Family Company Direction Case

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Peter and Richard Schmidtman have been sport enthusiasts for all their lives. Growing up in rural Bavaria in the 1960s, they loved the mountains and every outdoor discipline that came with them.

They were both excellent skiers, Richard even being crowned German champion in the 1962 downhill race. They spent many days and nights together in the Alps, climbing, hiking and trying out all sorts of fancy innovations such as paragliding, mountain biking and abseiling (even though it wasn't called exactly that at their time). They were as close as brothers can be.

After graduating from school in post-war Germany, they earned their money with piece jobs. They were both very good with their hands and popular as builders, carpenters and even mechanics.

The economic boom of the 1960s, the growing market for sports gear and their knowledge of outdoor disciplines provided them with a lifetime opportunity. In 1964, with their rather meagre savings, a little loan from their parents and plenty of passion, they founded "Outdoor Champions"—a little sports retail shop in the basement of their parental home in their small village.

"Outdoor Champions" was a success from the start. In its early years, it catered mainly for the skiing community of the area. Richard was known in skiing circles. He was trusted on his expertise and managed to get excellent deals from his suppliers. Peter became an expert on cycling and other disciplines. Soon, the basement was too small, and the Schmidtmans received a bank loan to build a specialist store in the next bigger city. "Outdoor Champions" grew from strength to strength. In less than two decades, the shop became the "go-to" place for outdoor aficionados within a substantial catchment area.

Peter and Richard loved their lives. Their hobby had become their profession. They happily worked 16 hours a day, serving their customers on the job floor during opening hours and doing the paperwork at night. Even after employing more than 20 staff and having solid savings in their bank account, they continued to run their business well into retirement age. They proudly watched their sons—each of them had two—following in their footsteps. After completing apprenticeships and college schooling, all four joined the company and worked in rather loosely defined roles, doing whatever was needed.

The sons were different characters though. Staff, business partners and discerning customers could increasingly pick up that the respective brothers were of slightly different stocks. Whilst they all pulled their weight and came to work early and dutifully, their styles and contributions differed. Peter's sons were more the quiet, diligent types, whereas Richard's sons were more boastful, outgoing and sometimes brash. They did not like the less glamorous parts of the job. They lacked the meticulous approach of getting to know new products and brands and tended to be quick in their judgements. Since they had many friends and a good network, they would sell well anyways and saw no need for the more thorough and laborious approach of their cousins. Also, there were not really into repairs and maintenance and preferred lucrative, quick sales. As much as they resisted it, the pairs of brothers drifted apart and started to become resentful of one another.

Probably, Peter and Richard saw it coming early. Yet, they let it happen until one night they agreed to go to their mountain cottage for the weekend and sort this situation out, once and for all. They promised themselves to return with a succession and ownership plan for their company.

What would you recommend to Peter and Richard?

1 What Happened in Reality?

(To be communicated to the board seminar participants after they have discussed the case in small groups and have presented the results to the other groups)

Once Peter and Richard reached the tranquillity of their getaway, they sat down to talk. Without much discussion they arrived at a common understanding of the following fundamental points:

- There is no way that their four sons can remain in and even run the business together. There have been latent tensions and various incidents of friction that the fathers had generously overlooked and probably downplayed. No matter what hierarchies, structures, systems and procedures the fathers would put in place, there will never be an inclusive, constructive and shared organizational culture that would be embraced and lived by the four cousins together.
- The glitches between their sons might not have affected the bottom line of the company yet. In fact, the last years have been excellent years for “Outdoor Champions”. However, this will most likely change if the current dynamics remained unresolved. Their gut feeling told them that their business model is under threat.

- The unique selling point (USP) of “Outdoor Champions” has always been the personal touch of the founding brothers and their families. Customers flock to the store because of the knowledgeable, personal and honest service, as well as the anecdotes and storytelling that go with it. For most customers, purchasing at the store without talking to one of the Schmidtmans is inconceivable. Besides, all four sons love the business and are motivated to work in it. Hence, the company should stay in family hands and not be sold or handed over to an external chief executive.
- There is no point in conducting direct and explicit performance appraisals of each of the four sons. With the fathers still present, none of the sons had a clearly defined leadership position. The way the business has been run led to many overlaps in functions and tasks and did not incorporate key performance areas that the individuals could be evaluated against. Obviously, however, both fathers had their personal opinions on the performance of the offspring. They knew these opinions might be biased, but they also knew that sharing them in a transparent forum wouldn’t help and most likely cause futile hurt. There must be another, more elegant way of resolving the way forward.
- For both brothers it is time to retire no matter who will be chosen to run the company. They had a great innings and achieved more than they ever dreamed of. Most importantly though, they still respect and love one another deeply. It is a good time to quit.
- Their passion for sports and nature, as well as their business, has always been their very personal, emotional and mutual affair. They always felt they knew best, and they appeared to be right throughout. This dilemma shall therefore be solved by them alone.

Based on that understanding, the brothers agreed that they need to decide which family side, or which pair of brothers, should take over the company. They came up with a very simple plan.

Each brother shall take a little piece of paper and write on it the price he is prepared to pay for the 50% stake that the other brother owns. They will then exchange their papers and open them. The higher price will win. In other words, the brother who offered more will buy the shares from his brother at this exact price. On Monday they will go to the notary to execute the deal.

The brothers each thought about the price for the rest of the day. At dawn on Sunday morning, they had coffee and exchanged the papers. They opened them, hugged, smiled and started their mountain tour together.

Upon their return all provisions were made. The more meticulous, soft spoken and diligent brothers took over the management of the company as Peter had offered more than Richard. Observers, particularly the ones with business savvy, marvelled about the quiet and seamless transition and the fact that the seniors had managed to hand over the business to the “right” set of brothers without any noticeable disruption. Employees were surprised and relieved about the outcome. They would have chosen the same leadership, had they had a say, although they would have preferred that the seniors stay on longer.

Peter's sons worked harder than ever before. They continued in the spirit of their father and uncle. Once, in a moment of exhaustion and weakness, one of them uttered something of "many years of hard work necessary to pay for the shares". Most people actually only heard much later that Richard had sold to Peter.

Richard's sons soon took up jobs in marketing and sales at other companies. They did not have to worry about money and had exciting social lives pursuing various interests, mainly in sports. They remained close to their cousins and would strictly buy all their gear from "Outdoor Champions".

"Outdoor Champions" to this day remains the most successful privately owned retailer in the area by far. Peter and Richard continue to explore the Alps together. Both reached a ripe old age.

2 What Can We Learn from This Case?

1. Be yourself and have courage.
2. When it comes to decisions of ownership, leadership and family, it is good to be quick and decisive. A lengthy process involving lots of people, complicated structures, procedures and bureaucratic protocol can often be detrimental, damaging personal bonds and the reputation of business and family.
3. Great solutions are usually simple. We often lack the courage to commit to them, especially when they are unconventional.

In this illustrative case, Peter and Richard committed to a simple, unconventional and courageous decision. This way they:

- Resolved the situation creatively and decisively with minimal noise and cost.
 - Salvaged family unity by taking all responsibility upon themselves and allowing the juniors to save face and remain friends.
 - Made sure that their legacy is preserved in the best possible way.
 - Motivated the new bosses and allowed the business to prosper.
 - Maintained and even grew their love and respect for one another.
4. Have a strong inner scorecard for yourself, your children and family members. From what happened it is clear that both, Peter and Richard, knew accurately which pair of brothers is more suited and shall lead the company. Peter had to make sure his sons get the business. Richard had to get an excellent price so that he could validate his exit and "sell" it to his sons.
 5. Since they both worked off the same, strong inner scorecard, their plan worked well.
 6. Understand your USP.

Peter and Richard also made mistakes. They should have been more cautious of introducing their sons all at the same time. They should have insisted on clearly defined positions, job descriptions and performance goals. They could have thought about succession planning earlier. However, the moment they sensed that the USP of "Outdoor Champions" is under threat, they stepped in quickly and decisively.

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