Sam Cooper: To Stay with the Family Firm, or Not!

Teaching Note

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Critical Incident Overview

This decision based critical incident describes Sam Cooper's dilemma of whether to continue working at his family's business, where he had worked for 10 years, or to instead accept an offer to become an assistant manager at a large retail company. On the one hand, continuing to work at the family business offered such advantages to Sam as the opportunity to work closely with his father with flexible hours, maintain close relationships with his long-time customers, and have the chance to finish college. On the other hand, staying with the family firm would mean continuing to accept his father's informal approach to managing the firm, which had frustrated Sam for quite some time. If Sam took the job as assistant manager, it would offer advantages including a career path with upward potential, a standard benefits package, and the opportunity to work under supervisors who employed formal managerial practices. However, the drawbacks of working at the large retailer would include long hours and frequent moves around the country that would probably curtail his hopes of completing his college education at the local university. As a 36-year-old married father of three who is three semesters from college graduation, Sam was left to make this critical career and family decision.

This incident is appropriate for use in human resource management and small business-entrepreneurship courses. The key issue in the incident is personal career planning. A directly related issue is the impact that the informal financial and management practices in small family businesses can have on employees, including family members, and on a firm's potential for growth. Additionally, an epilogue is provided in the teaching note which discusses Sam's decision to take the management position, the resultant sale of the family firm by his father a few years later, and a subsequent decision by his father to restart his business in another niche in the lawn care market and to ask Sam to rejoin him.

Research Methods

The primary data for this critical incident was collected from the co-author who experienced it in the course of normal daily employment operations. It is written in the first-person purposely to include nuances of the personal relationships involved in the incident and to authentically capture the words and emotions as they were conveyed by the protagonist. The names of the individuals and organization involved have been disguised.

Learning Outcomes

In completing this assignment, students should be able to:

1. Recognize and compare the strategic considerations for Sam as he faces a potentially critical decision point in his career.
2. Analyze the situation and identify reasons that may explain why small business owners resist managerial practices such as formal training manuals and standard financial controls.
3. Comprehend the managerial practices within small businesses that may hinder growth and increase turnover of talented employees.

Discussion Questions

1. What are the key advantages and disadvantages associated with the option of taking the job offer from the major retailer? What are the key advantages and disadvantages associated with remaining with LawnTech? (LO 1)
2. What decision making models should Sam consider to help him make the best decision? Does a clear "best alternative" exist? (LO 1)
3. What might explain the lack of detailed operating procedures and training programs at LawnTech? (LO 2)
4. Why do you think Sam's father Richard became defensive when Sam suggested that the firm should implement standard financial management procedures? (LO 2)
5. Why might a lack of standard financial control procedures be frustrating to LawnTech employees such as Sam? Is leaving the firm the only way to deal with such frustrations? (LO3)
6. How might LawnTech's growth be affected by a lack of formal training programs and standard financial control procedures? (LO 3)

Answers to Discussion Questions

1. **What are the key advantages and disadvantages associated with the option of taking the job offer from the major retailer? What are the key advantages and disadvantages associated with remaining with LawnTech? (LO 1)**

The job with the large corporate retailer offered the advantages of upward movement potential, regular benefits such as contributions to a 401(k) and health insurance, as well as supervisors who engaged in more formal managerial practices. The drawbacks to the corporate job included long hours, frequent moves across the country, and limited flextime to finish college.

The incident suggests that Sam had lots of good managerial ideas, but his father was fairly resistant to implementing any of Sam's suggestions. Taking the corporate job would enable Sam to test his managerial abilities in an environment in which he would have some formal responsibility to manage others. Researchers who examine the human resource practices of small businesses continually find that informal managerial practices such as the ones Sam's father used are all too common in small, family owned firms (Hornsby & Kuratko, 2002; Kotey & Slade, 2005; Tocher, Shook, & Giles, 2007). Hence, if Sam wants an opportunity to test his managerial abilities, and climb up the corporate chain of command, he should take the assistant manager position.

Instructors might want to broaden the discussion by asking students to describe work experiences they have had in small, family owned firms versus their experiences in large companies. One of the co-authors regularly does this and finds that students tell similar stories about informal managerial practices such as:

1) Being hired without a formal interview because the firm's owner knew them;
2) Watching the company being managed by the owner's spouse when the owner is out of town even when that spouse knows little about the business; and
3) Experiencing compensation disputes where the owner did not pay what was promised.

However, students at larger companies discussed how their experience differed widely from the job description, how they were micromanaged, and how their manager refused to work around their class schedule and in essence forced them to quit. The point of this discussion is to get students to realize that there are significant advantages and disadvantages associated with either career path and that students need to be aware of them and develop a decision framework to analyze which advantages are most important to them and which disadvantages they can live with.

The advantages of staying at the family firm for Sam included enjoyable work, close relationships with customers, flexible work hours, time to finish school, and the opportunity to keep working with his father. Disadvantages of the family firm included lack of upward movement potential, little opportunity to influence the business's management, and the frustration associated with having to deal with his father's informal managerial practices. Research indicates that family firms rarely change managerial philosophy until a transition in ownership takes place (Cardon & Stephens, 2004). This critical incident strongly suggests this as Sam has been working with his father for 10 years and not much has changed with regard to his managerial philosophy. Thus, if Sam were to stay with the family firm, he would probably need to just accept that his father would likely continue to manage with a high degree of informality (Hornsby & Kuratko, 2002; Tocher & Rutherford, 2009). It is possible that Sam might eventually convince his father to change some things (such as developing a training manual), but he may never be able to convince him to change other things such as the financial management practices of the firm.

Instructors may want to broaden the discussion here by asking whether or not their students could see themselves working a job in which they had advantages such as flexibility and enjoyable work, which most people rate as important (Phillips & Phillips, 1998; Tocher, Feild, & Giles, 2006), but where they have little managerial control. Exercises assessing student needs or personality may help illuminate this discussion. High need for power and personality characteristics such as openness to experience, extroversion, and conscientiousness are associated with both leader emergence and leader effectiveness (Colbert, Judge, Choi, & Wang, 2012; Judge, Ilies, Bono, & Gerhardt, 2002). Instructors may want to point out that such individuals may not want to stay in a family firm where they will simply have to accept certain informal managerial practices. The main point of the discussion regarding this question will involve the implications of the various advantages and disadvantages of either option. Given that the advantages and disadvantages of either option are basically fixed, instructors may want to guide students to models they can use to decide which option is best for them in a similar situation.

2. What decision making models should Sam consider to help him make the best decision? Does a clear "best alternative" exist? (LO 1)

Sam and others in a similar dilemma can utilize many decision making frameworks. The pure rational decision making model is always an option, but research suggests people rarely use a completely rational approach to decision making (Riti & Levy, 2010; Robbins & Judge, 2010). Given this, Sam should utilize a few tools at his disposal to make a satisfactory decision. As noted above, Sam could consider personality and need characteristics to guide his decision making process. Career centers on university campuses may be very helpful in this regard. Further, Sam needs to consider his life goals and how the family fits into this decision.

An interesting exercise for instructors using the incident may be to put students into two groups and give the two groups different life stages to consider when making this decision. One group could make the decision from the perspective of being young, single, and childless; another group could make the same decision from the perspective of being 35 years old with a wife in college and two young children. Several groups could also be created and variables could be modestly changed for each group. Compensation based benefits such as base salary, bonuses, and discount stock purchase plans are typically more desirable to young single folks, while family based benefits such as extra time off, flexible work hours, and opportunity to work four ten-hour days are typically more important to older workers with families (Phillips & Phillips, 1998; Tocher, et al., 2006). Instructors can share this knowledge after the students have made their decisions and see if the groups making the decision from various perspectives align with existing research.

A clear best alternative does not likely exist, but preferable options for certain individuals likely do exist. For example, the extroverted family man with a high need to achieve may be better off in the corporate world with its upward movement potential, reliable pay checks, and opportunity to manage others. On the other hand, the young, single, introverted person with a low power need may be much happier working with Dad and finishing up school, saving the long hours and moves across the country for a later stage in life. Alternatively, the young person motivated by salary may jump at the assistant manager position if it offers a higher salary and opportunity to make a bonus that the family firm will not likely ever be able to offer. Finally, the family man whose wife's family lives in town and whose in-laws regularly watch the kids may have to live with the informal managerial style of his father to keep his wife and kids happy. The point that instructors may want to make here is that while a "best option" may not exist, especially for all the people in the class, a wrong option may likely exist for certain people with specific personality characteristics and others who are in certain stages of life.

3. **What might explain the lack of detailed operating procedures and training programs at LawnTech? (LO 2)**

Many small businesses may lack standard operating procedures such as financial controls for a variety of reasons, some of which are listed below:

<u>Tax considerations</u>: Many small firms choose not to keep a record of all sales. For example, when they receive cash they are able to avoid taxes if such cash sales are not accounted for within the firm's books. This is, of course, clearly illegal (Berger & Udell, 2006; Brewer, 2007).

<u>Fear and unfamiliarity</u>: Many small proprietors either do not understand financial controls and the systems they would have to implement to utilize such controls or are fearful of implementing such systems. Proprietors are often "hands on" doing all or nearly all of their firm's work on their own and they simply may feel that standard bookkeeping will take time away from serving their customers (Rutherford, Buller, & Stebbins, 2009).

<u>Failure to understand the point</u>: A proprietor such as Richard, who has been operating a successful firm for many years, may simply feel that there is no need to implement financial controls or tracking systems (Hayton, 2003).

<u>Resistance to change</u>: People in all walks of life are resistant to change, and small business owners, particularly successful small firm owners, are no different. In this incident, Richard seems to see the need for change when Sam makes suggestions and at times is even open to it, but does not ever seem to get around to changing. Such behavior may indicate that Richard is passively resisting needed change.

<u>Family or partnership considerations:</u> A business owner may not want his/her spouse or partners to know exactly what is going on with the business for one reason or another and so may resist implementing standard financial controls (Zimmerer & Scarborough, 2009.

4. Why do you think Sam's father Richard became defensive when Sam suggested that the firm should implement standard financial management procedures? (LO 2)

Whetten and Cameron (2011) discuss several potential sources of interpersonal conflicts, including personal differences, informational deficiencies, role incompatibility, and environmental stressors, each of which may have led to Richard's defensiveness when Sam suggested the firm use standard financial controls.

Personal differences include differences in perceptions and expectations about the business and how it should operate. Sam's father Richard had created and run LawnTech for a substantial period of time using an unsystematic, "pay-as-you-go" philosophy. Richard appeared to emphasize personal relationships with customers and made a point to maintain autonomy over operating decisions. Sam, in contrast, saw a great deal of potential for LawnTech to grow and become a thriving business with multiple employees and financial security over time. Sam's expectations for the business conflicted with those of his father, who appeared content with the current situation and perhaps even expected to pay the bills as cash became available.

Informational deficiencies and asymmetries provide a second possible source of conflict. It appeared that Sam's father was largely self-taught and had learned about business through experience. While Sam's father lacked formal training in managing cash flow, human resources, and many other aspects of the business, Sam was working on his business degree and had taken coursework that taught him about many aspects of running a business that his father had overlooked. The gap between Sam's knowledge and his father's lack of knowledge may have set the stage for Richard's defensive posture.

Role incompatibility may have also contributed to Richard's defensiveness. As Harvey and Evans (1994) described in their model of conflict in family businesses, relationship dynamics among family members often "spill over" into interactions about the business. Within the family, Sam adhered to his role as a son in a father-son relationship, at one point stating that his "intention was not to point the finger at anyone, especially Dad." Within the business, however, Sam yearned to be viewed by his father as more of an equal whose input would be taken into account in making decisions. Although Richard gave some initial impressions that he would listen to Sam's ideas, Richard proceeded to do his own thing, which frustrated Sam to the point that he contemplated other career options.

Finally, *environmental stressors* such as resource scarcity and uncertainty could certainly have caused Richard to become defensive. Because of the way that Richard managed the business, LawnTech was constantly dealing with resource scarcity and uncertainties. For instance, Sam always had to wonder whether his company debit card would be rejected at the pump for insufficient funds. The uncertainty of irregular cash flow likely took a toll on the relationship between Sam and his father, particularly when Sam confronted Richard about making changes to fix the problem.

5. **Why might a lack of standard financial control procedures be frustrating to LawnTech employees such as Sam? Is leaving the firm the only way to deal with such frustrations? (LO 3)**

Sam and others within similar situations may become quite frustrated by a lack of standard financial controls because they see a better way to do things that would be beneficial for all concerned. For example, within the incident Sam mentions several frustrating outcomes directly related to his father's informal financial management, such as not being able to charge gas, not being able to take advantage of quantity discounts, needing to buy chemicals at local retail stores in emergencies, inadequate inventories, and compensation issues. Sam simply sees a way to avoid all these issues with simple financial controls, but his father is quite resistant.

Sam's frustration with the financial management of the company has led him to seek other employment options, and this action is supported by research as talented young employees often leave small family firms for opportunities with upward movement potential and formal managerial structure (Hayton, 2003; Kotey & Slade, 2005; Williamson, 2000). That said, Sam could certainly continue to discuss his frustrations with Richard using supportive communication.

Whetten and Cameron (2011) describe several principles of supportive communication for dealing with difficult conversations such as the conversation that Sam may want to consider having with his father. Of those principles of supportive communication, four are particularly important for Sam's situation:

Supportive communication should be descriptive, not evaluative. Sam needed to provide an objective description of what was occurring, taking care to not state or imply an evaluation of his father's competence or authority. The "X-Y-Z" formulation described by Gordon (2000) is a good approach to facilitating descriptive communication since it focuses on an objective explanation of the behavior rather than attaching that behavior to the individual personally.

Supportive communication should be problem-oriented, not person-oriented. Especially over time, Sam's frustration with his father could have accumulated such that he would be tempted to believe that his father, rather than his father's handling of their relationship, was the primary problem. Rather than allowing his communication to become person-oriented (i.e., pointing the finger at his father), Sam should take care to focus on the problem.

Supportive communication should be validating, not invalidating. Given the strong potential for Richard to experience defensiveness or disconfirmation in response to any discussion about how he ran the business, Sam needed to make sure that his statements communicated respect and emphasized areas of agreement. By carefully distinguishing his suggestions for the business from any perceived criticism of his father, Sam could reduce the potential for his father reacting defensively and shutting down.

Supportive communication is owned, not disowned. In the past, Sam has had difficulty getting through to his father, so owning his statements by using personal pronouns (i.e., "I") is an important step. Sam needed to communicate respectfully, but he also had the right to express his opinion clearly enough that Richard could not mistake Sam's perception of the situation. At that point, Richard could not plead ignorance; he would have the choice of dismissing Sam's perspective or dealing with it more directly.

6. How might LawnTech's growth be affected by a lack of formal training programs and standard financial control procedures? (LO 3)

As mentioned, the informal financial management of the LawnTech firm caused numerous problems such as the charge cards running out of money and an inability to take advantage of quantity discounts. Additionally, while the company did try to develop a training manual and expand with a few new service personnel, some of these new employees caused problems by not serving customers appropriately and others left after a short time. The key discussion point here is that while informal managerial procedures can exist while a firm is very new, very small or in the pre-legitimate stage, if the firm is to transition into a legitimate entity, it will have to adopt a higher level of formality (Rutherford & Buller, 2007; Rutherford, et al., 2009).

Legitimacy is "…a social judgment of acceptance, appropriateness, and desirability, [that] enables organizations to access other resources needed to survive and grow" (Zimmerman & Zeitz, 2002, 417). Notably, small family owned firms can enhance their chances of being judged as legitimate by acquiring office space (instead of running the business out of the owner's home), establishing a legal entity such as a Subchapter S Corporation or Limited Liability Corporation (LLC), generating audited financial statements, and producing professional training manuals. (Delmar & Shane, 2004; Tornikoski & Newbert, 2007). Interestingly, while LawnTech has been around for many years, it may not likely be seen as a legitimate enterprise by potential stakeholder groups such as potential financiers, employees, and government officials because it still lacks many elements of a legitimate business. Sam mentions that his father doesn't even separate his business and personal checking accounts, has no checks and balances in the handling of the firm's finances, has no formal training program, etc. Hence, if the firm ever tries to borrow money, sign a lease, purchase products on credit, and acquire other vendor services, it may very well be denied due to the fact that most external stakeholders will not view it as legitimate (Choi & Shepherd, 2005; Zimmerman & Zeitz, 2002).

Users of the incident may want to start a class discussion by outlining some of the benefits of informal managerial practices such as being able to spend more time serving customers and less time on HRM practices and money management. However, these advantages can be contrasted with the above disadvantages of a lack of credit and difficulty in hiring competent employees. Therefore, the point must be made that while it is tempting not to formalize many procedures within small firms for a variety of reasons, failure to formalize will likely prevent the firm from being judged as legitimate by external stakeholders and will thus almost certainly hinder its growth (Aldrich & Martinez, 2001; Rutherford, et al., 2009; Zimmerman & Zeitz, 2002).

Epilogue

Sam accepted the offer to become a full-time assistant store manager for the national firm. LawnTech under Richard Cooper continued to be highly successful. Competitors, including some national chains, tried to entice customers away but were never successful. Shortly after the time of this Critical Incident, a large national firm approached LawnTech and made an attractive offer to buy them out. Still overwhelmed by his business volume and not having taken any steps to manage the growing size of his business, Richard accepted the offer and sold out. He then went on to form a new company aimed within a lucrative niche in the industry that was not covered by the non-compete agreement he signed with the purchasing company. At the writing of this Critical Incident, Richard had indicated that he wanted Sam and another son to join him in the new venture.

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