

WATCHING THEIR 5-year-old daughter frolic on the lush lawn of the hotel while vacationing at Disney World, Larry and Pam Mirable should have been happy. After all, a weeklong family vacation was a rare treat for the couple, who own Migu Press, a fast-growing printing company in Warminster, Pa.

Instead, the Mirables were filled with dread. Their eight-year-old company's growth streak had turned ugly. Orders were pouring in so fast that they could hardly keep up with billing. New customers were slow to pay, and managing the firm's cash flow suddenly had become a nightmare. Migu Press and its 30 employees had outgrown their cramped offices, but a long-anticipated move into a spacious new facility cost far more than expected—\$200,000. The relocation sucked every penny out of the budget, and the Mirables were worried about making the next payroll. Were they broke or rich? Lost in a financial fog, they didn't know. "We were ready to throw in the towel," Pamela Mirable recalls.

In despair, the Mirables agreed to hire a CFO who could put them back on a solid

The Stranger Among Us

As more family firms hire outside managers, awkward transitions abound. Smart owners explain how they get the most gain for their pain. **BY PATRICIA B. GRAY**

Larry Mirable, 55,
vice president
and dad

Pam Mirable, 54,
president
and mom

Anthony Cino, 61,
CFO and
the new kid

Georgie Mirable, 15,
drama queen
and daughter

Phil Mirable, 23,
vice president
and son

Creamy Mirable, 5,
head of security
and family pet

PHOTOGRAPH BY EVAN KAFKA

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financial footing. Just the thought of opening the company's books to a stranger made the couple squeamish. "Like many entrepreneurs, we're very private about managing money," Pam says, "but the CFO had to know everything about our finances and mistakes. We thought we would be scolded like children for our knowledge gaps."

Surrendering financial control was even more difficult. Within months, however, the Mirables realized that they had made the right move. Their new CFO, Anthony Cino, saved them \$40,000 in federal corporate taxes in his first year on the job. He fixed the billing mess and established a line of credit for the firm. "Once I put financial controls in place, the Mirables were able to take advantage of growth opportunities," says Cino.

Freed from bookkeeping hassles, they focused on their customers with renewed energy. Migu Press's revenues topped \$5 million in 2007, up more than 10% from 2006. In retrospect, bringing in a professional manager "was the hardest but best thing we ever did for our business," Pam says.

HIRING EXPERT MANAGEMENT for the first time marks a critical turning point—and often a crisis—in the life of a family business. Retirement planning is frequently the impetus. After years in the trenches, who doesn't daydream about turning over the day-to-day work of running a business to a competent manager? Sometimes lickety-split growth sparks change, as in the case of the Mirables. And in other situations family-owned companies are forced to search for outside help after an owner's sudden death or disability. If there is no heir apparent—and not every clan can produce a CFO or CEO—families may have no alternative but to look beyond relatives. No matter what prompts the decision to hire an outsider, making it happen is a delicate—and perilous—operation.

The topic is growing hotter at dinner tables across the U.S. Millions of family-owned firms are beginning to look into retaining professional management, or will do so in the next few years. One reason: The mass retirement of baby-boomer



Looking Beyond the Family Tree

These catalysts often prompt family businesses to make that first outside hire.

GROWTH Too much too fast can leave owners dangerously overwhelmed.

RETIREMENT PLANNING Even the most energetic entrepreneur will one day step aside.

SARBANES-OXLEY Private companies are more valuable if they set up the financial controls required of public firms by this 2002 law.

SUDDEN DEATH OR DISABILITY Not every clan has a homegrown leader willing and able to fill the owner's shoes.

business owners. According to the Exit Planning Institute in Palatine, Ill., an advocacy group for financial planners, 12 million boomer owners will retire from their firms in the next decade, either selling out or turning the company over to children or professional managers.

The pressure of abiding by Sarbanes-Oxley, the 2002 law that intensifies regulation of corporate finances and governance, is also spurring the professional-management hiring trend. "Even private companies are finding they need to comply with Sarbanes-Oxley," says Eric Flamholtz, a professor of management at UCLA's Anderson School of Business. "They are more valuable if

they install financial controls as strict as those required of public companies."

Family businesses with younger owners at the helm are also under pressure to recruit outside talent these days. Heightened global competition is a factor. "For a family business to survive in a hyper-competitive marketplace, it may have to look outside the circle of kin for specific talents," says Andrew Keyt, executive director of the Family Business Center at Chicago's Loyola University.

Still, it can be tough to welcome a stranger into the fold. "No one in their right mind wants to be the first one in the door of a family business," says Flamholtz. "That's the sacrificial lamb." (And there's the problem of cutting the lamb loose if things don't work out—the outsider has been privy to some of the family's most intimate financial secrets.)

Consider one telling, if unsubstantiated, expectation cited by family-business experts: The first outside manager hired by a family-owned and family-run business—usually a CFO—generally lasts only a year. Why? CFOs are typically highly organized and conservative—after all, their job is to enforce strict financial discipline. In contrast, many family businesses can be pretty easygoing about money. To an owner, allowing the children to dip into the petty-cash drawer for candy might be no big deal. To a CFO, especially one trained by a public company to account for every penny, that kind of laxity seems almost criminal.

Then there's the Uncle Fred factor. Almost every family business seems to have one. He may be a do-nothing freeloader or a meddling know-it-all who stays on the payroll simply because no one else will have him. Outsiders who can't accept such quirky business practices will have a difficult time operating in a family-owned company. "Uncle Fred is simply a cost of business—just as fancy leased cars are a cost of business for some *Fortune* 500 firms," says Michael McGann, managing director of Telos Group, a family-business consultancy in Philadelphia. "If Uncle Fred gets paid and putters around quietly, that's fine. If he creates chaos in the company, well, then you've got trouble."

Even before recruiting an outsider, a

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family should sit down and analyze its needs and then devise a strategic plan for the hiring process. A company in crisis will need a manager who is sufficiently decisive and experienced to battle the forces that threaten the firm, while businesses that plan to slowly transfer control from parent to child will want a mentoring manager—someone capable who can run the company while training the future family CEO.

Experts suggest creating a family council to guide and oversee the new manager. The council should meet regularly to address business issues and reach a consensus on the company's direction and strategy. Then a council representative takes that message to the manager, who is thus spared the unpleasant experience of being whipsawed by contradictory orders from family members.

"Our managers spend zero time dealing with questions and suggestions from various family members—by design," says Dave Juday, 63, chairman of Ideal Industries in Sycamore, Ill. Founded by Juday's grandfather in 1916, Ideal is one of the world's largest manufacturers of wire connectors, tools, and testing equipment for electricians. Juday, who is chairman of the board, created a 32-member family council to address company issues at scheduled meetings—not at the dinner table or annual family barbecue. The council also insulates senior managers from family strife. "No manager wants to negotiate with this or that kid," Juday says. "We give our managers a level of authority and autonomy to accomplish what we've asked of them. We don't meddle."

FAMILY-BUSINESS OWNERS ARE known for being quick to hire and slow to fire. New to the recruiting game, they often go for candidates with flashy degrees and brand names on their résumés. "For years dear old Dad has been happily driving a Toyota Corolla," Keyt says. "Now that he's hiring someone to run the business, he's got to get the Harvard MBA—even though that guy probably has no long-term interest in running Dad's widget company."

Far more crucial than a prestigious degree, experts say, is a keen understanding

Smoothing the Transition

To boost your new hire's chance of success, business owners recommend taking these steps.

KNOW YOUR FIRM'S NEEDS

Do you require a take-charge trailblazer? A mediator? A mentor to future generations? Recruit accordingly.

FOCUS ON WHAT MATTERS

When hiring, Ivy League degrees are less important than experience in managing your type of firm and the challenges it faces.

BE COMPETITIVE

Tap an executive-search consultant to make sure your offered salary is in the right range, and consider setting up a profit-sharing plan.

CREATE A FAMILY COUNCIL

This body should meet regularly, reach a consensus on company policy and direction, and guide your new hire in a unified way.



of and appreciation for the family-business culture. "A family business isn't just about the money," Keyt says. "It's way more complex than that. It's about legacy, influence, and reputation in a community. That owner sees his employees and their families at church on Sunday, which breeds a powerful sense of responsibility."

Structuring an outsider's compensation package is also a challenge, because

families often are unaware of managers' pay scales in the world beyond their company. Some family firms won't offer outside hires a stake in the business for fear of diluting family ownership, which complicates and slows recruiting. "Equity usually isn't on the table in negotiations," McGann says (though the Mirables offered it to their new CFO). An executive-search consultant can offer advice on competitive salaries. McGann and other experts suggest creating a profit-sharing plan with phantom stock—typically a merit-based cash bonus based on the value of a set number of shares.

After hiring, families often neglect the most important part of the plan: integrating the newcomer into the company and, to an extent, the family. Studies show that the most successful managers share the family's values and understand its often unspoken rules. "Hire someone with a high emotional IQ," says McGann. "Then overcommunicate the first year." Create an independent board of advisors for the company, which should include trusted, experienced hands such as the company's lawyer, banker, and accountant. Boards can act as buffers between family and managers if trouble arises. Also, say experts, boards tend to be more objective than family in evaluating the manager's performance.

Doing all this is harder than it looks on paper. Like schools of fish, family firms seem to react to signals that outsiders can't see or hear. Interpreting and explaining the signals can frustrate outsiders. And while imposing discipline might sound like a good idea in theory, it can be tough to live with changes initiated by an outsider. With professional management come new rules, procedures, proposals, and committees. Change can unsettle some family members, who may feel that the business has become more corporate and bureaucratic—or that outsiders are running in scary new directions.

Accepting change takes discipline and a new mindset. "Consider it a success when you've hired competent managers who get the business and the family," says Juday. "Your next step: Get out of the way and let them do their jobs." □

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