Leadership and Management in a Family Business Setting

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Introduction

In today's economic system, management and leadership competencies and the ability to make appropriate decisions for sustainable business operations is very crucial. Some small business entrepreneurs are relying on family support and/or partnership(s) to remain in business. This case study is about an entrepreneur (Andrew Giuliani) in London, Canada. Mr. Giuliani has been an entrepreneur and restaurant owner in London for over 44 years. He has two businesses. The first one is Andrew's Food Limited, involving a partnership with his sister, Veronica Bruno. Andrew's Food Limited is the parent company for Andy's Pizza, Andy's Take-Out and Andy's Banquet Hall. The second business, under Andrew's sole proprietorship is called Andrew Giuliani & Sons, which is the parent company for Giuliani's Italian Restaurant. Recently, Andrew's sister proposed selling her share of Andrew's Food Limited to Andrew, making him the only owner. Andrew realizes that this change in the ownership of the family business could have far reaching implications for the company. More specifically, Andrew sees this as an opportunity to consolidate operations to improve efficiency and create his succession plan. Although it seems like a great opportunity for Andrew to be the sole owner, Andrew has some concerns and decisions to make. Some of the options he is considering include: (1) to sell the businesses and retire very well, (2) to buy his sister's share and continue the two businesses, and (3) to consolidate the businesses under one parent company with the Andy's Pizza name. This case study provides an opportunity to discuss several management and leadership issues including management styles, decision-making, succession planning, employee morale, and the implications of partnership and family business.

General Industry and City's Information

The Canadian restaurant industry is made up of a lot of "Mom and Pop" (independent) operations. These independent operations account for about 64% of all the food service operations with an average profit margin of a little over 3% of pre-tax revenue. Due to the growing demand for convenience foods created by dual income families, there is an increase in the variety of take-out/home meal replacement foodservice offerings. This positive restaurant market trend is encouraging for Andrew's Food Limited operations. The City of London in Canada is a splendid city for a family restaurant. The city's population is over 336,000 people with about 92,000 families and an average family income of about $69,000. This is an ideal place for Andrew's Food Limited and similar competitors. Some of Andrew's Food Limited competitors include chain restaurants such as Outback Steakhouse, Crabby Joe's, Jack Astor's, East Side Mario's, Archie's Fish & Chips, Joe Kool's, and Great West Steak House. Loblaws, Swiss Chalet, and Pizza have become major players in the take-out/home meal replacement segment. Generally speaking, Andrew's Food Limited and Giuliani's Italian Restaurant have many competitors.

Company Background Information

Andy's Pizza started in 1961 in the London, Ontario Eastside. This is a great location as the restaurant is close to great demand generators such as the Western Fairgrounds, which hosts many events throughout the year including standard bred horse racing, industrial shows, and the Annual Western Fair. Five years after starting Andy's Pizza, Andrew and Veronica expanded their presence in London by adding Andrew's Takeout & Delivery on the Westside of London. They expanded a second time in 1980, adding Andy's Banquet Hall to cater to group events such as weddings, family functions, and the corporate events.

In 1987, Andrew started his second business called Andrew Giuliani & Sons and opened a restaurant called Giuliani's Italian Restaurant. Both Andy's and Giuliani's restaurants offer high-end Italian food, specializing in pizza and panzarotti for families, couples, and seniors. The two restaurants also offer similar menus and décor; in fact, most people in London consider the two independent restaurants to be the equivalent in style and quality.

Specific Areas of Interest

Andrew's sister, Veronica, was getting older and she no longer wanted to be involved in the foodservice business. Since none of her children were interested in taking over her share of the company, she offered to sell her share of the business to Andrew. Veronica plans on investing her money into the ownership of a golf course, which her children are interested in running. She told Andrew that she would require the money in six months. Financing the buy-out is not an issue for Andrew given the success and profitability of the restaurants

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over the years. In addition, Andrew Giuliani has been a wise investor and can easily liquidate some of his business investments instead of taking on debt to provide Veronica with her fair share of the business proceeds. Financing is the least of Andy's concerns; Andrew needs to think about how this business can be organized to meet the needs of his family and the succession of the business going forward.

The opportunity to own the entire Andy's Pizza chain will enable Andrew to pass the business to his four sons when he retires. But first, Andrew has to make sure that his sons are interested in the business.

Andrew Giuliani has four sons: Peter is the oldest and most experienced of the sons. He is the General Manager of Giuliani's Italian Restaurant and is also responsible for all marketing (including the website) for both of his father's businesses. He has been involved in the family business for as long as he can remember and feels that his role is second in charge, making decisions when Andrew is unavailable. James is the GM of Andy's Take Out and is the second oldest son. This part of the business has seen the most growth in the past 5 years. James has a degree in food science from the University of Guelph where he worked closely with the lead cheese maker in the Department of Dairy Science known for its high quality cheeses. John is the General Manager of the main Andy's location. He has been involved in managing this operation in one form or another for the past 10 years. Currently, he is completing an MBA at the University of Western Ontario. He enjoys the family business but knows there are many other opportunities after the completion of his MBA. This presents both an exciting and uncertain future for John as he contemplates his future role within the family business. Paul is the Food/Beverage and Banquet Manager as well as the Chef. Paul is a creative person and he has gravitated to the culinary side of the business. He believes that he has many new ideas for menu items; he has created many new Italian dishes that have been shown to be a success in the banquet operation. But, Paul has been unsuccessful in convincing his oldest brother and father that some innovative, fresh menu items would benefit the restaurant operations.

Decision options

Andrew is 71 years old and although he is still very active in the business (and loves it), he knows that he will need to make a decision soon regarding the future of the business. Before discussing the issues with his sons, Andrew wrote down a list of the three options that he believes should be considered:

1. To sell the businesses and retire very well
2. To buy his sister's share and continue the two businesses as separate entities
3. To consolidate the businesses under the Andy's Pizza name.

1. Selling the business: Selling the business is something that Andrew would consider but it is not something he wants to do. The restaurant market in London is healthy, and the company has been able to consistently experience year after year of growth. Andrew also believes that his sons love the business and will want to continue operating it; so, he is not sure that selling the business would make sense. What else could they do?
2. 2. Continue the Business: Clearly, the easiest solution is to take over Veronica's share of the company and keep everything else the same. The strengths of this option are reduced employee uncertainty and the costs of restructuring or selling.
3. 3. Consolidating the Business: The third option is to consolidate the two businesses under the Andy's Pizza name. Consolidation means that the company could recognize some advantages due to expansion and to the economies of scale and efficiencies; thereby, increasing the profitability of the business. Specifically, marketing costs could be reduced, and the possibility of setting up a commissary would also create efficiencies. Additionally, consolidation would further strengthen the brand equity for the Andy's Pizza name. Andrew asked his accountant to present him with financial statements in order for him and his sons to analyze the numbers to determine if it makes financial sense to consolidate (Appendix 1).

Leadership and Management Style of the Current Operations

As the eldest son in a traditional Italian family, Andrew has always taken a strong leadership role in all of the Andrew's Food Limited and Andrew Giuliani & Sons businesses. While Andrew believes that his leadership style provides the opportunity for other members of the family and staff to provide input for major business decisions, he also believes that the current hierarchy allows him to have the final word in the operations, thus, avoiding conflict or disagreements between family members and other staff members.

As Andrew thought about his leadership style, he considers himself to be a man who gets things done. After more than four (4) decades as a restaurant owner, Andrew feels he has established himself as a tough, non-nonsense type of leader with a focus on productivity, quality, and accomplishment. Many times this means overlooking ideas and suggestions for change from his sister, staff, and sons. But, Andrew is a firm believer in the adage--'if it isn't broke, don't fix it'.

As Andrew thought about potential upcoming changes in the business, he wonders about the long-term future of his business. 'Is his sons' interest in continuing the business as strong as he has always assumed?' This process has also got him thinking about his transition into retirement and his sons' taking over. While he doesn't believe he is ready for being 'put out to pasture'; he can see that with his younger sister's retirement plans from the business, realistically, he will also need to think about succession plans. This way the business he has worked so hard to build can be successfully transferred to his sons, providing retirement security for himself and financial security for his sons' families. Andrew thought of several issues that needed consideration including: How could this transition take place? What is the best way to manage this change? With his current top-down leadership style, would one of his sons step up to take the primary leadership role in his place? Or, would a different type of leadership style be more effective going forward? How can the organizational culture he has established over four decades be maintained under new leadership? Or, should it?

Andrew has also been noticing many changes in the current business environment that had not been an issue in the past. He has been noticing that many of the younger staff members in his operations just don't seem to have the same level of common sense, commitment and professionalism as the staff members of the past. Further, the fast-paced changes in technology seemed to create challenges for keeping pace with the growing number of chain restaurant competitors and their communication with potential customers. Should the business adapt in some way going forward to create a work environment more conducive to the new generation of workers? Or, can staffing issues be addressed with continuation of his no nonsense leadership style? How might the business best adapt to technology and other changes in the business environment going forward?

While Andrew knows there are no easy answers to these questions, he knows that whatever the plan will be going forward--these issues will need to be part of succession considerations.

Theoretical Concepts Regarding the Case

Whether he decides to keep the business or consolidate, Andrew needs to consider succession planning within the family business. He knows that his personal "exit strategy" is very much connected to this process. At the moment there is no plan of succession in place. In order to address this issue, Andrew decided to research family succession planning. While looking for information, Andrew came across the sentence, "it has been said that the three most important issues in confronting the family business are succession, succession, and succession" (Aronoff & Ward, 1992, p. 1). Andrew soon realized that he is not the only family business entrepreneur without a succession plan. Today, family businesses employ about 4.7 million people, which accounts for over 50% of the working population in Canada (Form, 2003). Currently, a significant number of the family business leaders are retiring; while, only a minority of them have a succession plan in place (Deloitte & Touche, 1999). Through his research, Andrew made a checklist of the elements of a succession plan.

According to Aronoff (1992, 2002), there are six elements of a succession plan:

a) The Vision and Strategic Planning

b) Leadership and Personal Development of the Successor(s)

c) The Roles and Competencies of the Successor(s)

d) Evolving Leadership Roles of the Founder

e) Communication of Succession (Internal and External)

f) Financial and Legal Aspects (Taxes, Founder's Financial Plan, Family Participation, Will)

a) The Vision and Strategic Planning

According to a study of family businesses by Deloitte & Touche, only 25% of all family businesses have a long-term strategic plan and only 40% have a business plan. Strategic planning not only reflects the business' values and visions, it provides potential successors with valuable insight about the company. A communicated vision will clarify both the task at hand and the future challenges. Strategic planning is the first step into succession planning because it deals with the future of the company. Andrew realizes that the timing of his succession plan and the strategic direction of the company are closely linked: one cannot happen without the other.

b) Leadership and Personal Development of the Successor

Successors for family businesses often, but not always, are the children of the founder. The stages of successor development move from early attitude preparation to leadership development, and then finally to the next round of succession planning for the following generation. Many of the stages can take years or even decades to complete. Andrew is relieved that he has involved his sons in the business since they were old enough to work and believes this will facilitate a smoother leadership transition.

c) The Roles and Competencies of the Successors

If multiple siblings are involved in the business, distribution of power can be a challenge. An ideal scenario would be that each sibling has specific competencies and areas of authority. Currently, each of Andy's sons have a fairly equal level of responsibility within the company. But, any change to the status quo could be met with disagreement. Andrew knows that the proposed changes could create increased conflict among his sons and wonders how this can be minimized or managed.

d). Evolving Leadership Roles of The Founder

Leaving a business to successors can be a critical aspect of one's personal life. A business cycle and a life cycle are about to be completed. Few people like to address this delicate topic of their productive life coming to an end. All the more important, it seems to redefine the founder's new leadership role. Giving up responsibility, letting go of power, but, still being able to influence the business positively should be the goal of this element.

e) Communication of Succession

A family business is a private matter; but, nevertheless, involves a lot of stakeholders. Family members need to be prepared for the transition to come. Suppliers and customers have to be eased into dealing with a new generation. Like all the aspects of succession, the communication element is part of a process--the more time that is invested with the communication of change, the better.

f) Financial and Legal Aspects

The critical elements of this area are:

- Taxes involved with transfer of ownership, capital, inheritance, etc.
- Insurance/Will (What if you "die in the saddle"? The financial and organizational consequences when the unexpected happens.) How can this issue best be handled for Andrew in the short term and his sons and other family members in the longer term?
- Founder's financial plan (Is your retirement properly secured?)
- Family participation (How are the assets/the capital divided?)

Andrew knows that there are tough decisions that lay ahead. Which of his sons will take over as the President of the company? Will it remain a partnership with each son owning 25% of the business? Andrew knows he will have to find a way to empower his sons to ensure that their decisions will be ones that will lead to a good positive decision. But, he is not sure of the best way to facilitate these decisions.

Another area to consider is the impact of the company changes on his daughter-in-laws. Although his daughter-in-laws are not actively involved in the business, their support of the changes going forward are important. To what extent should they also be involved in this decision?

Decision-Making

This is no small decision and Andrew knows his sons will eventually have to live with the consequences. He knows that there will be some heated debate over this issue. Andrew believes that in order to create an environment that allowed for, and even facilitated, an equitable and efficient business-making process, he needs to be sure that not only his sons are involved in the process but also satisfied with the outcome. As President, Andrew believes he needs to create an empowered environment that allows for participative decision-making by his sons to achieve the best solution. But, this style of leadership and decision-making is a new concept to Andrew. Before approaching this sons for their input, Andrew continued his research--this time focusing on participative decision-making and the decision-making process in general. He determined the following:

Participative leadership (management) is characterized as a management style where managers empower subordinates to be involved in the decision-making process. Some of the benefits of participative leadership (management) style include its positive impact on employees' motivation/satisfaction, its ability to get the job done, and its likelihood to increase quality decision-making (Ogbeide, et al., 2008; Smylie, et al., 1996). In addition, participative management also enhances financial and strategy implementation success of firms (Ogbeide & Harrington, 2011).

The term 'empowerment' is a concept that can be applied to both the individual and the organization. In an organizational setting, empowerment can be a powerful leadership tool for gaining the 'heart and mind' of the collective employment team by which to accomplish a goal. Ultimately, the idea of sharing control and power has been shown to increase organizational effectiveness (Rudolph & Peluchette, 1993). Leaders create empowered teams by creating a shared vision, providing support, using mentoring skills and coaching roles, and developing a win-win collaborative of conflict management styles (Quinn, 2004).

Advantages and Disadvantages of Including Employees in the Decision-Making Process (Quinn, et al., 2003)

Advantages of including employees in decision-making process:	Disadvantages of including employees in decision-making process:
• Increases the likelihood that important issues affecting the decision will surface	• More people; more time and difficulty reaching consensus
• Generates a wider range of perspectives (including the customers')	• Low-quality decisions can be generated if the group lacks proper expertise
• Identifies potential obstacles for implementing the solution	• Team meetings may not get the right info from the right people
• Enhances employee skills and abilities; helps them grow.	• Group think can occur (lack of objective thought)
• Greater employee commitment and buy-in	

Concerns for Employee Morale

Both restaurants are run as family businesses; therefore, Andrew is very sensitive to the needs of his employees. Many of the employees have been with Giuliani's Italian Restaurant since its inception, and Andrew feels a sense of responsibility to ensure a smooth transition during any company restructuring. On the one hand, the employees might welcome the opportunity to be unified under the same business name; especially since Andy's is the more established restaurant of the two. On the other hand, the staff at Giuliani's might feel that they have contributed to the demise of the restaurant. Andrew is worried that some of the more senior and experienced staff at Giuliani's might leave due to the perceptions of failure, concerns about employment security, or worries about how the new organization will be managed.

In particular, Andy's Banquet Hall is managed by Katie Crawford with Paul Giuliani serving in the capacity of Chef, F&B and banquet manager for this operation. Katie has worked for the company for 11 years and has worked her way up from the position as a banquet server while in high school. Andrew's sister has served as a mentor and maternal figure for Ms. Crawford. Because of this relationship, Katie has always believed that she will be given the opportunity to take over this part of the business when Veronica retires. Veronica has always called Katie her 'youngest daughter' and included her in many of the family get-togethers, going as far as to exchange Christmas gifts and include her in the family photo for the annual Giuliani Christmas card. While Katie has been a good manager for the operation, Andrew is not sure what role she should take going forward and how she will fit into the new organizational structure; whatever form it takes going forward.

Communicating Change

After reviewing this and other human relations issues, Andrew realizes that the key to a successful change in management, whether in large multinationals or family run businesses, is communication. According to Goodman and Truss (2004), open communication involving those that are going to be impacted by the decision is critical. Employees will remain committed to the firm and their position if they believe they have been involved and consulted in the process. This aids in retaining employees as well as maintaining morale and productivity.

Andy Szpekman (2004) developed 10 steps for communicating significant changes to an organization:

- Talk less and listen more
- Separate facts from reassurance
- Ditch the vain attempts to spin the message
- Tell it all, all at once. Letting bad news trickle out slowly breeds distrust and creates anxiety
- Hone messages into clear, simple statements
- Strive to reduce uncertainty and instill a new sense of control
- Let people arrive at conclusions themselves
- Keep senior leaders visible
- Reassure high-performing employees of their value
- Measure performance outcomes and monitor employee reaction

In researching change communication, Andrew also discovered that the way in which the information is communicated is just as important as the message itself. In fact, Andrew needed to ensure that the communication plan generated commitment and clarity and that it also reduced uncertainty (Goodman & Truss 2004). In addition to the formal communication methods needed to inform the employees of the restructuring (verbal, written, electronic), Andrew believes there is a need to get his sons to set up informal communication networks during the change process (Kitchen & Daly, 2002). These informal networks can be developed through work-based teams or through online communication (Lok & Crawford, 1999). This will also allow the employees an opportunity to ask questions throughout the restructuring process.

Andrew determined that a second communication plan is required following the restructuring to ensure the success of the 'new' organization. According to Mickelson and Worley (2003), the objectives of this post-change communication plan are as follows:

- Develop a clear vision and goals for the integration.
- Address integration issues during due diligence.
- Recognize and respect cultures with a goal of blending them.
- Retain key people from the acquired organization.
- Connect with members of the acquired company after the acquisition.
- Utilize planning and decision-making tools.
- Dedicate a project team and a project manager to plan the integration.
- Hire a consultant to assist with the process.

Discussion Questions

1. Should Andrew Giuliani consolidate the business? If so, what factors should be considered? At which level do you consolidate ('in name only' versus 'complete consolidation')? Which areas of the business would benefit the most by greater centralization? How could you get greater economies of scale (advantages obtained due to expansion) by reducing duplication of activities? What impact would consolidation have on brand equity? See appendix 1 for financials.
2. Is the role of participative management within a family business the most appropriate form of management; if not, which one would be better? How will equal involvement by all partners be ensured and "groupthink" be minimized? Which leadership style(s) is/are required to optimize this form of management?

3. During the process for succession planning within a family, how does the leader create an environment of trust and openness when the employees are the leader's sons? What is/are the most important consideration(s) regarding succession planning in this case?
4. Given the challenge of employee motivation during restructuring/change, how does the leader create vision and improve morale during a time of uncertainty? What communication plan would be most effective?