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## Communication and commitment

*The family owners of British Columbia's ABC Recycling took an emotional journey to address tough transitional issues.*

- Hillerich & Bradsby, makers of the Louisville Slugger
- An unusual approach to successor selection
- Cash is king... or is it?

*From left in front row: David Yochlowitz, Helen Alko, Amber Quiring. Back row: Melvyn Yochlowitz, Karen Bichin, Harold Yochlowitz, Mike Yochlowitz.*





# Planning a smooth succession

*Bill Darley took an unusual approach to selecting his successor at W.S. Darley & Co. His method—asking the top candidates to choose the new president themselves—could have caused a rift in the family. Instead, it strengthened their ties to each other and the business.*

BY MARGARET STEEN

**A**BOUT 20 YEARS AGO, Paul C. Darley, his brother Peter and his cousin Jeff joined eight non-family managers at a management meeting for W.S. Darley & Co., a manufacturer of fire trucks and firefighting equipment based in Itasca, Ill. They waited for Peter and Paul's father, Bill Darley, the president, CEO and patriarch, to arrive.

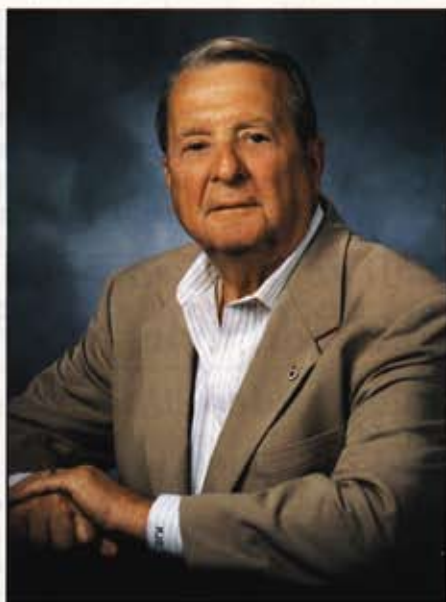
"He walked into the room and said, 'I'm the ghost of Bill Darley. Bill was killed in a car accident driving up here today. What are you going to do?'" Paul Darley recalls. "It caught us off guard."

It may have been the first time his management team had considered what would happen when Bill was no longer running the company, which is based in Itasca, Ill., near Chicago. But the subject had been on Bill's mind since several years earlier, when he had emergency triple bypass surgery.

Bill had woken up after the operation and seen the sunrise from his hospital room window. "I thought I was in heaven," says Bill, now 80. "At that point I realized that if the Darley Co., including my family and employees, was to survive, I'd better implement a succession plan."

Bill got to work on the succession plan, but he took his time—and came up with an unusual approach.

**W.S. Darley & Co.** had grown and changed since Bill's father founded it in 1908 and it sold its first fire truck, in the mid-1920s, for \$690. The company had been through



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— Bill Darley

transitions before: When Bill Darley was seven years old, his father died. Bill's mother didn't sell the company; instead, she turned its management over to a non-family member until Bill took over in 1960.

Under Bill, who graduated from Purdue University in 1950 and went straight into the family business, the company grew. Today, it has 200 employees, 11 of whom are family members. The company celebrated its 100th anniversary in 2008 and expects \$100 million in sales in 2009. More than one-quarter of its sales come from overseas.

"We feel really good about the type of business that we're in, the fact that we're selling fire equipment," says Stephen Darley, 52, Bill's oldest child and the company's customer service manager. "You're helping people," says Stephen, who is also chairman of the family council. "We're passionate about the business."

But passion wouldn't be enough to get the company through this transition. After their mother's death, ownership of the company had passed to Bill Darley, his brother and one of his sisters. (A second sister sold back her shares.) Although Bill regularly updated his brother, Reg, and his sister, Patricia Darley Long, he was responsible for the direction of the company.

"The second generation was Bill Darley leading the business with support from Reg and Pat," says James Long, 46, a board member, vice president and son of Patricia Darley Long. "All three of them set a very good example for the third generation of how to work together."



This meant Bill had to consider not only who could take his place, but also how the dynamics of the younger generation might be different.

"I don't want all hell to break loose when I die," Bill asserts. He became a member of the Family Business Center at Loyola University, where he and other family members learned about best practices for family businesses. His research led to the creation of a family council and a family constitution (see sidebar). It also led to an unconventional way of choosing a successor.

**Bill started** by observing all the family members and non-family executives at the company. He narrowed the choices to two of his five sons, Peter and Paul, and his nephew Jeff. He created an executive committee that consisted of the three candidates.

In June 1989, Bill told the three that he wanted each of them to write up a business plan indicating where he would take the company if he became president upon Bill's death or retirement. He gave them nine months to work on their plans. "None of us shared ideas," Jeff recalls. "We all did it independently."

Peter and Jeff wrote plans that were about 20 pages long—"nice and to the point," Jeff says. Paul's ran more than 300 pages, including detailed business plans for each of the three core divisions and a plan for a new division.

They turned in their plans in the spring of 1990. Then years went by, during which they heard nothing. "I def-

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initely asked him about it," Paul remembers. "When he finally gave it back to me, it had a total of eight handwritten lines on it." Bill's uncharacteristically brief—though positive—comments indicated the extent to which he was struggling with choosing a new leader for the company.

Finally, in 1995, he made a decision—of sorts. "I realized I couldn't pick a successor," he explains. The closeness of the family and the importance of each family member's expertise made the decision too difficult and, he felt, it would be wrong for him to impose a choice on the company.

Instead, he clarified the roles of the three executive team members. And he gave them a new task: choosing who would take his place. They could rotate the presidency, have co-presidents or select a single president.

The non-decision didn't



**The Darley executive committee in 1997. From left: Peter, Paul and Jeff Darley.**

surprise his sons and nephew. "It was very clear to us that he did not want to make that decision, nor did he want to be very influential in how the business was going to be run in the third generation," Jeff says.

Now it was Bill's turn to wait for an answer. Initially, the team had two years to make a decision, though the deadline ultimately was extended to July 1, 1998. "Months went by with no word on who they had picked," he says.

The three potential successors were not idle during that time, however. They spent hours researching and talking about how a family business could operate with three leaders. "We spent hundreds and hundreds of hours discussing the structure," Paul Darley says. "We really had to check our egos and our boxing gloves at the door."

Every time the executive team met, the succession plan was the main topic of "casual but intense" conversation, Jeff says. In addition to discussing the structure, they made lists of each team member's strengths and weaknesses.

This willingness to look for new ways of doing things can help a company sustain itself through transitions, says John Ward, professor of family enterprises at Northwestern University's Kellogg School of Management, who led the Family Business Center at Loyola when the Darleys were learning about succession. "It's very impressive to me, and very striking, how curious they are. It's an attitude that 'We don't know everything and we want to learn.'"

But for all the discussions, it took a final deadline to push the three to a decision. They had decided early in the process that they would share the role of chief operating officer. Money was another relatively easy decision: They would all receive the same base salary, though bonuses could vary.

The management structure was "the





biggest struggle," Paul says. Finally, they concluded, "It was important that the company have one primary spokesperson—to the company, to the industry, to our customers—who would serve as president," Paul says.

Days before the July 1 deadline approached, Jeff left his home in Chipewewa Falls, Wis., where the company's manufacturing operations are based, to meet his cousins at the corporate headquarters. His interests tended more toward operations, and he had removed himself from consideration as president a few months earlier.

One evening, the three met at the hotel where Jeff was staying to hash out the final critical details. The biggest question: which of Bill's sons would be president. Late that night, they agreed that Paul's communication and organizational skills made him the best candidate.

"We came to our decisions and slept on it," Jeff recalls. The next morning, they reconvened in a conference room at headquarters. With no second thoughts, they called Bill to give him their unanimous recommendation: Paul (who today is 46) would be president and chief operating officer. Peter (now 52) and Jeff (now 50) would each hold the title of executive vice president and chief operating officer.



"It was a wonderful decision," Bill says.

Having the three main candidates choose the next president could have caused a rift in the family. Paul says the decision was well-received because the company is now a so-called

cousin consortium, which depends on consensus to run smoothly. "It's important that the management style fit the ownership structure," he says.

It's ironic, Jeff says, that the process ended up with the youngest of Bill's five sons (and the sixth of seven children)

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as the new president. "Typically when the baby gets promoted to be the top dog, you're going to see all the brothers and sisters saying, 'You've got to be kidding me,'" Jeff says. But he says his cousin had impressed the family with his business savvy, education (Paul had a bachelor's degree in

## Sustaining a family connection

**W.S. Darley & Co.** recently ran an ad in a trade magazine that featured company president Paul Darley's home telephone number.

"We've really billed ourselves as 'the family business,'" Paul Darley says. "That translates into trust, great service, longevity—that's not easily replicable by our competitors."

The company has worked on several levels to sustain the connection with the family:

- It recruited independent board members. Steven Rogers, Gund Professor of Entrepreneurship at Northwestern University's Kellogg School of Management, is one of three independent directors on Darley's ten-person board. The board must "look at what's in the best interest of the company combined with what's in the best interest of the family," Rogers says. "It's not just black and white—there's gray."

- It developed a family constitution and participation plan. Family members know that as more of them become involved in the business, the potential for disagreement increases. The company's family participation plan, created in 1995, outlines what qualifications family members

must have if they want to work for the company. "It's part of going from a mom-and-pop business to a professional business," Paul Darley says.

The family constitution, which was approved in 2008 by both the board of directors and the family, outlines how the company would handle a serious disagreement: They would get outside professional help.

"Sometimes growth comes from diversity and different opinions," says Stephen Darley, chairman of the family council. "We don't want to have the kind of conflict that breaks up the family."

- It created a family council. The entire family gathers every other year, usually away from the business's offices. The family constitution came out of these meetings, which are also a way to introduce the fourth generation to the business.

A recent meeting included team-building activities with people from different generations and branches of the family. "It's a real interesting dynamic, because we have people in their 70s and people that are seven," says Regina Bollaert, a family member who does not work in the business. "It really makes you feel cohesive and helps you get to know extended family members." — M.S.





**'We feel really good about the type of business that we're in, the fact that we're selling fire equipment': The second, third and fourth generation of Darleys gathered at a 2008 holiday party.**

business and has since earned an MBA) and community involvement. "There isn't tension there."

Outside observers concur. "Bill Darley just did a wonderful job of letting the process determine his successor," says Steven Rogers, Gund Professor of Entrepreneurship at the Kellogg School of Management at Northwestern University. "Nothing was forced on the family. Paul's leadership was embraced, and he was empowered to be the leader by the people who would normally be his greatest competitors."

The decision was not without costs, however. "We had spent so much time on it that we took our eye off the ball of the running of the business," Paul says. The first year Paul, Peter and Jeff were negotiating the succession plan was the only year the company has lost money.

However, Paul says, "If it doesn't kill you, it makes you stronger. That whole trying process proved to be a very wonderful thing for our company." The decade since then has been the most successful the company has had, the family reports.

For those outside the executive committee, the succession process was a bit more mysterious. But Jeff's sister Regina Bollaert, 53, says her brother reassured her.

"When talking with my brother, he always made me feel like all three of them had a part of making that decision," says Bollaert, a nurse practitioner in Moline, Ill.

**The succession plan** has helped the company in several ways. The strong executive committee is an advantage, says the Kellogg School's Rogers, who serves as an independent director on W.S. Darley's board. "There are few companies out there who are as prepared succession-wise as this company is," he comments.

At board meetings, Rogers is impressed by the way the family members can argue without carrying the disagreement beyond the issue at hand. "Disagreements are allowed," he notes. "All of them have the ability not to take things personally as family members."

This has positioned the company for the future. Bill Darley remains as CEO and Paul as president. The board recently decided to expand the company's operations in China, and W.S. Darley is now selling water purification equipment in the U.S. Growth helps create career paths for family members.

Bill Darley says he had seen other family businesses fail as the leader aged and the company failed to change with the times. "I didn't want that to happen to our company," he says.

"It's a changing world. It's just so wonderful that [next-generation family members] are part of what the future is, not the past."



**W.S. Darley, the company founder.**

*Margaret Steen is a freelance writer based in Los Altos, Calif.*