Thriving Once the Founder Has Gone

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Not all business visionaries work in family firms and not all family firm founders are visionaries. But many of the world's great family controlled companies were founded by visionaries, and in many cases were led by them for many years. The business literature is replete with stories of entrepreneurial visionaries and founders. This is an essay that turns the page from the literature lauding founders in hopes of offering some insight into how successor generations of managers, both family and non family, coexist, co-lead and then assume control of the enterprise from the founding visionary. We will focus first on the general issue of how successor managers can optimize their working relationships with visionary founders; and then address that same issue in the context of family controlled enterprises.

The strengths and assets visionaries bring to those who follow

In my 31 year career in the retail food industry, I had the pleasure of working with one of the more creative and entrepreneurial young business owners to come on the scene in recent decades.[1] He had started the business a number of years before I joined the firm while a young man in his 20's, and it had grown slowly, but steadily for almost two decades prior to my starting with the company. When I met Joe Coulomb I was fortunate to be to be young enough to not have too many set ideas in my mind. As a young man I saw that every day Joe brought to the enterprise unbounded enthusiasm for the endeavor as well as the deeply held conviction that our business should be a stakeholder based enterprise that treated customers with dignity and honesty. This view of how to serve customers contrasts profoundly with the current business mantra that the only constituency that managers serve is shareholders and their only duty is to maximize financial returns to them. I saw that Joe brought a continual search for a better way to do things that in the end would benefit the customer first and foremost. Joe also brought a rigorous care for, and dedication to his employees, whom he regarded as family. Early in the life of the business he also made the decision to pay employees well and to offer them a full array of benefits, while creating a stimulating and fun work environment.

He was always looking for a better way to do something. But what was most unusual was that he always wanted to change while things were going well. And he made dramatic, significant changes to the business, not just marginal adjustments. He didn't wait for adversarial conditions to make necessary modifications. Joe had a brilliant mind, and was one of the most creative, innovative individuals I have ever met. He enjoyed work immensely, and I always found him in a good mood. He cared deeply about sharing his vision and ideas with the company. He was transparent regarding the financial status of the business—full financial statements were mailed to every full time employee quarterly.

I have never forgotten these fundamental values that the founding visionary with whom I was fortunate to work brought to the business and demonstrated consistently in his management of it. As a result, it was a true pleasure working with him to help build a business that always inspired me. I always endeavored to emulate his commitment to the customer and to endeavoring constantly to serve the customer's needs more effectively.

The challenges a visionary leader imposes on successors

While working with a visionary founder I also learned that there were some substantial challenges presented by working with him and the community of managers that he had gathered around him over the years. The first challenge I experienced was the limitation that concentrating decision making in one person's hands imposed on the business. I think that the visionary founder with whom I worked, like most visionaries, had grown accustomed to always being right. He was supremely confident in his leadership and, therefore, was used to managing and directing everything. He had also surrounded himself with individuals who had come up through the ranks of the store chain revering him as the founder and visionary. These were dedicated, hardworking, smart people whom I grew to admire and respect deeply. And they were reticent to provide any substantive push back on any decision or direction the founder gave. Virtually every decision with any general impact on the business had to go through Joe. He wrote all the ad copy, approved the purchase of all products, determined every employee promotion, closed every real estate deal, and approved all store remodels in detail.

When the business was new, or even when it was an established, small business, this model of leadership made sense, even if it did not empower the team he assembled to run the company. As the enterprise grew, however, and the business became exponentially more complex, the limitations of a single person retaining control over all decision making became obvious and a source of some frustration. If the founder had not stepped aside [he departed in 1989], the business would never have grown beyond a size that he could control personally. In fact, in 1987, when the company operated fewer than one tenth of the stores it has today, he declared that the business had grown as big as it could get: There would be no real growth moving forward.

The second challenge I observed—perhaps even more problematic than concentrating control—was related to the management team the founder had gathered around him. As I reflect back to those days, it seems clear that this very competent team of managers had grown up in a business with a leadership style that was benignly dictatorial. As a team they became completely dependent upon the founder for all basic management decisions. As an outsider hired into the company after its founding, I had a very different vantage point from those managers who had "grown up" in the company in one respect: I could forge a new relationship with the founder not based upon years of a store employee relationship with a benignly dictatorial authority. I entered the business with deep respect for Joe and the business he founded, but without the history of rising through the ranks by excelling at following his directions. I felt free to question, challenge his ideas, while often accepting Joe's latest ideas as someone fresh from the outside world with new perspectives.

At the same time I encountered disadvantages as well. I was the first person hired from outside of the company into management since the founding of the company 19 years earlier, who lasted successfully more than a few months. Because I was new and seen initially as an "outsider," my peers often disregarded my opinions on the premise that I did not understand the "way things are done around here." I was young and inexperienced in the details of their business. The team looked upon me as an outsider who acted somewhat disrespectfully of the founder by regularly questioning him or his decisions. [I believe that my questions were always presented respectfully and thoughtfully, or else I think that the founder would have found my views problematic.] The team believed that I had not earned the right to question Joe or to voice such strong opinions. I understand this reaction. It was a natural, and even predictable reaction from a close-knit group with a common background that I did not share. I do not think that there was any personal animus underlying the challenges I faced earning credibility for my views with the team. I simply had not earned it in their eyes in the early years of my career at the company.

As a result, the first thing I had to do was establish my personal credibility by creating some success by harvesting low-lying fruit. Within my first several months with the company I successfully developed a completely new way to approach the procurement and sale of private label products. A number of the new private label items I introduced sold very well. Concurrently with new private label product development, I established new vendor channels and logistical options, each with strong sales or positive financial impact. Based upon these initial successes, I could start to broaden conversations around larger issues. In addition, I was fortunate to find a mentor in one member of the management team who didn't feel threatened by my ideas or success. This individual, who was respected deeply by all hands, helped me gain acceptance with the general management team. The founder also championed me to the team as someone whose ideas would add value to our organization. Without the consistent support of this mentor and the founder, I don't think the management team would have accepted me nearly as quickly or as successfully as they did.

After these initial successes were followed by sustained success in product development and strategy, I was able to establish through respectful dialogue a rapport and relationship with my peers in management. It was only then that I was able to play a critical role in moving the organization forward. By contrast, it often seemed that when one of the founder's long term associates made the exact same suggestion I did, the founder would respond differently, and often negatively. My credibility with the founder was in part based on the fact that I came to the company from the "outside world" and presented a fresh point of view. In addition, I was college educated in an industry where many of my peers were not. In fact, none of my co-managers, with the exception of the Chief Financial Officer, had earned a college degree. Consciously or unconsciously, my thoughts were given weight by the founder because of my educational advantage. This behavior created challenges with a long established management team who both admired and accepted the founder as the sole source of decision making and new ideas.

I was eventually accepted as a member of central management, and after seven or eight years into my position with the team I became much more skilled at knowing how to suggest ideas or propose changes in a manner that would either fit into the founder's vision or would be a convincing argument to his preconceived notions, thereby leveraging the preexisting cultural norms as support for my proposed departure from traditional practices. As a friend of my once reframed this fact: I became as fluent in the dialect of the founder as I was in the language of management. Being bilingual enabled me to translate my ideas into management strategy.

Life after the founder's departure

The founder sold the business to a European family with substantial retail industry holdings with the understanding that the new owners would not be engaged in operations and would, therefore, let him run the business as he saw fit. The relationship between buyer and seller and the premise of operational control being retained by the seller went well for 10 years. But toward the end of those 10 years the European family who now owned the business asked the very reasonable question of the founder: "What is the succession plan?" The founder, who had a natural allergy to outside direction, replied that upon his demise a committee would be formed comprised of his wife, the company's outside legal counsel and an acknowledged industry leader to find his replacement. He also mentioned that he planned to work until he died with his boots on.

In response, the owners challenged the founder to come up with a new plan that would not be as risky, nor potentially leave the company without a leader for many months. After a failed attempt to bring a younger person to the senior management team, the founder then recruited his fraternity brother, who was only two years his junior, as president. The owners objected to this decision, arguing that the succession plan should involve a younger successor. The founder exclaimed, "If I can't run the business the way I want, I'll quit." The owners accepted his resignation. As a rejoinder, the founder said he would give them six months to think about his departure. They replied that they didn't need six months, but if he wanted to work for six more months, that would be fine. Years later the founder confided to me that he never expected the European owners to accept his bluff. Nor did he expect the company to survive his departure.

Understanding the Transition from Founding Visionary to Management Team

It wasn't until several years after the founder departed and I had commenced my formal management education with Peter Drucker that I started to understand and appreciate what had actually been happening. After the founder departed I became aware of my personal need for professional business education. I was fortunate that Peter Drucker was still actively teaching only 50 miles from my workplace. I enrolled in the Peter F. Drucker Graduate School of Management at Claremont Graduate University Executive MBA Program and had the pleasure of studying with Peter Drucker directly.

The Drucker School provided the context and content for me to step back and better understand the business process I had just been through working for and with a visionary founder, as well as what I was now experiencing as part of a developing management team organizing in the absence of the visionary founder. My graduate education framed for me the difference between an organization that focuses on providing one individual with all the information necessary to make decisions compared to a learning organization where knowledge is shared appropriately across the ranks of management.

Peter Drucker often said that the primary role of management is making effective decisions. However, he also cautioned that the challenge for most management teams is not that they don't get enough information, but that they don't get the right information. Drucker also advised that what may be appropriate management decision making at the earliest stages of a business, may become inappropriate at a later stage when the business has grown larger. It became clear to me that the management style of the visionary founder with whom I had worked for many years, which was so appropriate in the earliest years of the business, had been outgrown by the business he created.   What had begun as an effective leadership style became the wrong approach if the enterprise was to thrive and expand.

What interested me most, as I reflect on the challenges of working with a visionary founder, is the transition from a visionary company that was led by a “supreme leader” to a company with both a powerful vision and superior leadership. This transition was difficult to achieve and painful due primarily to the lack of professional development among the company’s managers. The founder did not foster development of leadership skills in his team and, with rare exceptions, did not encourage professional growth.

The personal challenge that I and the rest of the management team faced was the difficult transition from working under a hands on micromanaging founder to managing in a professionally run organization that allowed its management team to have significant responsibilities, and accompanying accountability. While the founder was running the business I unconsciously depended upon his final say in all significant decisions. Once he was no longer with the company it was a confusing and difficult transition for all of us on the management team to step up to full responsibility for own decisions and actions. We had to go from a role of providing the founder with the information he needed to make a decision to gathering both the necessary skills and confidence in our own decision- making.

What made this process less painful than it easily could have been—and what was actually the necessary condition for business success—was having a new Chief Executive Officer: Upon the founder's departure the founder's fraternity brother was promoted from President to Chief Executive Officer. The company's first successor to Joe Coulomb possessed the crucial advantage of having worked as an executive in a large, professionally managed corporation. At the same time he was neither comfortable with, nor frankly, sufficiently knowledgeable about the retail food business to step into the benign dictatorship role created by the founder. In fact, all of the management team endured quite a difficult adjustment, learning that the new CEO did not want to make all the decisions. Rather, he preferred to be the conductor of the orchestra, a chief executive who expected each member of management to play his or her part expertly.

The lasting impact of working with a visionary founder

The founder's lasting impression upon both me personally and the organization was profound. He instilled a deep understanding of the need to talk honestly to your customers and to treat them as adults and with respect. He built a very human organization--one that deeply valued the individual customer and constantly held employees and managers accountable for excellence at work. The founder also created a culture of care and fun to be shared with our customers.

He communicated these principles across the company through his personal actions. He always placed himself in the role of teacher, seeing his responsibilities as that of a parent gently and benignly guiding and teaching his children. He was always a benignly paternalistic father, unfailingly cheerful. As a result everyone enjoyed working with him. One expression of the reality that great principles are best seen in the smallest details was the dress code the founder enforced in the business. He always wore a tie at work, and yet distrusted salesmen who came to call on the company dressed in suits and ties. As a result, all of the management team, except Joe, dressed "business casual" or even wore Hawaiian shirts to work—a dress code that is now a trademark of the company.

Working with a visionary family business founder

One could summarize the process of change I experienced as institutionalizing the shift in each manager's loyalty from Joe Coulomb, the founder of Trader Joe's, to the enterprise, Trader Joe's. When I arrived at the business as a young manager, the identity of the company was focused on the founder. Only upon his leaving could the company move beyond this original vision to form an identity around a vision for a mission shared by the leadership team. This process may be understood as a dance between crafting the tools and framework for a professional company while maintaining the cultural DNA and character of a very family- like company. I can barely imagine the enhanced degree of difficulty of accomplishing this objective where the founder is the parent of several of the next generation of managers, and who is unwilling to depart either from his/her role as visionary founder or as paterfamilias or materfamilias of the family.

I have heretofore endeavored to illustrate some of the challenges of traversing this perilous transition at a company where the founder had departed and where ownership control was assumed by a geographically remote, institutionally scaled ownership group [albeit family controlled] that was disinterested in being engaged in managing the enterprise. I recognize fully that in many family controlled enterprises, where the strategic objectives of the family ownership group are to retain family control, while simultaneously growing the business and enhancing family harmony, the tasks of cultural transition from founder to a management team loyal to the enterprise is fraught with difficulty. As an outsider to the world of family firms, but one who respects their achievements greatly, I have several observations.

Building Corporate Culture

The mistake that most executives endeavoring to build a high growth business make is to focus on designing a strategy of innovation rather than building a culture of innovation. Peter Drucker famously said, "Culture eats strategy for breakfast." Most American senior corporate executives have spent countless hours at strategy retreats. How many of us have ever been on a culture retreat? Failure to understand the primary role of culture in the development of any high growth company is a perilous omission. But it seems to me, as an observer of family controlled companies, that the culture of such firms is usually an organic outgrowth of the culture of the founding family. Building a foundational corporate culture that nurtures innovation is daunting in any case. Endeavoring to do so starting with the grip a family sourced corporate culture has on successor generations of both executives who are family members and their veteran non-family colleagues strikes me as near impossible. Yet it is done, and done well in many cases. [See, for example, the essay by Gareth Ackerman in this volume.]

Committing to Innovation, Even at the Risk of Failure.

I believe that in business today, companies are either innovating and adapting, or they are dying. Successful high growth businesses create cultures of innovation. But to create a culture of innovation is to create a culture that embraces risk. As a senior executive, if you are not willing to fail you will never innovate. I think that there are four important learnings about business failure that are relevant to following in the footsteps of a visionary founder. [The management of family dynamics is outside the scope of both my knowledge and this essay. But see for example, the essays in this volume by Lucio Dana and Kosmas Smyrnios; and by Dorothy Nebel de Mello.]

Peter Drucker used to say, “Innovative or die.” In that context, failure in the service of innovation, when anticipated at the outset of innovation, is an outcome far preferable to death of the enterprise. So the first learning about failure I believe should be embraced by senior executives following in the footsteps of a founder is that you must be willing to fail. But how you fail matters profoundly.

First you want to always fail on purpose; that is to say, you must always make sure your failures are related to your organization’s purpose. One doesn’t want to fail in an area that is not core to the organization’s business. The second learning about failure is that you want to fail in a way that promotes learning all you need to know from your failures. Don't fail at the things you don't need to know anything about to make your business successful. The third learning is that failure should have a good risk reward ratio. As the African proverb says, “Don't test the water with both feet.” Finally, the fourth learning about failure is the hardest. It is the hardest because it goes against human nature. All of us like to share our successes. Success has many fathers. Failure is usually an organizational orphan because few of us like to share our shortcomings. However, if you're going to lead an organization that innovates, you have to be willing to share your failures. Modeling this behavior is the best way to teach it to your management team. Otherwise you can never be a learning organization. You don't want everyone to have to reinvent the wheel to meet foreseeable corporate objectives.

The Particular Challenges of Following a Family-Founding Visionary.

All enterprises and their managers are challenged to innovative actively and to learn from their failures. However, family enterprises have hurdles particular to the family nature of their ownership or control to overcome in order to compete effectively with other learning organizations. Changing corporate culture to embrace the risk of failure in pursuit of innovation is difficult in any organization. I saw this first hand in the constraints on me and other managers as we tried to create a learning organization after the departure of our visionary founder. How much more difficult this task must be for both family managers who are members of the visionary founder’s family, as well as long term non-family managers, to adopt a culture so that innovation is possible, without simultaneously repudiating the entire legacy of the founder and their relationship with someone who is also the paterfamilias or materfamilias, and possibly still a resident business genius.

Although I did not spend my career working in a family run business, I worked with hundreds of family owned suppliers and other businesses for over three decades. What I saw was a validation of how difficult it was for the executives who were also family successors to visionary founders to continually adapt to changing business circumstances through the years. These leaders of management teams following in the footsteps of the visionary founder faced--in addition to the same challenges that all business leaders face—running the gauntlet of the emotional issues and family dynamics that were their fate because they were also a member of the family of the visionary founder. As noted earlier, I recognize that I needed to deepen my education in order to become a more effective business leader and manager. But I did not at the same time have to master the nuances and complexities of family systems theory in order to lead the process of cultural change in the organization where I worked for three decades. I recognize that my counterparts in family controlled businesses have to manage a much higher level of complexity as they renew the culture and strategies of their organizations while at the same time participating in leadership efforts to continue family control and maintain harmony in the family shareholder control group. These simultaneous challenges mean that some corporate leaders face challenges with a degree of difficulty that is difficult to exaggerate. As a result, I have concluded that the difficulty of managing the corporate change process and the family system evolution simultaneously can hinder seriously the chances of the enterprise achieving its objectives to become a learning organization that fosters innovation successfully. While I respect and recognize the degree of difficulty presented by the task of creating a learning organization and renewing corporate strategy in a family controlled enterprise setting, it is nonetheless a challenge that any family controlled growth company must surmount.   While I am not an expert in family enterprise and do not claim any particular wisdom about family business, I do think there are several areas of business learning from our experiences at Trader Joe's as it evolved that may assist both family and non-family managers of family controlled growth companies   to follow successfully and effectively in the footsteps of the visionary founders of their family firms.

- Create a meritocracy where promotions are based on excellence, not genetics. Membership in the controlling family should be a guaranteed opportunity to audition for management and leadership roles, not a guarantee of star billing.
- Successful family controlled enterprises should build upon their successes, but this does not mean they have to repeat the past. Separating the wheat from the chaff of the historic corporate culture is a continuing challenge to all leadership teams that follow visionary founders.
- To professionalize management of a business does not require creating a culture of depersonalization. Balancing fidelity to the historic relationship based culture with executing a mission based strategy is difficult, but not impossible.

- [Doug to add 3 or four more bullet points and a concluding sentence or two.]

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[1] *Editor's note*: For a comprehensive understanding of the development of Doug Rauch's career from a young store manager at Trader Joe's to a leading advocate for policy changes in America's food distribution system, <u>see generally</u>, a Harvard Business School case study by Jose B. Alverez and Ryan Johnson, "Doug Rauch: Solving the American Food Paradox," N9-512-022, Dec. 2011.