BUSINESS

Real Estate & Small Business

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Success and succession

RECRUITMENT AND CONTINUITY HAVE NEW MEANINGS WHEN PARTNERS ALSO ARE FAMILY

By REBECCA MOWBRAY
Houston Chronicle

The Solomon-Donsky family assembled in a Dallas law office several years ago to determine the fate of Houston Jewelry and its sister stores in Dallas.

The jewelry showroom concept that had made them successful since 1953 was dying. The stores were generating $60 million in revenues, but no profit for their 35 owners.

In Houston, the Solomons wanted to make radical changes in the business. In Dallas, the reigning vision of one of the business's founders prevented other members of the Donsky family from experimenting with new approaches. Many of the shareholders had lost interest in the business and pursued other careers.

Complicating matters, one of the three brothers who founded the business died earlier in the year. Another had been incapacitated by a series of strokes. A delicate balance of power had been shattered, and succession questions opened precisely at the moment when the business needed leadership.

Forty years of successful business at Sterling Jewelry in Dallas and Houston Jewelry here were nearly wrecked by the peculiarities of family enterprises. Unusual management structures, long leadership tenures, owners with varying degrees of emotional investment and struggles to balance family and business are persistent management issues for the nation's estimated 4 million to 20 million family firms.

Karen Warren / Chron

Rex Solomon, left, and father, Andrew, are reflected in a mirror at Houston Jewelry in west Houston. Disagreements within their family led to the dissolution of the chain, but freed the S lomons to reopen Houston Jewelry and run it wi out the constraints of a large family operation.

These management issues are becoming more cr cal today because half of all family businesses v change hands in the next decade, according to a s vey by the Arthur Andersen Center for Family Bu ness and Massachusetts Mutual Life Insurance (

See FAMILY on Page 5

NEW SUNDAY FEATURE OFFERS TOOLS FOR BUILDING A SMALL BUSINESS

If you're ready to go into business for yourself or are struggling to expand your company, you don't have to go it alone.

Houston is brimming with consultants and other resources to help you with your small-business problems at little or no cost. Read about many of them today as part of the Chronicle's expanded coverage of small business on Page 4D.

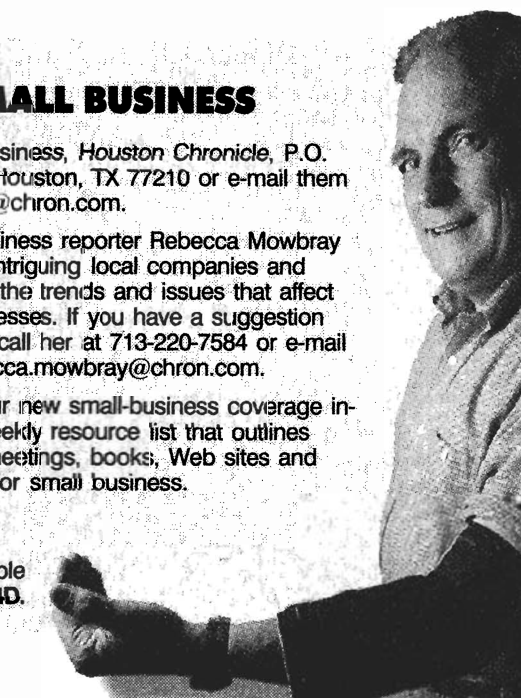
Small businesses have a big impact in Houston, where more than half the companies have fewer than five employees. Last year, Houston was recognized as America's top city for new businesses for the third year in a row, according to American Business Information.

Every Sunday, the Chronicle Business section will offer insights on issues important to small businesses.

Trying to decide whether to lease or buy equipment? Worried that the IRS will consider your contractors employees? Don Doggett of the Service Corps of Retired Executives and Mike Young, executive director of the University of Houston Small Business Development Center, will answer your questions about small-business issues in a weekly column. Send questions or problems for these experts to Small Business, *Houston Chronicle*, P.O. Box 4260, Houston, TX 77210 or e-mail them to smallbiz@chron.com.

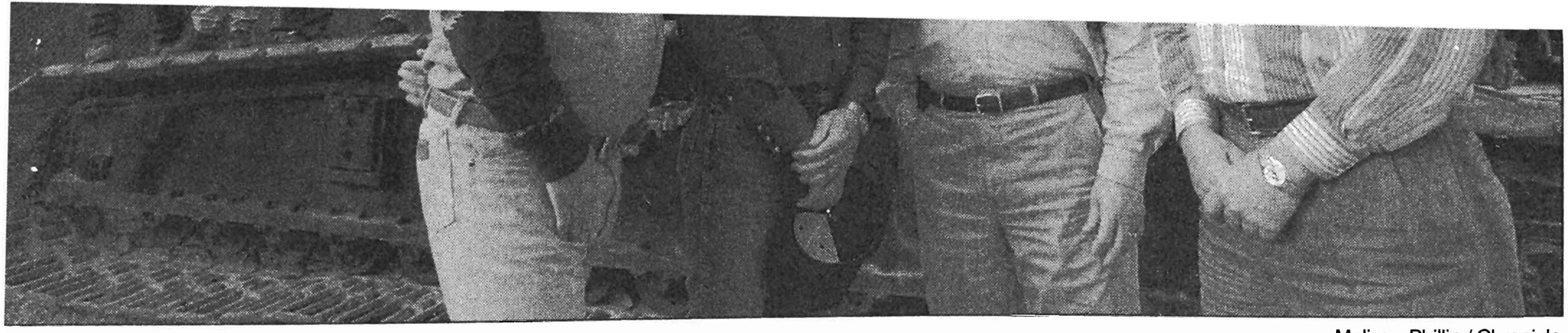
Small-business reporter Rebecca Mowbray will profile intriguing local companies and write about the trends and issues that affect small businesses. If you have a suggestion for a story, call her at 713-220-7584 or e-mail her at rebecca.mowbray@chron.com.

Finally, our new small-business coverage includes a weekly resource list that outlines seminars, meetings, books, Web sites and other tools for small business.



David Williams displays his invention, developed with the help of NASA. There's plenty of assistance available for small business owners trying to get started: **Page 4D.**

Business digest



Melissa Phillip / Chronicle

The Cherry brothers, second generation of Cherry Demolition, are, from left, John, Keith, Leonard and Rick Cherry. Behind them is the company's third generation: John Cherry II; Kristi McFarland; Hayley Cherry; and Stephanie Falcon.

Family

Continued from Page 1D.

As the founders of the many businesses started after World War II die and baby boomers move into retirement, the leadership of their enterprises will be up for grabs. Only a third of these businesses will be transferred successfully to the next generation. Lack of interest among heirs or competitive pressures will force the rest to be liquidated or sold.

Houston Jewelry's owners emerged from their family meeting in 1992 with a bold plan: liquidate the business. The Dallas stores were sold to Zale Corp. The Donskys got out of the retail jewelry business, though three members of that family now make custom jewelry. In Houston, Andrew Solomon and his son, Rex, incorporated a new Houston Jewelry, and opened up shop a block from their original location with significant changes.

Liberated from the constraints of a large family operation, Andrew and Rex cut unprofitable jewelry inventory, added giftware and used technology to make the business more efficient. During the deliberations about the business, Rex, now 32, was struck by the aversion of his grandparents' generation to technology – for his great uncle, even accepting credit cards had been a stretch. Today, business is again lucrative, and Houston Jewelry is selling wedding bands on the Internet.

The challenge of managing the family business, experts say, is balancing the rational world of business with the emotional domain of the family.

Creating a well-paying job for an unskilled or irresponsible family member may be a caring gesture from the family, but it isn't a wise business decision. At the other extreme, dogged planning to avoid estate taxes is an essential family business strategy, but that preparation isn't worth much if astute tax planning divides family members and their infighting destroys the business, said Joseph Astrachan, associate professor of management and entrepreneurship at Kennesaw State University near Atlanta.

The trick is to recognize the dynamics of each realm and create rules that will guide decisions when business and family issues conflict.

First, decide what role the family will play in the business, said Ross Nager, executive director of the Arthur Andersen Center for Family Business in Houston. Before there are spouses or children, make rules about whether family members can work in the business.

Written job descriptions will give family members aspiring to join the business a blueprint for achieving their goals and offer corporate directors a means of politely declining a job application from an unqualified family member.

If the door is open for children to join the family business, start to talk about it when they are young, suggests Sam H. Lane, a corporate psychologist who specializes in family businesses at the Dallas consulting firm L.B.F. & Associates.

"You want to plant the seed when they start thinking about what they'll be doing when they grow up," Lane said. They should have specific information about what education or work experience is required for them to join the firm, and shouldn't expect to become chief executive upon graduation.

At Montalbano Lumber, founded in 1900 by an immigrant from Italy, family members don't automatically get jobs at the company. "You have to earn that right. We don't hand them out on a silver platter," said Mike Montalbano, one of the owners. "They have to want to come in and work, and they have to perform after they get here. Not all of them do."

Working in the family business for a summer is a good way for kids to evaluate their career options. But it's important that they also spend time working outside the family firm to give them the experience of being accountable to a boss who does not dine with them at Thanksgiving.

Time away from the company also gives other employees a chance to forget about teenage transgressions and lets the family member return in a position of respect. Rex Solomon admits there's a downside to lifelong relationships. "There are people who work for me who have known me since I was born. The line between employee and employer is blurred."

Money is another important topic of discussion with children in family businesses, said Peter Baudoin, a Lafayette, La., accountant who specializes in family businesses. "It's not unusual for families to pay their children for being their children, and not for being employees."

If nonfamily employees feel pay is determined by blood relationships, and not by job title or quality of work, there's not much incentive for them to stay. As the business grows and hires more employees – many with professional expertise that family members don't have – the principle of equal pay for equal work becomes even more important.

Cherry Demolition Co., a Houston wrecking company since 1952, has kept many of its employees for more than 30 years. John Cherry attributes the family company's high employee retention and low workers' compensation claim rate to generous retirement offerings and a profit-sharing plan that awards 8 to 15 percent of the company's earnings to nonfamily employees.

Many companies have family councils and other forums in which relatives meet to talk about issues before they spill over into the company.

Kim Son, which operates nine restaurants in the Houston area that employ 40 family members from the United States and Vietnam, does not have a formal family council. But Tri La, vice president of marketing, said that the family convenes daily over lunch and dinner, and the topic of discussion is always business. "It seems like we meet every day," he said.

That constant dialogue was critical in 1993 when Tri La and an older brother wanted to build a 22,000-square-foot restaurant and banquet hall on Jefferson, and move from Kim Son's original 5,000-square-foot location. Tri La's mother thought it was a bad idea, fearing that not enough Americans knew Vietnamese cuisine to fill the new restaurant. The situation was especially delicate because in Vietnam, where the family had first owned a restaurant, the word of the elder would be final. After months of daily discussions, Tri La's mother agreed with her sons that there was a need in the Vietnamese community for banquet facilities, and that reaching out to non-Vietnamese Americans held great potential.

"When we disagree, we discuss. But she always thinks ahead of us. We respect that both sides have good reasons," Tri La said.

The board of directors plays a special role in family companies because it gives the family access to outside advisers who have a more objective viewpoint on the business. At Cherry Demolition, brothers John, Rick, Leonard and Keith sit on the board of directors along with the comptroller, a lawyer and the chief executive officer of a remediation company. The board meets weekly, the brothers meet daily, and Cherry Demolition has a rule that all decisions are made by vote of the board of directors.

"With any four grown men that are aggressive businessmen, you'll have disagreements. Our premise is that we can argue until we're blue in the face, but when you're outvoted, you have to accept it," said John Cherry, the eldest brother.

Cherry said that the formality and objectivity of the board of directors were essential in 1996 when the company had the opportunity to take a two-year job in Arkansas closing a Reynolds Metals Co. aluminum plant. Taking the job meant purchasing $3 million in new excavating equipment, transferring 30 percent of the company's work force to Arkansas, hiring additional staff and managing the project from far away.

It represented a significant expansion from Cherry's Gulf Coast focus, and not all the brothers thought it was wise. But after working through the issue, the board voted to take the job and become a contender for other projects outside Texas and Louisiana.

"We may cease to be partners at some point, but we'll always be brothers. There's an extra responsibility to do the best that we can do," John Cherry said.

Many of the issues family businesses must deal with come together when the generation leading the company is ready to retire. How smooth the transition goes often reflects how well family dynamics have been managed in the business over the years. Succession is typically a defining moment for family businesses, because their CEOs change less frequently than at nonfamily or public companies, said the Arthur Andersen Center for Family Business.

As a member of a departing generation, Irving Rose, 72, of Rose Metal Recycling, has found it hard to give up control. Rose began running the company at 14, when his father, a Lithuanian immigrant and entrepreneur, became ill. "It's kind of like giving your baby to somebody else," Rose said.

Even though that somebody else is his son, who became chief executive officer two years ago, Irving says it's difficult not to share his expertise at a time when overseas steel is flooding U.S. markets. "You have to step back out of the way and let them do their thing. It's hard to develop if you're not allowed to make some mistakes. You have to give them the freedom to do what needs to be done, not do too much coaching, but still be there if they need you."

Eliot Rose, Irving's son, agreed that making the transition was difficult for the company. "My father was an extremely hands-on manager. In a lot of situations, he would step back into the business. People were used to looking to him for answers. His tendency was to give the answer if he was asked. We found that it created more problems than it solved."

Irving and Eliot have since clarified for employees their new roles within the company, and they're becoming more comfortable with their new positions. Irving Rose is formally retired, but serves as a kind of CEO emeritus. "We have the combination of wisdom and experience on the older generation's part, and youth and enthusiasm on the younger," Eliot said.

At Cherry Demolition, founder Carl J. Cherry retired eight years ago, but it's impossible to pinpoint the date. After his four sons took a more active role in the business and things were going well, Carl bought a motor home. First, the trips were short. Then he was gone for a month. Then he went to Alaska for four months.

When Carl returned, he said the business belonged to his sons.

"When I was 17 or 18, I thought he was one of the most unintelligent people I'd ever met," John Cherry said. "Now I know otherwise."

Businesses have impact

Estimates on the number of family businesses and their impact on the U.S. economy vary, depending on how you define family business.

If family business is broadly defined as businesses in which a family controls the direction of the company, there are about 20 million family businesses, which make up about half of the U.S. gross domestic product and account for 60 percent of U.S. employment.

If family business is more narrowly defined as a business that has been in a family for more than a generation, and in which the family manages the company and controls its stock, there are 4 million family businesses, which make up 12 percent of the U.S. GDP and employ 15 percent of the U.S. work force.

– From Joseph H. Astrachan, editor of the Family Business Review (and associate professor of management and entrepreneurship at Kennesaw State University in Georgia).

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Mike Montalbano, co-owner, Motalbano Lumber

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Irving Rose, retired from Rose Metal Recycling