How One Family Owned Company Is Solving the Succession Problem

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Go head, ask anyone who's in a family business about what it's like working with other family members and you'll hear anything from "we love each other to dearly" to "today I almost killed my sister." Emotions, squabbles, fights and the like are pretty common, even among some of the most successful family operated companies. But if there's one thing that any member of a family business can agree on is this: Who's going to take it over when the current generation retires?

That fear was validated today in a survey released by the Alternative Board. The survey's results found that 56 percent of family business owners are either unhappy with their succession plan or don't have one at all and 62 percent of owners believe it's unlikely their business will remain family owned by the next generation.

We can figure out the reasons. A few brothers and sisters, maybe even a cousin, takes over the company from the last generation and grows it successfully. Now they've all got kids. And the kids all have different interests. Not only that, but the kids are...well...kids and they don't have a clue if they're going to one day want to come into the family business. So how's the equity split up? Who gets what? And if one or two of the kids do want to come into the business someday, how do they get fairly compensated? And what if the kids aren't the best choice of people to run the business? How about if there are more capable and experienced non-family managers who are better suited to the job?

These are just some of the problems faced by the owners of A. Duie Pyle, a family owned transportation and warehousing firm based in West Chester, PA. This is no tiny company. A. Duie Pyle was founded in 1924 and today employs more than 2,300 people, including three third-generation members of the original founders. And there are nine kids in the next generation too. In a world where only three out of a hundred family owned businesses remain family owned into the fourth generation, how does A. Duie Pyle plan on beating the odds?

They brought outsiders to run the company. Early.

"Recognizing that we would be approaching generational owner succession in our family business in the next 10 to 15 years, I thought it was important to create experience at our company with a non-owner leader of our family business." Peter Latta, the company's CEO (and one of the third generation) told me. "This was so our Pyle team members and the owners would, from a cultural perspective, have experience, and be comfortable, with the top leader of Pyle being either an owner or non-owner of the business."

Latta's aim was to introduce a non-owner leader during his generation's watch so that "culturally we would be prepared and experienced with this person being either an owner or non-owner."

So in 2006 the company brought in Steve O'Kane to take over as CEO and run the day-to-day operations while Latta stepped down to the role of President and focused on nothing other than family succession matters. During the next few years, Latta oversaw the creation of an outside board of directors. Modeling his approach after John Ward's book "Creating Effective Boards for Private Enterprises," Latta's board balanced independent outsiders with financial and industry acumen and family members. Neither the board members nor the new CEO received equity, but performance incentives for O'Kane were included in his compensation agreement. They all have fiduciary responsibilities and are insured. Members of the board, and even O'Kane, were found primarily through Latta's personal network.

The biggest issue, of course, is their authority over family owners. And that, according to Latta, has not been a problem. "As owners, our objective is to make those decisions which are in the best interest of all the families who make up our team," he said. "Unless I had a very strong opinion that was different from Steve's I typically did not step in." Board members voted on any contentious issues. Egos needed to be put aside, and they were. The new CEO, and his independent board, were chosen because they culturally fit and aligned with the company's core values and were allowed to execute.

Having an outside CEO and board allowed Latta to lay the foundation for a smooth transition to the next generation. The independent board is "the cornerstone" of this plan," according to Latta. Since O'Kane's planned retirement at the end of 2013, two non-family members have taken over as Chief Operating Officers of the company's two business units. A "4G Board Observers program" was established to give the next generation access and involvement with the current board. The company's Family Employment Policy was updated to strengthen the rules, qualifications of employment of owners and/or owner spouses and is now administered by the outside board. An Owner Governance Voting Agreement was established that details voting process and defines future board seats. Latta has even found the time to implement new policies for dividends and owners' marital property, which was designed to manage the risks associated with domestic issues among owners.

It makes sense to me that almost two-thirds of business owners (at least according to the Alternative Board's survey) believe that it's unlikely that their business will remain family owned by the next generation. So whose fault is that? The current generation of family members who run A. Duie Pyle realize that their company provides a livelihood not only for their families, but for the families of all of their employees. It is a stewardship and a serious responsibility. And that is why they are taking steps now to make sure that the future is as planned as possible. That's what smart, forward thinking business owners do.

A previous version of this column appeared on ***Inc.com****.*