management's collective mind, besmirch the name of Crane.

Legacy to the unborn

Exactly how many firms have made it to the fifth and sixth generation of family rule is impossible to say. Certainly not many; family-business consultants estimate that 70% never reach the *second* generation. Judging by those that have succeeded in mixing family with business, several strategies predispose an enterprise to longevity. If ownership is concentrated in an able successor, if the family divides responsibilities in mutually exclusive territories, if heirs are measured by the same criteria as nonfamily employees, and if professional managers direct the company's middle levels, many problems can be headed off before they grow uncontrollable.

The family that does perpetuate its business over the generations gains some singular advantages over public corporations. The psychic rewards of building and directing a family legacy that promises to give economic security to unborn descendants gratifies more than mere family pride; it permits a degree of control over the future that is almost unique in life. ■

Who Will Walk in Mr. Sam's Shoes?

To his dismay, Sam Steinberg, the gutsy, dictatorial, five-foot three-inch founder of Steinberg Inc., the $2-billion Canadian supermarket chain, fathered no sons. After his fourth and last daughter's birth, the story goes, no one could speak to Mr. Sam for a month. He died in 1978, at 73, without designating a successor. "He didn't want to hurt his family's feelings," says a director. "He figured when he was gone they'd have the problem."

The family passed the problem to a trusted manager, Jack Levine, 67, who was named president and asked to find a successor. The job was made harder by Mr. Sam's philosophy: "Protect the family cow—it doesn't matter what you do with the milk." Sam passed out the milk by giving family members jobs. Some now seem quite ambitious.

One is Steinberg's favorite daughter, Mitzi, whom he put in charge of the company's weakest division. The appointment of a housewife-turned-lawyer without managerial experience struck many executives as blatant nepotism. But Steinberg brooked no criticism of Mitzi even after she fired wave upon wave of middle managers. She has become a figure on Canada's business scene —the first woman appointed to the board of the Royal Bank of Canada and the Montreal Board of Trade.

She would seem in line for the presidency when Levine steps down. (Her husband, Melvyn Dobrin, is chairman.) But that outcome would not please everyone. Mitzi's sisters have always been jealous of her, and her cousin Arnold and nonfamily managers have been mentioned for the job.

Levine is trying to convince Steinberg's widow, who controls the voting stock, that considerations other than family face should influence the selection. "We are prepared for nasty situations," a board member says grimly. "There are no family members ready for this position." The family declines comment.