

How Can the Family Business Cope When a Key Non-family Exec Leaves?

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Over the past few weeks, Smith & Taylor Law Firm has been dealing with the shock and logistical changes brought on by a key executive of their practice deciding to resign. Paul Duffey started at Smith & Taylor 15 years ago and has been a huge asset to the firm for over a decade. Paul had been taking on increasing levels of responsibilities and given greater autonomy with each passing year. Because of his long tenure with Smith & Taylor and prowess as a lawyer, there were some clients who would deal only with Paul. During his time at Smith & Taylor, Paul had built strong relationships with many of the firm's key clients. His great success in the courtroom and in negotiating business deals had also earned Smith & Taylor a strong reputation within the community and greatly contributed to the firm's financial success. As a result, he was being groomed to be the "bridge" between the founding partners' planned retirement in the next five to seven years, and the founding partners' daughter joining the firm, with the intention of her taking over the ownership of the business once the succession was complete.

In 1993, Jack Smith and Heather Taylor founded Smith & Taylor Law Firm and it quickly became a very reputable and successful firm. For the past 20 years, Jack and Heather have also been happily married with three daughters. The oldest daughter, Stephanie, is interested in pursuing a career in law and will likely be the only daughter to join the family's law firm. Last year she graduated from a prestigious law school in New England, and she is currently preparing to take the bar exam so that she can join Smith & Taylor.

Smith & Taylor is a boutique-style law firm with 32 law associates and five partners, including Jack and Heather. Because of the firm's small size, Jack and Heather treat their team as family. In particular, due to Paul's time with Smith & Taylor and close relationship with the founders, Jack and Heather viewed him as another child. He had been a part of everything from

family dinners to the children's graduations. Jack and Heather saw Paul as the son they never had. And they thought Paul also saw himself as part of their family. Thus, when Paul handed in his resignation, it was a huge shock to Jack and Heather. They felt betrayed.

Why Paul Resigned

During a corporate function, Paul approached Jack and asked for a meeting. The next day, when they met in the office, Paul told Jack that he would be leaving Smith & Taylor in three weeks. Paul also explained that he intended to join another law firm in the same office building. The new position would allow him to explore other intriguing areas of law. He felt that after fifteen years in the same practice he was ready for a new challenge.

However, upon further probing, Paul admitted that his main reason for leaving was because he felt underpaid by Smith & Taylor, and he was concerned about potential family dynamics and uncertainty caused by their daughter, Stephanie, joining the firm. Paul emphasized that this decision was not easy, and that he had been thinking about leaving for a long time. He was concerned that passing business ownership to their daughter would negatively affect his career.

Jack and Heather were extremely frustrated that Paul had kept these negative thoughts to himself over the past year, and that he was just addressing them now, when it was apparently too late to find an alternate solution. At first, they were shocked and then sad. The timing of Paul's departure could not be worse; they had planned for Stephanie to join the firm later that year, working as Paul's protégé. As they transitioned to retirement, they envisioned Paul leading the firm and mentoring Stephanie.

Later, Jack approached Paul to find out what had happened. Paul revealed that he had been actively looking for work at law firms for the past few months. Recently, he found a firm that would be a great fit, and

they offered him a position. Jack was shocked that Paul did not have the trust nor the confidence to share his concerns about compensation and the upcoming succession. Although Jack viewed Paul as part of the family, obviously Paul did not reciprocate those feelings. Jack wondered how he could have been so wrong about their relationship and Paul's commitment to his family and business.

How the Company Responded

At home that evening, Jack and Heather developed a plan. With Paul's departure to a competitor, they had to ensure that Smith & Taylor remained healthy for the sake of their family and their employees. They listed their concerns:

- Paul had strong relationships with many key clients. Thus, they didn't want any clients to follow Paul to a competing law firm, which could negatively affect their firm.
- Paul was an influential member of the team, which created the risk that other team members could follow Paul to his new firm or look for other job opportunities outside the firm.
- Time, effort and expense associated with finding and training Paul's replacement.
- The abrupt departure of Paul could damage Smith & Taylor's reputation.

After identifying these concerns, Jack and Heather realized that their immediate solution was retaining Paul, and they developed a generous counter job offer (see Exhibit 1). The next day, Jack and Heather offered Paul the new compensation package: partial ownership in Smith & Taylor and a 15% salary increase. They told Paul that upon retirement, he could sell back his shares at market +5%. Paul thanked Jack and Heather and told them that he would consider the offer overnight.

The next day Paul met with Jack and Heather and told them:

"I appreciate your new offer and it saddens me more than I can ever truly express, but I must refuse it. I have been thinking about this career change for a long time and I really do believe that leaving Smith & Taylor is best for me and my personal development."

Soul Searching

Jack and Heather were at a loss for words; they truly thought their counteroffer would give Paul everything that he desired and would keep him with Smith & Taylor. Over the next few weeks, while searching for Paul's replacement, they considered how they could prevent this from happening again.

They concluded that they did not have a specific succession plan and so they never discussed retirement and succession plans with employees. More importantly, they never shared their vision of Paul mentoring Stephanie, leading Paul to feel uncertain and anxious about his future role at Smith & Taylor. Yet, they kept asking themselves the following questions:

- What kept Paul from being open about his concerns?
- Why did Jack and Heather misread Paul's family-like relationship?
- Was making the counter offer a good decision or a mistake?
- How can this be prevented from happening again in the future?
- How can we prevent clients from leaving to follow Paul?
- How should we now prepare Stephanie for eventual ownership and leadership of Smith & Taylor?

What They Learned

Despite Jack and Heather's significant offer to retain Paul on the team, he did not accept it and tendered his resignation. To let clients know about Paul's departure, they first called all of the clients that had worked closely with Paul and then sent an email to all of the firm's clients announcing his departure. The email sent is shown in Exhibit 2.

About three weeks later, Jack and Heather's recruiting efforts came to fruition and a replacement was found for Paul; they hired Suzanne, a well-seasoned lawyer with over 12 years experience. Her first few months on the job were a huge success and many of Paul's former clients have expressed their support for Suzanne, who is an acclaimed lawyer from one of the largest and most prestigious law firms in the city.

After Suzanne's hiring was finalized, Jack and Heather decided to call each significant client of Smith & Taylor, to introduce their new employee. After calling hundreds of clients (and people that were associated with Smith & Taylor), a follow-up email was sent communicating this personnel change. In their email, Jack and Heather highlighted Suzanne's many accomplishments and how they had long been impressed with her work. They also expressed their excitement that someone with so much experience and such a positive reputation among the legal community was joining Smith & Taylor.

Several days after Suzanne was introduced to clients via email and on the company website, she made about 50 phone calls to major clients to introduce herself. Jack had briefed her beforehand on the significant facts about each client. This was done to ensure these introductory calls would communicate that Suzanne was aware of the client's unique circumstances and thus would help gain the client's confidence.

The transition strategy deployed to deal with Paul's departure resulted in no major clients following him when he left Smith & Taylor. Jack and Heather pride themselves in the overall outcome and believe that by displaying transparency about the situation, clients and colleagues came to understand its complexity and respected Jack and Heather for their professionalism. Jack and Heather still miss Paul to this day but understand that sometimes life throws you a curve ball and it's all about how you react to it that allows you to succeed.

Preventing More Departures

Smith & Taylor were very sad to see Paul go; Jack and Heather not only lost an employee, but also someone they considered "family." They wish him luck in his future endeavors and still wish that things could have been different. Smith & Taylor's senior management was surprised by the loss of such a valued employee, but Jack and Heather have made some changes to the firm's culture and HR practices to ensure what

happened to Paul does not happen with any other essential non-family employees. Below, are the new practices that Smith & Taylor now utilize:

1. On the last Friday of every month, Jack meets with each Associate and Partner for ten minutes to talk one-on-one about work and non-work subjects. This helps them understand he cares about their professional input and development as well as their work-family balance. In the privacy of the one-on-one meeting, it is believed that the Associates and Partners may be more inclined to answer questions such as:

- What's working well for you?
- What's troubling you?
- Are there changes we should be considering to make our team and you more productive?
- Are you happy with your job – what would make it better?

2. Jack and Heather have a monthly meeting with each Associate and Partner about their progress towards their yearly career goals.
3. Heather is organizing monthly off-site social lunches and dinners with individual Associates and Partners to encourage stronger personal relationships, where spouses/partners are invited, as applicable. Additionally, Jack is scheduling lunch with one Associate or Partner per week to achieve the same outcome. The aim is to create an inclusive culture where everyone feels like an important part of the team and realizes how much Jack and Heather appreciate their contributions to Smith & Taylor.
4. A detailed succession plan is now in place and has been shared with all employees. Stephanie is required to spend six months working in each of the four core areas of the business before she can be offered a permanent job. Once she is employed at Smith & Taylor, she will need to abide by the same criteria for promotion to Partner as other employees.