

# *The Madigan Family: 1922 -2013*

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## **Introduction**

Imagine that you are a white water river outfitter and guide. You are guiding your extended family on a white water trip and each nuclear family is rowing a boat of their own. Now imagine that there is a rapid somewhere down stream that has only been successfully navigated by 30% of the parties who have ever run the river. Your family is depending on you, or a guide you have chosen to get you all safely through it, or to get everyone off the river before you get to this dangerous rapid.

The problem is that you are not sure where the rapid is, or whether you will have time to scout it before you are already in it. In a family businesses **Succession** is the name of that big rapid. The family in this case study has run this rapid and lived to tell the tale three times, but they have had casualties.

## **Four Generations of Family Business Evolution**

This case study is a history of the Madigan family and the company they have grown for 91 years--from 1922 - 2013. As with all family businesses that survive beyond the first generation, the Madigan's story is an interaction of family dynamics, management requirements, and ownership issues. Their saga covers four generations of the family and several stages of the business from its creation after WWI into the second decade of the 21st century. By the transition of ownership to the fourth generation in the new century the family had divested itself of all ownership in the original company and had formed a family office to manage the collective investments of the family.

While it is a long and complicated saga, our focus will be on four pivotal scenes that mark transition points in the history of both the family and the business. These scenes are:

**Scene I. First Attempt: Two Generations Working Together**

**Scene II. Mother's Choice: Overcoming Crisis**

**Scene III. Revolution: Impatience in the Third Generation**

## **Scene IV. A New Century: Creating a Dynasty**

## **Early History**

### **Founding**

The founder of this company and family patriarch, Alex Madigan (b. 1893), was the only surviving child of English immigrant parents who had become farmers in the Midwest by the late 1800s. Alex's paternal grandfather had been a blacksmith in England and his father had learned the trade before emigrating to the US. As a result Alex grew up learning his grandfather's and father's trade in the shop on his father's farm. As a teenager Alex showed considerable aptitude for metal work and was able to earn extra income by taking on tool making and equipment repair projects for neighboring farmers.

He continued to learn about metallurgy in the Navy during W.W.I. Upon discharge moved back to the Midwest to work in a manufacturing shop in a town near his family's farm. He married Sarah, his childhood sweetheart, and within a year, they had the first of their three children, Frank, followed within a year by Robert, and two years later, their only daughter, Joyce.

After both his parents died, he used the money from the sale of the farm to open his own shop where he specialized in making metal trailers for farms and local meat packing plants.

### **Family History**

As with many business founders, the focus of Alex's life was his business. He was very good at his work, a good provider, and tried to spend time with his kids when they were young. But their childhood was gone before he knew it. All three children were born within five years of the founding of the business so his wife Sarah did the majority of their rearing. This lack of time for the kids was most difficult on Frank, the oldest, who was often in conflict with his father. The boys and Alex did not have a harmonious relationship. Alex would occasionally play with them, but was not very involved in their lives. Frank and Robert were constantly fighting each other, and to get his limited attention. Robert was only one year younger than Frank and learned a lot about what not to do from what he saw happen to his brother. Consequently, Robert became a favored son, but never felt fully recognized for his contributions.

As Joyce grew up she began to follow in her mother's footsteps and tried to make peace between the men in her family, but she and Robert always had the closest relationship. Alex's easiest relationship was with his daughter, Joyce, who was the youngest. She was first family member to go to college, and later she became an elementary school teacher and eventually a principal. She married John, who impressed the family because he had been to college and even earned an MBA. He worked for a large company in the city, and quickly advanced up the corporate ladder.

Alex always intended for his sons to join him, even if it was never formally discussed. So Sarah was glad when both of her sons went to work for their dad because she hoped working together could reclaim some of the "water under the bridge." She was saddened to see the arguments Alex and Frank would get into about the business. On several occasions she talked

Frank out of quitting. She often wished that Frank could “bite his tongue” the way Robert could. Throughout all of this Robert remained “the quiet one” in the family and at work, going about his duties with dedication, if not a lot of energy or creativity.

### **The Growing Business**

The combination of Alex’s skill, his native business sense, and luck made Madigan Manufacturing into a thriving business. By the 1940s he made larger trailers for trucking. Over the next two decades, the company became a leading producer of large metal containers for the shipping industry.

By the late 50s Alex had grown the business from a small one-man shop into a company with 620 employees. The major products were industrial trailers, metal storage systems, and prefabricated metal buildings. The metal building product line had begun through a government contract during the Korean War, and had been the major factor in the growth of the company since then.

Alex’s sons Frank and Robert had grown up in the business and, except for military service, they had never worked anywhere other than Madigan Manufacturing. Frank was Plant Manager, in charge of the metal shelving plant, and Robert had the title of VP for Sales and Marketing.

The key non-family member, Hugh Waller, was VP of Operations. He had started with the company as an estimator, but his gregariousness and technical skill was soon obvious to everyone. Within a few years, he handled everything having to do with manufacturing, and Alex, who was in charge of sales and finance, looked to him for everything. He was about ten years older than Alex’s oldest son Frank. He had been the person who got the company in the metal building business and Alex was often heard to say that Hugh had made him a rich man. Both of Alex’s sons relied on Hugh, but also saw him as a potential roadblock to their advancement. Alex felt indebted to Hugh for where the company was, and gave him a huge salary, substantially more than Frank or Robert. This was a source of some bad feelings, but neither of them would ever admit it or talk about it, except with their wives.

### **Family Business Dynamics**

The family dynamics greatly influenced the business. Frank and Robert had periodic confrontations, with long periods where they ignored each other. It was left for Alex and Hugh to handle communication between them on issues affecting the business. Alex had good relations with Robert, who was quiet and looked up to him, and confrontations with Frank, who was more expressive of his feelings, and who had many new and different ideas about where the business should go. While Frank nominally worked for Hugh, he had arranged to run his plant pretty autonomously, while Hugh ran the rest of the operations. It was as each brother had their own organizations. When things got particularly bad between the boys, or between Alex and Frank, Sarah would sometimes try to bring them together.

These relationships made it difficult for the company to get together on any new policies, products or innovations. The tension tended to maintain the status quo. Since the company was profitable, and each of the key men was doing very well, why change things?

However, in the last few years, that product line had begun losing money. Frank was adamant that they needed to get out of some lines of business while Alex was just as adamant that the market would improve. Hugh tended to be neutral, or favor Alex' view that the status quo was best. People just needed to be watched and pushed to do better, was his philosophy of management.

Each son had visions of succeeding Alex, and saw Hugh as part of Alex' generation who would step aside in one of their favors. They gave no thought to working together, or what they would do without Hugh and Alex. Their single ambition was to run the company. However, this was something that was understood, but not talked about. Neither of them was about to bring up the subject of succession with Alex, unless he initiated it.

## **Scene I.**

### **First Attempt: Two Generations Working Together**

**Year:** 1958

**Setting:** A birthday party for Alex on his 65th birthday.

**People present:** Alex and his wife Sarah (age 65).  
Frank (age 39), oldest son, and his wife, Virginia.  
Robert (age 38), middle son, and his wife, Ellen.  
Joyce (age 36), youngest daughter, and her husband John.

#### **Scenario**

Near the end of the party Alex announces that he has something to talk about. Everyone is on edge because Alex has that tone of voice he uses whenever he has had a lot to drink. He begins, “Now Frank and Robert, you boys have been working at the plant since you were teenagers and it is time to start thinking about who is going to run the show after I am gone. We have about 600 families in this town who depend on the salaries we pay. Which one of you thinks you have what it takes to run this show?”

You could cut the tension in the room with a knife since everyone senses that the family is on the edge of a very destructive conflict. The whole family knows that both Frank and Robert are waiting for their chance to become the next leader. Frank is the oldest so he could be the first choice, but he and his father are prone to bitter arguments so everyone wonders if Robert will be the choice. The way the question has been raised it feels like Alex is going to make his sons fight for leadership. He doesn’t express any preferences, but stands back and waits to see the effect of his remark.

The awkward silence is broken when Joyce whose husband is CFO of a large food company in a nearby city, speaks. “You know Dad, John has recently talked to you about the way they got a new president down at the meat packing plant and the problems they have had since then. I think it is important to point out that both Frank and Robert have really made a lot of contributions to your company and that there is an important place for both of them in the future of the company. Frank, Robert, how do you guys feel about what Dad is asking?”

Alex leans forward in his chair, clearly upset, with a very red face. He looks directly at Joyce and says, “Joyce, I don’t think I asked you for your damned opinion. If you think you are going to weasel your way into getting your husband into running this company just because he can keep a fancy set of books, you have another think coming to you! If your brothers can’t speak up for themselves they don’t have any business running my company! And if they don’t have what it takes, by God, I will find someone who does.”

Just then some of the grand children raise a fuss outside and everyone but Alex gets up to see what is going on. The family uses this as an excuse to make a hasty exit and the issues of succession aren't discussed again.

### **Questions for Discussion**

- How do the family patterns and dynamics limit what the family does, and what they see as the possibilities?
- How are the roles and responsibilities unclear, in terms of creating an effective structure for development of the business?
  - What needs to change?
  - How could you approach these issues?
  - How would you bring up these issues?
  - With whom?
- Suppose that you were Alex's most trusted business advisor. About a week after the birthday party, Alex's wife comes to your office and tells you in private about what happened at the party. She thinks you may be the only person who can influence Alex. You want to help Alex and continue to advise whoever his successor may be.
  - What would you say to Sarah after you heard her story?
  - What would you do to help your most important client plan for and implement the succession process?
  - What would be the most uncomfortable part of this challenge for you?
- If you were called upon by either Robert or Frank after this event, how would you advise them? What would you do?
- What predictions can you make about the future of this family and its family business?
- As an advisor, how do you believe you can influence the outcome?
- If you were only able to draw from events or stories in your own family of origin for wisdom to help this family, what would your family legacy have to say to you?
  - How do you see Alex's family legacy affecting his behavior?
  - How could you help him expand the possible responses?

## **Scene II.**

### **Mother's Choice: Overcoming Crisis**

#### **Tragedy**

In 1961, at age 68, Alex was killed in an auto accident. His wife Sarah and their three children Frank, Robert and Joyce survived him. This sudden death created turmoil and wrenching changes in the family, as well in the management and ownership of the business:

**Year:** 1961, two weeks after Alex's sudden and untimely death

**Setting:** Alex and Sarah's home.

**People Present:** Sarah, Frank, Robert and Joyce.

#### **Scenario**

The only estate planning Alex had done was a will, that he had not discussed with anyone in the family. In it he gave 90% of the company stock to his wife Sarah, and 10% to his most valued executive, Hugh Waller, now 52. There was also a note to Sarah attached to the will. It strongly urged that she appoint Hugh president of the company in the event of Alex's death, since he thought neither of their sons could be willing to work for the other over the long haul.

Sarah read the will with only her children present. She was very concerned about how her sons would react to the note suggesting Hugh's promotion. She asked Joyce to come to meet with her early to talk about what she should do about the boys, and about Hugh, in hopes that Joyce would help to "keep the peace."

All three children, while shocked and somewhat numb, had obviously been wondering what would happen to ownership and management of the company. They only learned a few days before when their mother called the meeting that Alex had actually left a will.

She read the will and Alex's note to her children. While she had expected a lot of anger, she was still shocked by what Frank had to say to her. He felt his mother would be betraying him if she made Hugh CEO. He said that he had only tolerated his father's arrogance and unfairness because she had asked him to, and now she was still doing exactly as he told her to do. He told her that if she went through with her plans, he would be out of her life and that she would never see his children again as long as they were under his control. All of his years of rage at his father became focused on his mother and he said horrible things to her.

While Robert didn't say anything it was clear that he was also furious. But he had always hid his feelings. When his brother stormed out of the house saying he was finished with his family, Robert sat quietly for a few minutes. Then he told his mother he would have to consider his plans given her intentions, and he too left her house.

## **Questions for Discussion**

- Why is this announcement so volatile for the family?  
What is at stake for each person?
  
- Still assuming you had been Alex's advisor:
  - Who is your client, now that Alex is gone?
  - What would be your counsel to Sarah regarding succession if she consulted with you before her meeting with her children?
  - What would be your counsel to Sarah regarding succession if she consulted with you after her meeting with her children?
  
- In either case how would advice from a traditional accounting perspective differ from that of an account specializing in family business issues?
  
- Would your advice be different if you were the new accountant brought in by the new Hugh Waller after he was appointed acting CEO?
  
- Which appears to come first, the family or the business?
  - From whose perspective? Why?
  
- How do you decide what is best for the business?
  - How does your judgment affect the family members?
  - How is that important in your advice?
  
- How could you have set up the meeting so that the outcome might be different?

## **Second Generation--Conflict and Estrangement:** **The Fallout of Inadequate Succession**

### **Effects of the Crisis**

Sarah had always been upset to see her sons Frank and Robert lock horns. She remembered vividly that was what Frank had done with his father. She didn't want to have to choose between them, and in fact, she didn't see either one of them having the capability to lead the company. She couldn't imagine them working together, or being a team. Both brothers felt they were best suited to lead the company but since their mother now owned 90% of the stock, the decision regarding succession was up to her. Unable to choose between her sons and lacking any business experience she felt immobilized. Finally, after another conversation with Joyce, Sarah went ahead and promoted Hugh Waller, who had been the VP of marketing, into the position of "acting CEO." She expected this to be only transitional, until she was able to think things out, and get Frank and Robert to change their attitudes. But she still wasn't sure what she wanted for the business.

**Management.** Frank was so upset over this decision that he left the company and went to work for a competitor. Robert almost did the same but Joyce persuaded him to stay on. He soon settled into his subordinate relationship with Hugh, who became permanent CEO.

**Family.** Robert, married, with four sons, was comfortable with Hugh's succession, having acknowledged he was not a leader. He remained quiet and somewhat distant, both at work and from his family. He was a loner, who enjoyed solitary hobbies.

Frank broke off all ties with the family hurting his mother greatly. That rift in the family was never healed.

**Ownership.** Sarah began gifting her stock to Robert and Joyce immediately and selling additional shares to Robert. When she died in 1973, Robert owned 60% of the shares, Joyce 30%, and Hugh Waller owned the remaining 10%.

Frank, who had hardly seen his mother since he left the business, was left \$10,000 dollars in cash.

Joyce, with advice from her husband, took her ownership seriously, but decided not to be an active shareholder. While she was on the Board, she felt she had an obligation to support her brother. Her husband stopped asking what was happening in the company, as he became a leader in his own company.

## **A Third Generation Enters The Business**

### **Family Development**

Robert married Ellen, who became a dutiful, traditional wife. They had six children. Ellen came from a lower middle class family. She had lots of rules about what to do, and, wanting a large family, put her “duties” above having fun. While they could have afforded help at home, she felt more comfortable doing the work herself, feeling that was what was expected of her. Since Robert worked long hours, she felt somewhat lonely, but enjoyed raising first four active, energetic and always challenging boys. After having four boys, she was further delighted to have the first of two daughters, to complete her family.

In 1973, when Robert turned 50, his sons ages were Ed, 30; Jerry, 29; Pete, 27 and Hank was 24. Their sisters, Grace and Nancy, were 26 and 20 respectively. As it turned out, Robert was a father in the way Alex had been, a good provider but distant. All of Robert’s four sons worked in the business from the time they graduated college. Robert was vocal about encouraging all of his sons to work elsewhere if they wanted to, only one of them, Pete, did because working in the company was the only way to be close to their father.

Pete was affectionately known as the black sheep of the family, because he tended to confront and question his father about how the family did things. He worked in the company for about 5 years after college but left because he felt there was no room for his ideas.

None of the women in the family had ever worked for any length of time in the company, and the expected role for the women was a very traditional one. Both daughters were comfortable in this role, as were Jerry and Hank’s wives. However, Ed and Pete’s wives grew out of these roles as they matured, and they actively resisted their own daughters’ indoctrination into the family’s traditional expectations for women. The tension over these gender issues grew, but usually stayed beneath the surface. When they did come out it was typically in the form of a debate between Robert, and either Ed’s wife Donna, or Pete’s wife, Betty.

A major factor in this generation of the Madigan family was the fact that Ed was a “second string parent” to his siblings. This began in early childhood when his father, Robert, worked long hours, and Ellen was left to care for six very active kids. Donna was quick to point out to Ed that he had sacrificed his childhood to the needs of his siblings, because his father was never around. And her unhappiness grew over the years as she came to believe that Ed was still doing it. She voiced the opinion that he was sacrificing his relationship with his wife and kids with the long hours he put in running the company. She saw this pattern with Robert and Ellen, and had heard the same was true with Alex and Sarah. She, however, was not satisfied with this situation. Her belief was that Ed was a pawn of his father’s quiet need to control the family by making his sons dependent on the business. As time went on, she felt smothered by this.

## **Management Issues**

In 1970 Madigan Manufacturing entered the containerized freight business and after a slow first few years their profits began to soar. The company was still led by the now venerable Hugh Waller, who was about to turn 60, and now carried all the authority of Alex, even though his business acumen and personality were less impressive. Robert's sons Ed and Jerry were in management positions. Ed had studied engineering, and was Director of Engineering and Development. Jerry, like his father, was low-key and ran one of the plants. Hank was coming along as a marketing manager.

Ed, the oldest, and most competent, was sure, however, that none of his brothers would be similar positions in any other company. He felt that the success of the company had been based first on his father's genius, and Hugh Waller's organized competence, and now on his own technical capability and good relations with employees.

Much of that hard work focused on putting out personnel brush fires left by Hugh Waller. While Hugh was masterful with customers, he was a tyrant with employees. He didn't tolerate disagreement, and ran the company like the military. As times changed, Hugh did not. While the company paid well, there was no room for anything but lockstep conformity. Robert was quiet, and seemed largely unaware of growing dissatisfaction.

Ed, however, was a great peacemaker and highly respected by the employees. Ed began when metal shops were a place for skilled laborers, but the industry was so technical now that they had a totally different kind of employee, and they were increasingly hard to find. Personnel issues came to a head in the early 80s, when 30 employees, some with over 15 years in the company left over a conflict with Hugh. They didn't feel the company was willing to utilize their skills, and despite what it paid, it wasn't enough for the pressure they were under.

In 1987 Hugh Waller, now in his 70s, announced that he would be retiring. It seemed likely that Ed would succeed him. But Ed was not satisfied with the company, and what it was doing to him. He wasn't sure that he wanted to take this on. But, as things had been done in his family for three generations now, he didn't feel free to confide either in his father, or to say too much to his brothers. He felt his feelings would not be seen as justified and he would be seen as disloyal to the family. Planning, except in a narrow sense of technical, product and market projections, continued to be largely neglected.

Soon after Hugh's announcement, Ed went into a deep depression that ultimately required medication. Under prodding from his wife, he began to consider taking a leave of absence from the company. In therapy Ed came to believe that the depression was aggravated by the constant need he felt to choose between the needs of his wife and kids, and those of his father and brothers. Ed knew that his father was a "benevolent dictator" but didn't see his father or his family being as sinister and "dysfunctional" as he wife adamantly believed them to be. Meanwhile, Ed's family was very concerned about him.

Ed's marriage was increasingly threatened by his responsibility to the company. In September of 1987 Donna asked for a trial separation. This was such a shock to Ed that he promised to leave the company to save his marriage. Ed then called a meeting of his father, his siblings, their spouses, and his Aunt Joyce.

### **Ed's Announcement; Sept., 1987**

Ed, Robert, and the three younger brothers meet monthly to discuss management issues. Ed decided to use this meeting to announce that, based on this psychiatrist's recommendation, he wants to take a one-year sabbatical from his work in the company.

Ed begins by saying, "I have something I need for all of you to know. As you already know I have been battling with this depression for sometime. The medication I have been on has only been marginally successful, and my wife has had about all of my depression that she can take. I need to focus on salvaging my marriage, and I need to ask for a leave of absence for a year to see if I can pull myself together."

Ed's younger brother Pete says, "Ed, we need to give you whatever you need to get well. We have all depended on you a lot, probably too much in the last few years. But what if you don't get better? What do you think we should do then?"

"Well," Ed said, "I have thought about that, and I think we need to find someone from outside the family to run the company after Hugh leaves. Actually, I think we should bring them on before he leaves. I am sure Hugh will be fine with being phased out."

"As far as I'm concerned there is no reason to look outside the family." Robert interrupted. "I think with some time Jerry will be a fine President for this company"

Ed was speechless. Jerry was by no means ready to be considered for leadership. In fact, he had very little confidence in Jerry's ever becoming a leader. Pete was a wild card, but he wasn't near ready. But Ed knows that even though his father owns very little stock in company anymore, none of his siblings will go against their father's wishes. The meeting ends and he does not press the issue further.

### **Ownership Issues**

By 1987 Robert had transferred almost all of his stock to his children and their spouses giving 10% of the company stock to each couple. But the family stockholders still treated him like the sole owner of the company. Neither Robert's sister Joyce, who owned 29%, nor his children, who controlled 60%, would ever defy Robert's wishes.

The Board was made up of Robert, Joyce, Ed, and two family advisors. It had formal meetings, but no discussion of issues or the direction of the company. The meetings were dominated by discussion of sales figures, which were uniformly positive, and the expectations that things would continue to prosper. There was an annual distribution that was enjoyed by the shareholders, and

the family executives were all very well paid. The company was fat and happy, and there was little thought of the future.

While Ed took his leave of absence, he continued to talk to Robert about the need for outside leadership for the company. It took six months of hard meetings with his father before he acquiesced. But he only agreed to picking an outsider who would be around for three years, and whose job it was to groom brother Jerry to be the next CEO. Ed and his brothers thought that this would mean the end of the company because Jerry's had never had more than a mid-level management position in the company, and had a traditional management style very much like that of Hugh Waller.

Ed had heard of two companies that specialized in executive placement in family businesses and proposed that they look into these companies. Robert, however, suggested a former employee of his father's who was near retirement, knew the industry well, and would relish finishing his career with an assignment like he would have at Madigan. Everyone but Ed thought that this would be a great choice.

### **Scene III.**

#### **Revolution: Impatience in the Third Generation**

**Year:** 1989  
**Setting:** Board Meeting  
**People Present:** Robert (age 69), Joyce (age 65), and his sons, Ed (46), Jerry (45), Pete (43), and Hank (40).

#### **Scenario**

During this transition period, Robert asked Pete, Jerry and Hank join the Board of Directors in preparation for Hugh's retirement. At their second board meeting, Robert and Ed brought up the question of the outside CEO once again.

Robert outlined his choice. When Ed raised the issue of the new CEO answering to a board composed of family members who he also supervised, Robert commented that they weren't looking for someone to "give the company away to."

Ed finally exploded. He told the members of the Board, who were also his family, everything that was on his mind, including his total lack of confidence in his younger brother, and his strong belief that the company would fail without a non-family CEO who was more than a figurehead. He voiced his lack of confidence in Jerry's commitment or ability, and he questioned whether either Pete or Hank would develop the capability to run the still growing business. He wanted the business to be a legacy for his children, and, if it wasn't managed effectively, he doubted that would come to pass.

He also told them that he felt that the way their family worked neither he nor his siblings had permission to be adults until their father dies. When he was finished his aunt Joyce spoke to the family. She had talked many times to her nephews about how the business was going, and she realized that it was time for a major change. She had come to feel that they needed to exercise their responsibility as owners to make the best decision for the company, even if it would make things difficult for family members. She said her brother was controlling everyone out of habit and that the whole company was in danger unless they began to act like adults. She noted that he had transferred all of the real authority in the business to his sons and Hugh, and that his role was largely symbolic.

Ed then made a motion to remove Robert from the board, and Joyce joined Ed to vote a majority of the stock in favor of the motion. They then authorized Ed to engage an executive search firm to find a replacement for him as CEO. Robert was stunned, and he left the room.

## **Questions for Discussion**

- What do you think the consequences of this action will be on the family, and the business?
- As a business advisor, what would you suggest was needed in the business at this time?
- What do you think the family advisors, who were also members of the Board, were saying to Robert about the company's future?
- How could they have raised the issues earlier?
- Assuming that you are a primary advisor to the company, what would be your counsel to Ed about finding someone to take over leadership of the company?
- What if Robert and his sons ask you collectively for your advice?
- If Ed approached you about creating an advisory committee to deal with leadership succession, what kind of members would you suggest?
- What would be your approach if Ed had consulted with you previously about his plans, but you got a call from Robert to find out the best way to groom Jerry for leadership?

## **Scene IV.**

### **A New Century: Creating a Dynasty**

#### **Aftermath--Management Transition**

By April of 1990 Jerry had resigned from the company and taken a job his father arranged for him elsewhere. Ed returned to the company the next year, but at a reduced level of responsibility since the new Board of Directors had found a replacement for him.

The new CEO was a good leader from a larger company, who had his own vision for the company, and a network of contacts that greatly expanded the business. He was compensated with incentives that gave him substantial rewards as the company grew and thrived.

#### **Family Issues**

Robert and his wife Ellen put their house up for sale and moved to Arizona where they laid low for about nine months, but slowly, after several visits from Joyce, they began inviting their grandkids down to visit.

Robert's initial feelings of betrayal by his son Ed and the others that voted him off the board faded with time. After his brother Frank had a heart attack, he was shaken by what the business ventures had done to his relationship with his brother many years ago. He was able to make peace with his brother before his brother's death and resolved not to let past business issues come between his children and him.

But his second son, Jerry, was not able to put the past behind him. The consequences of rebellion of the family against Robert lead to a permanent estrangement between Jerry and the rest of his family, especially with his older brother Ed. Robert was pained to see that his relationship with his own brother, Frank, had been recreated between his first and second sons. Jerry never worked in the family company again, and rarely came to family gatherings.

Jerry was jealous of the success of the outside CEO because he always thought he should have had a chance to lead the company. When Jerry's brother Hank left management because he could not fit into the new organizational culture created by the new CEO, he began to be more sympathetic to his estranged brother Jerry. However, most of the next generation was supportive of both the CEO and their uncle, Ed who was chairman of the Board of Directors.

### **The Family Council**

In 1994 Ed and his aunt, Joyce, and their spouses, felt the need to bring the family together, and felt that the business was becoming more and more divisive for the family. While they enjoyed the benefits that their wealth brought to everyone, the negative feelings were a source of pain to them. Ed had pulled his marriage together, and was close to his children, and Joyce and her husband had a close family as well.

They decided to form a Family Council to deal with family and business matters outside of the board, and educate themselves and train their children to become stewards of the wealth for which they would someday be responsible. They invited Robert and Ellen to join the meetings, and Ed even reached out to Jerry. At first Robert was reluctant, but his sister, Joyce was excited about the idea, and convinced him to attend. Ultimately, Robert and Sarah also came north to attend the annual gatherings.

Jerry came to the Family Council meetings but his presence and contributions were typically disruptive, and seemed designed to undermine the new leadership in the family. He seemed to be on the lookout for disagreement between other family members that he might use for his own purposes. On several occasions he had been successful in amplifying discord, but generally family members avoided interactions with Jerry as much as possible and his isolation made him even more resentful. But in spite of Jerry's behavior, his son and daughter were well liked by their cousins.

### **Management Issues**

Outside leadership of the company came about with the passing of Robert's era of control. Ed, Pete and Hank and their first cousin, Joyce's daughter Alice, stayed in the company but by 2002 only Alice and Ed remained. Ed was the only family member on the executive team. Kevin Wilson, the CEO they hired, was familiar with the difficulties that could arise in a family business. He only agreed to take the job if there were no more than two family members on the Board of Directors, and at least 4 non-family board members. Ed and Alice were the two family members who remained on the Board.

Kevin, the new CEO eventually brought some rather startling innovations in management and Hank could not tolerate the new atmosphere in the company. He left about the same time because he felt he had less and less authority in management decisions. But if he were unhappy as an old guard manager, he could not complain as an owner because the company entered a period of unprecedented growth as part of a boom in economic activity in India and China.

The family's investments by this time had become a complicated portfolio of holdings that ranged from commercial real estate, manufacturing, a trust company, and a construction company. Ed became President of the Trust company and was chairman of the board of Alex Madigan Enterprises, the holding company for all of the Madigan family companies.

## **The Owners Group**

In the founding generation there had been one owner, Alex. In the second generation there were two owners, Robert and Joyce. In the third there were --Robert's 6 children, and Joyce's 2. Joyce began gifting her stock to her daughters, and one of them, Alice, left her job as Director of Personnel at a larger company to join the family business. Robert's children all shared ownership equally.

In the fourth generation there were 17 owners, with various plans to transfer further ownership to that generation in process. In the fifth generation there will be as many as 25 owners. The business has continued to grow, and the owners began to be separate, and have different concerns, perspectives and experiences from the managers of the business.

Conflicts between owners had caused divisions in the family in every generation. In the first decade of the 21st Century tensions developed that crossed generational lines. Pete and Hank were increasingly uncomfortable in the kinds of businesses the company was investing in and they pressured to stay in sectors that they knew, and could personally understand.

But a significant number of the fourth generation were interested in an increased focus on international investments, and high tech communications. These younger family members were constantly pressuring to divest the company of some of its original holdings and enter new venture capital markets.

An offer by a Korean-based multinational company to buy Madigan Manufacturing and most of its subsidiaries led to a major conflict among two factions of the family. One faction took a position that the families businesses were institutions in their communities and in some cases the major employer. These family members believed that selling to foreign owners would betray their loyal employees, since the new owners would have no concern for the communities that the companies supported.

Eventually, the two disgruntled brothers, Jerry and Hank, focused their resentment on the family's initiative to create a philanthropic trust in memory of the patriarch and company founder Alex Madigan. They next generation wanted to focus the philanthropic efforts on early childhood education and programs that supported poor families with young children. The two uncles were opposed this direction, and complained that the family was becoming "bleeding heart liberals" who wanted to throw money into a bottomless pit.

The other faction felt the family's primary responsibilities were to the future generations of the family, and to continue funding the philanthropic initiatives for which the family was known and admired. They based their position on their financial advisors strong recommended that the family divest themselves of their original companies and position assets in different markets.

## Family Governance for a New Century

In 2002 the family further developed the structure and nature of the **Family Council**. They decided that family members who did not work in the company would lead the council. The Directors of the Family Council were given the task of overseeing the activities of the council, and setting policy for the family regarding their collective activities. The four main functions overseen were:

- The **Educational Activities Committee** funded college for the younger family members and sponsored collective educational resources for the family during annual retreats.
- A **Venture Capital Fund** for family members who wanted to start their own companies
- A **Board for the Madigan Foundation** that gave to the community, and
- A **Family Office** which had responsibility for the long term financial planning for the family assets.

Each of these groups was led by one of the Directors of the Family Council.

### Questions for Discussion

- How can an advisor help the Family Council to oversee the complex web of family and business involvements?
- What roles could the advisor take in this operation?
  - Should it be a limited role?
  - Would it be helpful for the advisor to take a broader role?
- Who is your client if you work with the Council?
- How will the Council be able to mediate the conflicts?
- Is the family too tied together?
  - Should they separate holdings?
- What are the key considerations that you, as advisor, should make the family aware of in their governance structure?