

The great divi

University of the Pacific's **Institute for Family Business**

is NorCal's network of wisdom and experience to help family-owned ventures navigate unique waters.



A man in a dark suit, white shirt, and red tie is climbing a jagged rock face. He is holding a thick rope with both hands. The background is a cloudy sky. The letters 'de' are overlaid in a large, light blue font on the left side of the image.

de

Feuding brothers.
Extramarital affairs.
A fiery end to the family mansion.

Those may be plotlines from the fictional saga of a Texas oil clan in *Dallas*, the classic television show from the 1970s and '80s, but Douglas Box lived them.

Life would imitate art as Box and his three older brothers, sons of oil-tycoon Cloyce Box, grew up on Southfork — whose sprawling white-washed ranch-house was shown in the TV series' original opening sequence — and were drawn into the family business.

Box recalls with 20/20 hindsight the pitfalls the family fell into: Personal issues festered into business problems; a controlling patriarch didn't listen to his sons. His father's sudden death was followed by years of lawsuits, headlines and blown-up relationships.

In fact, to settle their many disputes, the Box brothers ultimately sold the business their father had built, only to see the company's value skyrocket not long after they had relinquished control.

Running a family business is not for the faint of heart.

By Ann Brody Guy



Box recounted his cautionary tale to about 35 rapt members of Pacific's Institute for Family Business in January at University of the Pacific's spacious San Francisco Campus. The 20-year-old Institute, based at the Eberhardt School of Business, brings advisers, experts and case-study presenters like Box directly to its membership. The Institute also provides advising and referrals to resources like business counseling and succession planning, and the rich peer network created by its membership.

Entire families can attend programs located in Stockton, Santa Rosa and, most recently, San Francisco, where, at the request of Institute partners, they've expanded their presence. Box's talk was the Institute's inaugural event at Pacific's San Francisco Campus.

The Institute is one of only a handful of university-based programs in the state that serve this population, said Institute Director Peter Johnson. While private consultancies offer similar services, university-based programs are aligned with an educational mission — a distinction Johnson sees as crucial to delivering the most meaningful, unbiased support for America's family businesses.

And there are lots of them.

Roughly 80 percent of the world's businesses are family-owned, according to the Institute's statistics — an average of figures that range from 65 to 90 percent, depending on the defining criteria used. But less than

30 percent of family businesses will survive to a second generation, and less than half will move to a third generation, according to *Forbes*.

"If we know that most businesses are family-owned and we know that most family-owned businesses won't make it to the next generation, that's a problem," Johnson said.

It's a problem because the businesses that generate most new jobs, expand more quickly, are more financially stable, and do better in recessions tend to be family firms, he said. According to both *Forbes* and *Inc.com*, family-owned businesses generate fully 50 percent of the GDP and the nation's new jobs.

Unlike corporations, family businesses have their long-term interests baked in, Johnson explains. "If I'm running a family business that's been around for 75 or 100 years, what's my focus — is it what I'm going make next quarter? Or is it more, 'How do I make this a strong business so when my kids take over, there's a great opportunity for them to add their skillset, their vision, their passion...?'"

From wineries to Wal-mart, priorities like love and legacy tend to create a long-term approach.

An 'emotional system'

But the conditions that make family businesses stable are the very factors that are typically their undoing.

The biggest issues are not whether they have a good product or know how to market it; they are family problems like sibling conflicts, an aging patriarch who won't let go of the reins or even smaller resentments about who receives promotions and perks. If family-based issues are not dealt with, according to experts and case study after case study, the business won't make it.

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“Family businesses are emotional systems as well as businesses,” Box said. It’s critical to understand how those two forces interact, he cautions. Applying parenting wisdom to business management is one mistake Johnson has seen too often. To avoid perceived favoritism, parents often leave their children equal shares in the company, even when not all the kids are involved in the business.

“Fair doesn’t necessarily mean equal,” Johnson said, especially when it gives control of the business to someone who doesn’t know anything about it.

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— Sam Tamayo
La Tortilla Company vice chairman and chief innovation officer

The Institute advises owners about alternative ways they can distribute wealth to siblings not in the business, such as through real estate or other assets.

The Institute also stresses the importance of bringing in voices from outside the family system as they set up business structures and governance.

St. Helena–based Schweiger Vineyards initially came to the Institute interested in succession and other planning issues. After they heard Stockton-based business counselor Lois Lang speak at a program, the Schweigers engaged her to help them set up structures. When Lang suggested they hire non-family members as general manager and human resources director, breaking the family bubble made sense.

“That has been extremely beneficial,” said Sally Schweiger, now semiretired from her position as corporate secretary. Until then, her husband had acted as general manager, and she’d handled HR.

“What’s really hard is handling human resources when it comes to your own children,” she said, especially giving them input or directives. “As a parent I thought I was doing a good job putting on my mom hat versus my business hat. But it was hard for them sometimes. They’d say, ‘Mom, why are you telling me that?’”

For its first 25 years of operation, Santa Rosa–based La Tortilla Factory had an all-family board of directors, most of whom worked in the business.

“Family members tend to be passionate, bootstrap kind of people,” said Sam Tamayo, vice chair and chief innovation officer, and part of the company’s third generation of the Tamayo family. His father, Carlos, the eldest of the founders’ five sons, joined the Institute seeking education and insight, and brought his children and nephew along.



The Tamayo family
La Tortilla Company



The Schweiger family
Schweiger Winery





“We realized an outside board would increase our chances of going to the next generation of ownership,” Sam Tamayo said.

Such sound governance is a critical step for family businesses. At “kitchen table” board meetings, Johnson said, “Pretty much everyone votes the way Dad wants them to vote — it’s a rubber-stamp board. As organizations grow, they need to professionalize.”

Tamayo adds that when businesses are putting out fires, they can neglect longer-term business planning. “People are so busy running the business from day to day — they don’t want to think about that stuff,” he said.

Seeing the stability that planning added to his business, Tamayo now evangelizes to other families about the value of that work — including advising the Schweigers about working with Lang.

“A lot of these issues aren’t going to burn the place down overnight,” Tamayo said. “But they will catch up to you over time.”

Members can bring anyone associated with their business to Institute events. Attending programs has been eye-opening for nonfamily executives. “It reinforced that the family is another aspect of the business that needs to be managed and considered,” Tamayo said.

The community

For many member families, the peer network is the Institute’s most valuable benefit.

Small committees called affinity groups target common issues. Sally Schweiger’s children — her son is their wine-maker and her daughter sits on the board — were part of a group of other adult children from family firms.

“They concluded on their own, ‘Oh, so Mom and Dad are on the right track.’ It wasn’t just hearing from us about things we should be doing for the business, but hearing from other Institute members,” Schweiger said.

One affinity group collected input from second- and third-generation family members about topics they’d like to see addressed. Johnson got valuable feedback, but also recognized the emotional impact of making those younger members full stakeholders. “It wasn’t just the first generation running the show,” he observed.

People of all ages and generations show up to meetings, share stories and get discussions going.

Pacific’s Institute for Family Business provides a needed expert and objective perspective to help families navigate the challenges unique to family businesses. Pictured below, from l. to r. are Andrew Schweiger, Diana Schweiger-Isdahl, Fred Schweiger and Sally Kay Schweiger.



Family businesses employ more than half the nation’s workforce and generate more than half the nation’s new jobs. Pictured below are the La Tortilla company employees.



“You go into that group and there are other families that you’ve built relationships with. Everyone’s very willing to share their advice and their experience,” Tamayo said. Like any business, La Tortilla Factory has had some “pain points,” he said, but having a peer group has helped the company avoid some major pitfalls.

The services get very personal: Johnson has attended family meetings and provided feedback and referrals for services, even for board members. Tamayo said he worked with Johnson one-on-one as a sounding board about his own transition in the company. “He brings that perspective when you get bogged down in the dynamics of a family business.”

Families ignore those dynamics at their peril — that was Douglas Box’s message, even if he learned the lesson too late. The eldest Box brother died at age 59, and relationships among the brothers remain strained. He had one simple but potent takeaway for the audience at his program, and it was more about family than business:

“The sibling relationship is the only lifelong relationship you’ll have — don’t screw it up,” he said. “You are part of each other.”



man on a mission

Peter Johnson, director of the Institute for Family Business in the Eberhardt School of Business, is committed to helping family businesses be successful.

Working with family became part of Johnson’s muscle memory when he started a business with a classmate before he’d graduated in 1994 as part of the business school’s first MBA cohort. He went on to run a business-incubator program in Stockton.

“There’s nothing as fun as telling your wife and mother-in-law that the way they did the job was not exactly how you wanted it,” said Johnson, tongue firmly in cheek, recalling his first two employees ever.

In 1997, former Eberhardt School of Business Dean Mark Plovnick hired him to develop and direct the brand-new center. Except for one brief hiatus, he’s been steering the Institute ever since.

Johnson may have personal experience with the challenges inherent to family businesses, but, he said, managing the Institute — working directly with member families, coming up with new programs, building out services — requires an unusual skillset.

“You need someone who is part entrepreneur, part counselor and part business consultant, who can build the type of programs needed to serve this constituency,” he said. That means listening closely to members and customizing programs to their needs.

He’s since become a go-to expert, regularly quoted in local, regional and national media including *The Wall Street Journal*, NPR, *Success* magazine and *Wine Spectator*. He has also served as an expert witness on family business issues.

From his Stockton Campus base, Johnson also oversees the business school’s Westgate Center for Leadership and Management Development — an executive leadership program that holds trainings on campus and across California.

Even though his responsibilities at the two centers are administratively distinct, he said, “They’re connected. It really comes down to how we successfully develop the next generation of leaders.”

