

Posted on Mon, Sep. 17, 2007

El Dorado: Lessons in running a family business

BY MONICA HATCHER

Seventeen years ago, the seven Capó brothers faced the tough task of deciding on a site for their company's expanded new headquarters. Choosing correctly was critical, since financing the expansion meant putting up nearly all the company's assets.

This strategic decision suddenly became a question of loyalty, however, when the brothers, all directors of El Dorado Furniture, found themselves dead opposed to the chief executive, who was adamant about building in an area then considered remote.

The problem: The CEO was also their father.

Beginning with founder Manuel Capó 40 years ago, more than 30 family members from three generations have built one of the country's Top 50 furniture stores, in part by knowing how to navigate the kinds of challenges unique to family businesses.

In the United States, more than 80 percent of all businesses are considered family firms, loosely defined as companies in which the family dynamic plays a significant role in management, ownership or identity. Or, as in El Dorado's case, all three.

These operations, which span the spectrum from generations-old Fortune 500 companies to mom-and-pop start-ups, are an intrinsic part of South Florida's economy, says Alan Carsrud, a professor of management at Florida International University.

"That's all this town is is family firms, even to the biggest firms in town," said Carsrud, also executive director of the university's Global Entrepreneurship Center. "I mean, just throw a brick."

His list includes some of the area's most notable names -- Bacardi, Century Homebuilders and Carnival.

Family firms, Carsrud said, must grapple with something their nonfamily counterparts do not, namely, the family baggage. It can weigh on everything from corporate governance to who can touch the petty cash drawer.

The central challenge in running a family business, Carsrud said, boils down to ensuring both family and business remain intact.

"You've got to figure out how you are going to make those two systems function collaboratively in a way that makes sense, because if the business collapses, then who is

going to support the family, and if the family collapses, who is going to take care of the business?" Carsrud said.

El Dorado Furniture offers an interesting case study, he said, of a family firm that for the most part has avoided the potholes that have disrupted others. Here are some of his lessons for how it should be done:

Make decisions objectively as a rule of thumb, dysfunctional families beget dysfunctional businesses, Carsrud said. In that respect, the Capós say they may have a leg up on the competition.

"It's hard for people to believe, but we really like each other. We really, really do. We go to lunch together every day," said Jesús Capó, 41, the sixth of the seven brothers and the company's chief information officer.

The brothers have learned to leave their disputes at work, Capó said.

Still, navigating sticky issues takes more than familial fondness. Putting too much stock in family relationships can get in the way of sound business practices, Carsrud warned.

In the long-ago showdown over the new headquarters site, the brothers ended up giving in to their father, guided by their long-held rule that family comes first. While that kind of thinking preserves family harmony, it can be dangerous.

Carsrud said the Capó brothers were saved by a particularly shrewd CEO.

"If you are running a family business -- and I would say this to the Capós -- you need outside board members who are non-family looking out for what's best for the business," and not a particular family member or faction, he said.

Capó agreed, but said he and his brothers, who range in age from the late 30s to the early 60s, each has developed a different area of expertise, bringing seven unique perspectives to the boardroom.

They pursue the same goal, but frequently, and, sometimes vociferously, differ on how to get there, creating a natural check and balance system, Capó said.

To add multi-generational and professional perspective, El Dorado also has an advisory board of 12 of Manuel Capó's grandchildren, many college grads, who meet weekly and report to the company's directors.

"We did some new commercials that are showing up on YouTube and people are downloading them," Capó said. "Half of my family would not understand that."

Don't play favorites keeping the business free from the dangers of too much familiarity starts with family members working their way up the El Dorado ladder.

"At the beginning, there was no other choice, but we have done it intentionally with grandchildren," Capó said.

The Capó brothers have worked almost all aspects of the business -- as salesmen, truck drivers and delivery men. They've cleaned bathrooms and opened new stores. The experience helps them manage and relate to employees throughout the company.

"We know what it is to take a giant wall unit up to the third floor, through a staircase to an elevator. We've been through that," Capó said.

Luis A. Capó, 35, whose father is President Luis Enrique Capó, said his first unofficial job as a 9-year-old was sniffing garbage cans when customers were still allowed to smoke in the store.

"One of my grandfather's greatest fears was that someone would throw a cigarette in the garbage can and a fire would break out in middle of the night," said Capó, the eldest grandchild.

Now the firm's print director, he said having ground-up experience also helps battle employee perceptions that family members get special treatment.

At El Dorado, family members get no free furniture, no extra vacation, and are expected to perform above and beyond regular employees.

If there's a perk, it's this: "Getting to have lunch with my grandfather," Capó said, laughing. "Sometimes he even pays."

Jesús Capó said he's had to fire and move family members out of certain positions. He makes new family employees start work under someone to whom they are not related. And, he asks that manager whether they're willing and interested in employing the family member. Again, Carsrud said, the Capó family is a model of how to do things right.

"If employees think the kids are being treated differently, you end up with some whopping problems in perceptions of justice," Carsrud said. Typically, he said, family firms either allow family members to get away with murder or expect them to go above and beyond, which can also be problematic.

Separate the family's wealth from the business.

Jesús Capó said family members don't borrow from the company or take advantage of their last name for personal gain. Apart from their salaries, each has savings and investments outside of El Dorado.

"I own shares in Disney," Capó said, "It doesn't mean I can go in and walk through the door and do what ever I want. I still have to pay the entrance fee and respect the rules of the park. It's the same for this business," he said.

Luis Capó said family members go the extra mile because ultimately the business belongs to them and will be theirs to run in the future.

Establish a succession plan this is one of the top reasons for family firms' demise, Carsrud said.

When principals die or retire, a firm can fold because there is simply no one left who knows what to do. Fewer than 40 percent of family firms recently surveyed said they were preparing for succession and had someone in mind to take over, said a recent study by Laird Norton Tyee, a private wealth management company in Seattle.

Carsrud said many companies fail to answer the questions of what direction they want the business to take, whether the next leaders have been identified and trained, and who is next in line.

The Capós meet with a consultant at least three times a year to discuss these issues and plan. But Carsrud said the dynamic of third-generation family members remains a question.

"When you get to the cousins, the bonding that you have with brothers, especially those who slaved away like the Capós, is very different. They all have different mothers and very different social and educational backgrounds, and they have different desires," Carsrud said.

Derek Capó, 24, whose father is El Dorado's chief operating officer, Pedro Capó, decided not to work for the family company and is now preparing for graduate school to study value investing. He, too, wonders whether the younger generation, his cousins, are willing to step into leadership roles, which, he believes, will require more preparation.

Seek professional help sometimes, hard decisions must be made about who is qualified to do what, Carsrud said. The business can outgrow the family's participation in some key functions, raising the issue of professionalization, he said.

'A lot of family firms will think something like `Oh, mother has to be the chief financial officer, because I trust her, because trust is the big thing in family businesses,' " Carsrud said. ``Well, what if she doesn't know how to manage a complex financial system? If you get to be very big, it takes a lot of talent to know how to maneuver around banks and lawyers and lenders and accountants. You've got a financial officer you can trust, but they don't know what the hell they are doing."

Jesús Capó said the family is considering all those things as it plans for the future.

"We realize that -- maybe down the line -- there will be people who don't want to have anything to do with it," Capó said, ``Maybe, down the road, the company might be managed and run by other people. The future is not necessarily all Capó."

For now, few things beat working for the family firm.

Capó said the brothers sometimes speculate what they would do if, for instance, they got an offer from Warren Buffett, who was, in fact, buying up retail furniture companies several years ago. Rumors were El Dorado would be next. "If we were to cash out," Capó said, ``we'd go and open another store as a family and do the same thing all over again."

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