

A Partnership's Mid-life Crisis

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BY KELIN E. GERSICK

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TONY Giatto never thought there would be any conflict between his duty to his family and his obligations to his business. During his first marriage, and even after his divorce, he had been clear about his responsibilities to his three daughters: Work hard, give them all the advantages he could, and launch them into productive lives. When he married another woman who had two sons, he felt the same way about the boys. As for the business—a chain of radio stations—that was something he ran with his partner, Paul Dubois, his first wife's brother. Although it supported both families, it was his and Paul's baby.

It had all seemed simple when the kids were young. Now that they were well into their 20s and three of them were working in the company, everything was beginning to get much more confusing.

Tony, 48, and Paul, 50, own three radio stations in New York and Massachusetts. Tony, a one-time saxophone player from the Woodstock generation, is a dedicated manager who prefers to avoid confrontations. As a young man, Tony had supplemented his musician's income by working as a DJ at radio station WJAM in Albany. He became close friends with the station owner and acquired the station from him in 1977, with Paul, in a gradual buy-out. He and Paul, another music buff, had known each other since high school, and Tony had married Paul's sister, Lily.

Over the years one station became two, then three. Tony and Paul worked well together by dividing up responsibility for the stations. Paul and his family moved to Stockbridge, Massachusetts, when the partners acquired a station in that area. Though the stations were jointly owned, 50-50, Tony ran the Albany station and Paul the Stockbridge station very independently, without interference from the other, and Tony supervised the nonfamily station manager of the third station near Rochester. The business provided them with a comfortable but not luxurious lifestyle. Tony would have liked to buy more stations, but Paul was conservative and resisted; he was very involved in art and music outside the business and did not want to work harder. Tony was content to go along with Paul's wishes.

When Tony and Lily split up after 16 years together, he was afraid that Paul would feel disloyal to his sister if he stayed in the business partnership. But Paul pushed the issue aside with a few words on the telephone: "What happened between you and my sister is your business. We have a company to run and it's doing well. I think we should just keep going on as we have been."

That was fine with Tony. They talked on the phone once a week, and spent one day each month together going over finances. There was some duplication of staff as a result of their

separate offices, but both of them appreciated the "hands-off" arrangement.

Tony had always had a special relationship with his oldest daughter, Luanne, 25. She was 15 when Tony and Lily divorced, and she had asked to live with Tony. Lily strenuously objected, and Luanne agreed to stay with her mother. Nevertheless, Tony and Luanne saw each other frequently, even after Lily moved to Boston with the two younger daughters. Luanne went to a college in Albany and spent much of her free time hanging around the radio station. After graduating in 1989 with a degree in communications, she immediately went to work at the station. Now she was advertising sales director and a part-time host of a late-night jazz program. Tony thought her work was very good, and he loved seeing her every day around the station.

By then, Tony was married to Alice, a real estate agent who had herself been through a recent divorce. She had two sons, Mark, 17, and Sam, 15. Tony had always enjoyed having daughters; now he had two stepsons to share experiences with. Although the younger boy was cautious and cool to him, Tony and Mark hit it off immediately. Mark kept in touch with his own father but lived with Alice and Tony for his last year of high school and during two years of junior college. He played high school lacrosse, and Tony became an avid fan of the sport, even traveling to some away games. The two took frequent fishing trips together.

Tony was very pleased with Mark's decision to stay in town for junior college, and he applauded Mark's "good financial judgment" in deciding to live at home, at least for a while, in order to save money. Alice was more ambivalent about having her grown son at home, but she was pleased that Mark had found the companionship of an older male, since the boy's father lived in a distant city.

While in junior college, Mark did odd jobs around the station. He drove the van for a while, learned a little about setting up the studios for talk and phone-in shows. He tried his hand at advertising sales but did not like it and did not have much success at it. After graduating from college, he began to spend more time at the Albany station, but could not seem to

find a niche that suited him. The one assignment he did well was a brief stint in sports casting. He started doing brief spots on local sports for news shows, and helped organize the feeds for broadcasts of professional games. Tony was very encouraging, but the station had a full-time sports editor and there was no real position with a future for Mark in this department.

Before her senior year in college, Luanne and Mark knew each other casually. When both began working part-time at the station, they soon became constant companions, and, over the months that followed, it became clear to their parents that they were attracted to each other. As Luanne looked forward to graduation, she asked Tony if she could move in with the family as she began to work full time in Albany.

Tony and Alice were thrown into a panic. They had been very enthusiastic about the possibility of their children developing a brother-sister relationship, but romance was not what they had in mind. Tony made a decision that he hoped was not an overreaction. The station-manager at the Rochester station needed an assistant news director. Tony arranged for Mark to be offered the job on an "internship" basis, a two-year arrangement for which the corporate level would pick up half of his salary.

Mark was reluctant to leave, but Tony, spurred on by Alice, was firm in his decision. If Mark wanted a future with the company, this was an opportunity he could not pass up. Mark went to Rochester.

The older of Paul's two sons, Don, was already in the business. Don Dubois, 30, had spent five years as assistant program director in Stockbridge, where he was rated by his supervisor as quietly efficient but somewhat tentative in dealing with the staff. From a distance it seemed to Tony that Paul was pushing Don too hard, too fast in the company. Last year, Paul had named him assistant station manager on his 29th birthday. Tony felt that Don was not experienced enough in all aspects of the operation to be a general manager. But he stuck to the tacit rule that the partners had followed over the years: Neither comments on the other's operation, unless specifically asked to do so. When it came to the development of one

of the kids, Tony felt that the rule should apply in spades.

By 1994, Tony felt that things were stabilizing. Luanne was learning fast at the station and was well regarded by the staff. Advertising revenues were holding steady in the current tight market. Tony knew that it would be important for him to give Luanne exposure to other aspects of the company, and to other stations, but he wasn't sure how to start that. He would miss her if she went to another station, especially since Mark had gone to Rochester. Mark was now 24 and the first year of his internship had gone very well; reports from the station manager there were generally positive. Tony hoped that he was getting the straight story.

With little warning, Luanne and Mark confronted Tony one Sunday afternoon while Mark was visiting Albany and expressed dissatisfaction with their progress in the company. "We want to talk to you about our jobs," announced Luanne, speaking for them both. "Mark just got back from spending two days at the Stockbridge station. Do you know how much Uncle Paul is paying Don? Almost twice what you're paying me! Don's an O.K. guy, but I don't see where he's more valuable to the company than I am."

Tony tried the shotgun approach in his response: They didn't have enough information to judge the value of Don's work, and what Paul did with his station was his business; Luanne wasn't considering all the other ways, besides salary, that she was being supported; and so on. Luanne was unconvinced.

Mark told Tony that he was thinking of quitting. He didn't feel he was learning enough in Rochester; the station manager was a fine guy but not really interested in teaching him.

"I've done a good job and given it my best, but I'm just a go-fer," he said. "I feel like I'm in outer space there. It doesn't seem to have any future."

Tony was upset that Mark wanted to leave. "You can't just walk out on your responsibilities like that," he said. Mark replied that he had never promised to spend a specific amount of time in Rochester. Tony stammered out a few more remarks about fulfilling one's commitments, but that's all he could come up with on

the spur of the moment. "We'll talk about this later," he said. Luanne and Mark exchanged "I-told-you- so" looks.

Later he thought that both Luanne and Mark had unrealistic expectations. Reflecting on Luanne's discontent, he wondered whether she had had more than a salary increase on her mind. It seemed to him that she was asking for much more attention and supervision directly from him, and also more autonomy and authority. Tony and Alice talked over the situation but neither had any good ideas about what to do. Tony was thrilled that Luanne and Mark were both interested in the business, but he considered both of them very young and just starting. "I don't think that they'd like to hear this," he told Alice, "but they should be grateful that I'm giving them so much responsibility and not just telling them to sit at an advertising desk for 15 years and learn things from the bottom up."

He decided to talk to Paul about the situation. Tony was beginning to think their "separate turf" system, which had eased their partnership for so long, was not going to work forever. He wanted to discuss Don's salary, which he felt was throwing the compensation structure out of balance, but he didn't know how to broach the subject.

When he finally did mention it to Paul, his partner's reaction shocked Tony. Paul took the occasion to argue for a big promotion for Don. "He's come along very fast at the station," Paul said about his son, "and it's time that we gave him the kind of experience he's going to need. I think it's time to let Don manage the Rochester station. And I want to pass some of my shares on to him."

Tony thought Paul's assessment of Don's readiness for the job was way out of line. Don knew very little about the business side of running a station, Tony thought, and did not seem to have a natural talent for managing people. He also didn't know what Paul meant by "the experience he is going to need." Need for what? Tony expressed his concerns to Paul, as diplomatically as possible. Paul responded with lengthy descriptions of Don's accomplishments and good judgment. Tony shifted gears. "What about Luanne and Mark?"

Paul seemed ready for this question. "I know you feel the same way about Luanne that I do about Don," he said. "But Don's a few years ahead of her. When she's ready to make a move up, we can think of the best role for her, too." Then, Paul added: "I'm not sure what you mean about Mark. Lily told me that you've become very fond of Alice's boys, and that's great. You know I didn't object to giving Mark a job up in Rochester, and I'm sure that Don would honor that and do very well by him. But you're not putting him in the same category as Don and Luanne, are you? I mean, Lily was there all those years when we were putting this company together. I'm sure she feels it will belong to our own kids someday. Mark's got a father of his own to help him out."

Tony's first reaction was anger. How could Paul be so blind as to think only of his own son's interests? Then he acknowledged to himself that it was more complicated than that. He had never really thought of the stations as a family business; he didn't know whether Paul ever did. When the kids were just out of college, it seemed only natural to give them beginning jobs. But now they were a little older and thinking seriously about their careers and futures.

Just a few weeks earlier Tony had thought that the next 10 years would be the most exciting and satisfying part of his life: All three stations were enlarging their listening audiences and attracting more advertising. Now it looked as if everybody was headed into rough seas. What should he say about Paul's proposal for Don? How should he respond to Mark's and Luanne's dissatisfactions? What do Tony and Paul need to start doing now to prevent the partnership from falling apart and to ease the entrance of the next generation into top management?

WHAT THE EXPERTS SAY **RANDY BLISS**

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Tony and Paul's situation is typical of the many partnerships I've worked with. Two friends come up with a business idea and start off on an exhilarating adventure. The partners divide up their responsibilities in a very tidy way, trying to avoid overlap and hoping to take advantage of each other's strengths and talents. The business prospers and life is wonderful. Unfortunately, the seeds that tear most partnerships apart are sown in these early years.

The lack of communication between the two, the complete independence of each's operation from the other's, the unspoken divergent goals, the absence of review and joint planning eventually destroy the partnership, usually at succession time. Obviously, Tony and Paul should have taken a number of steps over the years with an eye toward future ownership and management succession. Now they must take immediate, forthright steps to ensure the survival of the business.

When I assist business partners in a similar situation, I use this guiding principle: If in our planning we do what is best for the business that in the long run will be what is best for the families, too. Some family members may not be happy with this approach; for example, Luanne, Don, and Mark, like all young people, want to move ahead faster than may be good for the business at the moment. If the business survives and prospers as a result of proper planning, however, they will ultimately reap the benefits.

With this principle in mind, Tony and Paul should:

- Sit down together and discuss their goals regarding the future of the business and their own involvement in it. Preferably, this discussion should take place with a trusted business advisor.
- Develop a 10-year plan that includes strategies to grow and improve the business. A major component of the plan would be a management development plan. Tony's intuition is correct: All three members of the next generation—Luanne, Mark, and Don—are not yet experienced enough to be placed in higher positions.

- Customize the management development plan for each of the three over the 10-year span. Once again Tony's comment is right: These successors need to learn the business from the bottom up. They should have more experiences similar to the ones they've been having. Near the fifth year of the career plan, each should be given the opportunity to be an assistant station manager. They should rotate in their positions and get experience at each of the stations.
- A small advisory board of well experienced business owners should assist Tony and Paul in assessing the development of the business and the management successors.
- If all of the successors prove to be capable performers, then each should be given one of the stations to manage. If other family members come into the business, they should go through the same 10-year career plan; perhaps, if the company can afford it, more stations could be purchased for them to manage when they are ready.

The steps described will not be easy to accomplish, but will build a solid foundation for the company's future. If Tony and Paul are unable to agree on this common-sense succession plan, then the last resort is for one to buy out the other so that each family can pursue its own goals independently.

LESLIE DASHEW

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Luanne and Mark have surfaced problems in the partnership that have been brewing for some time. Tony and Paul's informal, "hands off" approach to managing the company has outlived its usefulness. It appears that they haven't gained much synergy from their collaboration. The time has come for them to formalize their business relationship and manage the sta-

tions as one organization. Or they can decide to go their separate ways and divide up the company.

Before they can respond to the next generation, Tony and Paul need to get together to take stock of where they are in their partnership, where they want the business to go, and what they have to do to get there. Up to now, it seems, they have not had the in-depth conversations that are necessary to develop and maintain a healthy partnership. If they decide at this initial planning session that they want to proceed as a family business, Tony and Paul might then organize a retreat for the two families, perhaps assisted by a consultant, at which the partners discuss their goals and other family members, in turn, have a chance to voice their career concerns and aspirations.

Creating a shared vision of the future. At the planning sessions, the partners members must articulate a vision of the future that family members can enthusiastically embrace.

What do each of the partners want for themselves and the business in the future? Do they want to grow the business or keep it the same size? Do they see it as the kids' inheritance? A place where the kids can make their careers? A source of income for themselves in retirement. Do they expect to shift ownership only to biological children?

If they can't come up with a shared picture of the future—including financial, vocational, and family goals that are not in conflict—they may have to look at dividing the company between them or at a buyout by one partner.

Planning the timing of succession. Assuming that Paul and Tony would like to retire someday, they must consider when they would like to do it and the timing of career paths for the younger generation. One tool for doing this would be the table shown below.

Age and the timing of succession

Name	Year	1995	2000	2005	2010	2015
Tony	48	53	58	63	68	
Paul	50	55	60	65	70	
Don	30	35	40	45	50	
Luanne	25	30	35	40	45	
Mark	24	29	34	39	44	

The table can help the partners visualize where they and their children will be in their life cycles and how their ages at five-year intervals will affect the timing of a leadership transfer. For example, do they envision retiring in the year 2005 when Tony will be 58 and Paul 60? (The Case hinted that Tony might want that.) If so, then Don, Paul's son, will already be 40 at that point. Is he willing to wait until then to have a top leadership position? Mark and Luanne, who are closer in age, may find themselves in competition with each other as well as with Don if all three aspire to run the company. Looking at the table may help Tony and Paul think about how much time they have to develop the management skills of all three as well as when must decide whether the three can all work together and how the leadership should be structured.

Tony and Paul need to think about how they will finance their retirement as well. Can the stations as currently structured support four or five owning families when the two older men retire? Ten or fifteen years to work out, and pay for, a retirement plan for the two is not a lot of time.

Deciding what role the families will play in the future. Do the current owners want the company to be a family run business in the future or only to continue to generate income for their families? If Tony and Paul expect the business to continue after they retire, they have to cultivate talented nonfamily managers now—whether or not members of the next generation prove to be qualified to run the company. At the same time, they should develop an employment policy for family members that establish the qualifications for getting a first position and expectations of performance.

My firm recommends that a young person seeking a career in the family business work elsewhere for three to five years, so they appreciate the realities of the business world and develop confidence in their own abilities before coming to the family business. Luanne and Mark are still relatively young, and Tony might suggest to them that if they are dissatisfied with their current positions, they might benefit from working at another radio network for a few years.

Family members should be paid fair market value for their contributions and be evaluated according to the same standards as other staff members. To pay them salaries that are way above market value can demoralize other employees and create "golden handcuffs" for family members who should leave. To pay family members less than market value can discourage them, even if it is understood that they are developing "sweat equity."

Agreeing on ownership issues. The division of stock will have a strong influence on how the company is run in the future. The partners should agree on such questions as who should own stock. Only family members? Key senior managers? Are the partners willing to have passive family shareholders? Do they have a buy-sell agreement that gives each first rights of refusal on the other's portion of the ownership? Do either of them wish to cash out or buy the third station?

Once the partners reach agreement on the future of the business, the terms of their partnership, and a family employment policy, they can develop a succession plan and a management development plan for the young people working their way up in the organization. At that point, they can sit down with the three younger members and share their views on what is expected of them—and what they can expect from their careers with the stations.

Often disengaged partnerships such as this one can survive for a generation but fall apart when more family members, with varying interests and agendas, become involved. The two partners must now decide whether they value their partnership enough to be willing to renegotiate its terms—and to compromise on their

individual aspirations for their children—in order to keep it going as a family business. If they don't, the time will be at hand to look at how they can constructively separate their business interests. ■

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