

Root Causes

Getting to the Bottom of Issues Brings Returns to the Top

A Series of Thought-Provoking Position Papers for Owners of Family and Closely Held Businesses

by Stefan Voswinkel

The Cost of the Peter Principle to Family Businesses

How to avoid a situation in which everyone loses.

Your son 'Peter' (or any other relative!) shouldn't really be in that vice president position. You and your family know it, your employees know it, and even Peter knows it. Yet nothing is done about it. The consequences are dire. Peter feels pegged into a role. There has never been a candid conversation about mutual expectations, about what he wants and can do. The Peter Principle often applies when succession happens suddenly, instead of being planned.

Here are the things to watch for:

- Peter is saying "yes" too often, lacking backbone.
- Peter is busy with the wrong things.
- Peter is not making decisions, things are not getting done.
- Others are quietly picking up Peter's slack.
- Conflicts accumulate around Peter, people start complaining about him.
- Could you as parents be overbearing, not really listening to what your kids really want in their lives? Ask them!
- Family members, employees, customers and suppliers are avoiding Peter.
- Entitlement: Peter's expectations are out of line with what he can or wants to deliver.

All this will eventually affect the bottom line, your relationships and your health. What started as a slippery slope might end in a cliff.

Excuses I am hearing

- He is my oldest son.
- He will grow into it.
- I know what's good for my kids.
- This is about keeping the business in the family.

Risk and Consequences of not dealing with it

- Nobody is happy, especially you and Peter.
- If you let the Peter Principle happen, you are undermining your own credibility and that of your business – with family, employees, customers and suppliers.



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- Increased conflict in the family. Everybody knows it, everybody including Peter resents it, but nobody dares to tackle the issue.
- It erodes Peter's confidence and quality of life: Coming to work every day knowing that you can't really do the job, don't deserve it and don't really want to do it – and everybody knows! This is very painful.
- Constant loss of energy dealing with Peter, picking up his slack and resolving conflicts for him.
- True talent gets neglected: Those who could actually do or grow into Peter's job are being overlooked. They get frustrated and you will eventually lose them. Have you ever asked that "other relative" or that non-family go-getter what they aspire to?

Worst of all, the Peter Principle could jeopardize your family's business legacy, prosperity and harmony.

Here is what can you do about it

- Have an open discussion with Peter about his strengths, weaknesses and goals in life.
- For all upcoming managers: Jointly develop a career plan, with clear milestones as conditions for promotions, measures of performance and conduct, including regular progress meetings (every 6 months).
- Agree on a test phase of one to maximum two years (only if you truly believe he/she is right for the position)
- Ask your relative to get some confidence-building outside experience first (no less than one year). It is hard to "push" your kids out of the company, even if it's temporary. But the long-term viability of your family business depends on capable and confident successors!
- Train your successors in making independent decisions and being managers. Prepare them for the transition from employee to owner/manager.
- Before you promote a family member, ask them and yourself: Is this the best position for them and the company? Avoid the classic when a stellar sales rep is promoted to VP of Sales, a role that may be setting them up for failure.
- Get a second opinion from a trusted advisor.
- Have job descriptions (at least for managers) that clearly outline roles, responsibilities and measures of success. Too often this is not the case in family businesses.
- Start the conversation early with the next generation about future roles. For your kids, that's when they are in high school.
- Do you have a succession plan that envisions the right roles for the right people?

Pitfalls and how to avoid them

- Family bonds can make us blind regarding the truth about family members, and acting on that truth can be very hard.
- For Peter, his salary, perks and social position are stronger than the pain he causes himself and others. So he wants to stay on.
- It's been going on for so long, "breaking it up" now would cause more pain and damage than gain. Wrong: The long term pain of leaving Peter in his job is much greater!
- In all fairness to Peter:
 - Pent-up resentment may erupt into conflict, and everybody loses. The earlier you address the issue, the better are the chances to find a solution where everybody wins.

- Peter deserves a good and fulfilled life. Support him with that in a way that helps him, you and the business.
- Beware of the agenda that that other family members or non-family employees may have to "get back at Peter".

Count on it

- Ultimately, Peter will be thanking you.
- A constant source of conflict and waste of energy in the family and the business is removed. This improves relationships, productivity, and the bottom line.
- With the right people on the right path, your company is poised for future growth.
- More fun and good health!

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What does this mean for you? Tell me what you think: stefan@voswinkel.ca

For a discussion about your own business situation and how I may be able to help you, please contact me.

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Typical Client Results:

- More clarity about roles and responsibilities
- Better communication and less conflict
- Positioning the company and the family for the future



Stefan has the unique perspective of 25 years in entrepreneurship, large and small firms, government, and international business. This and his own family business background give him the passion to effectively help family businesses and closely held businesses. He can take the best practices in family businesses to any location globally.

As a commercial pilot, Stefan is an expert at taking off, observing from a bird's perspective and landing smoothly – his approach to helping owner families. He has acquired rare insights into human relationship factors that determine success or failure. His results fly in the face of the high failure rate of sustaining family businesses into the next generation.

Stefan is the resource for entrepreneurs of all generations.
He is **"The Family Business Catalyst"**!

His enthusiasm is contagious. He actively promotes entrepreneurship by teaching college courses for aspiring entrepreneurs, including a mentorship that involves local business owners.

As a sought after speaker, Stefan has presented his recently published Survey of Yukon's Knowledge Sector at several conferences, demonstrating how knowledge-based entrepreneurs can successfully extended their range beyond local markets. In 2013, his firm was nominated for "Most Innovative Company" in UpHere Business magazine's Frozen Globe Awards.

Stefan has a combined degree in business and engineering, is certified in Change Management (PROSCI), and a graduate of the Family Enterprise Advisor program at the Sauder School of Business (University of British Columbia).

He has brought value to the community, for example by taking on leadership roles in Rotary. He has built his global perspective by travelling to 30 countries. He and his wife Judith, partners in life and business, encourage young people by hosting exchange students. They enjoy the peace and quiet of their cabin in Atlin, British Columbia - one of the most scenic places of all and well suited to inspire their creative minds.

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