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FFI Intelligence Matters
Strategies for Family Enterprise Success

FROM THE OUTSIDE, IN:

Leadership Dynamics of the Family Enterprise When the CEO is Not in the Family

A conversation with
John Huber, President & CEO
Radiator Specialty Company
Charlotte, NC

Moderated by
Paul Karofsky, Founder & Principal
Transition Consulting Group, Inc.
Palm Beach Gardens, FL

Intelligence Matters is a series published by the Family Firm Institute. It is designed to offer a compelling discussion on a critical topic of timely relevance for the family enterprise.

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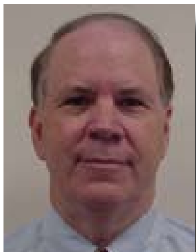


John Huber
President & CEO
Radiator Specialty Company

Member, FFI
Family Business
Advisory Committee

John Huber, *Guest Expert*

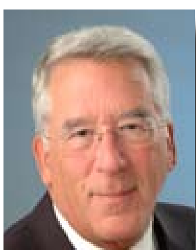
John Huber joined Radiator Specialty Company as President and CEO in August 2000. He is the first non-family member to hold the position of President in this second generation, family-owned business that was founded more than 85 years ago by Dick Blumenthal.

Prior to joining RSC, Mr. Huber spent 15 years with Wynn's International Inc., a $700 million publicly-traded company that is a world leader in rubber and plastic sealing technology — and a global manufacturer and marketer of automotive and industrial chemical products. He served as President until it was acquired by Parker Hannifin Corporation in July 2000.

Earlier in his career, Mr. Huber spent 16 years with Occidental Petroleum Corporation in many positions including Plant Engineer, Vice President/General Manager - Plastics, and Vice President and Assistant to the Vice-Chairman.

Mr. Huber's breadth of knowledge in corporate strategy and management, product development and engineering was gained from having joined Wynn's International and Occidental Petroleum as an engineer and working his way up through both organizations into general management positions.

A native of Pittsburgh, he holds a B.S. in Mechanical Engineering from Grove City College and completed the Program for Management Development and General Management (PMD) at Harvard Business School.



Paul Karofsky
Founder & Principal
Transition Consulting Group

Executive Director Emeritus
Northeastern University Center
for Family Business

Paul Karofsky, *Moderator*

Paul Karofsky consults internationally to families, businesses, and educational institutions. For many years he was third generation President and Chief Executive Officer of his family's wholesale distribution business. He has been president of his industry's regional and international trade associations, was a trustee of the National Association of Wholesale Distributors, served on the Governor's Entrepreneurial Advisory Committee and the partnership sub-committee for the Commonwealth of Massachusetts Department of Education, and is on the Board of Advisors of the Psychoanalytic Couple and Family Institute of New England.

Mr. Karofsky is a member of the Family Firm Institute board of directors. He holds a Certificate in Family Business Advising with Fellow Status from FFI, and has received the 1998 Barbara Hollander Award for outstanding contributions to the field of family business practice.

He is Executive Director Emeritus of Northeastern University's Center for Family Business in Boston, which he was instrumental in launching. He has served as a columnist for *BusinessWeek Online*, case study editor of *Nation's Business* and *Families in Business*, interview editor for *Family Business Review*, and a peer reviewer for Harvard University Press.

Mr. Karofsky received his A.B. from Bowdoin College, holds a certificate from Harvard Business School's OPM Program, and earned a Master's in Education from Harvard University with a focus on the psychosocial life of families.

About Radiator Specialty Company

Radiator Specialty Company (RSC) was founded in 1924 as a one-product company focused on the emerging automotive aftermarket. Since then it has grown into a modern, diversified manufacturer with a full line of more than 400 specialty automotive, heavy duty, plumbing, hardware, industrial, and export products under many highly-regarded brand names — including Solder Seal®, Gunk®, Liquid Wrench®, Engine Brite® and Puncture Seal™. In total, RSC produces more than 3,000 products covering lubricants, cleaners, degreasers and performance-enhancing additives as well as faucet and toilet repair parts and accessories, hoses and accessories, tie-down straps, and Douglas plumbing tools products.

In 1979 the company acquired CRP hose, followed by the establishment of a Truck and Heavy Duty Division in 1988, the acquisitions of Highway Safety Products of Napa, California, in 1995 and Omega Products of Bremen, Indiana — a major producer of home appliance hoses and electronic/flow assembly devices — in 1999.

Based in Charlotte, North Carolina, RSC is owned by three brothers, each of whom own a third of the business. It employs about 225 people with annual sales revenues between $110-115 million.

The company operates with six board members: the three brothers, CEO John Huber, and two outside members who are industry experts (one is a management consultant but does not consult to RSC; the other formerly ran a paper supply company).

Executive Summary

The challenges for a non-family member CEO in a family enterprise can be intense. In this interview with Paul Karofsky, John Huber, non-family member President and CEO of Radiator Specialty Company, discusses with candor how he addresses a full range of issues. Clearly an effective and respectful communicator, John has earned the trust of the Blumenthal family — a remarkable feat after 75 years of family control. This discussion highlights the opportunities that a non-family member key executive can offer the family and the business. As President and CEO, John manages change and growth, allowing family members to fill the positions best suited to their skills and the needs of the business. His ability to dilute emotion with data and performance-oriented skill sets earns him the respect of not only family members, but other key executives. Still, the family's strong value system is imbued within the corporate culture and helps sustain both day-to-day operations and longer term strategy. As John tells us, it's all about chemistry and the alignment of values and vision. But as we soon learn, the ultimate test of a non-family CEO in a family business is the ability to balance "the ambitions of the family with the needs of the business."

"...when you come into such a situation the first priority is to address the business by getting your feet on the ground, learning quickly, and putting a team in place to start improving the company. The family wanted to realize a new direction and understood the necessity for change."

***PK:** How did you come to consider an opportunity to sign up as an outside chief executive of family-owned Radiator Specialty Company?*

John Huber: My previous post had involved an acquisition in which I thought the new merged culture would not match with my business philosophy and style, so I decided to look elsewhere. RSC just happened to be recruiting at that time. They had retained a professional search firm, and I was one of the candidates who ended up being offered the opportunity to run the business.

***PK:** Were you recruited as President and CEO?*

John Huber: Yes, and that goes back to the history of the family. For many years RSC was managed by I.D. Blumenthal, who had started the company. After 50 years, he turned it over to his brother, Herman, who was about 20 years younger. And he ran it until I came in 2000. The family decided that they needed to retain a consulting firm to come in, assess the company, and make recommendations. That's when they agreed to bring in an outside President and CEO, add two outside Board members, and tackle several strategic issues.

The oldest brother was promoted to the position of Chairman and I became President and CEO. In the first six months to a year, it was a delicate transition with me coming in from the outside, as well as for the oldest brother who was releasing himself from most of his day-to-day activity to become Chairman. On the other hand, the other two brothers were supportive of this decision. They did not want to run the business, having other professional obligations and outside interests.

Coming in, I was informed of the process of how they came about to be interviewing an outside candidate and was comfortable with it. Nevertheless, when you come into such a situation the first priority is to address the business by getting your feet on the ground, learning quickly, and putting a team in place to start improving the company. The family wanted to realize a new direction and understood the necessity for change. Part of my charge was to guide the strategic direction of the business, with alternative solutions and recommendations for the Board to consider.

***PK:** Is it working?*

John Huber: After more than eight years here, absolutely. We've divested ourselves of a few businesses and added others. Like most businesses, it is a tough, competitive marketplace but we're doing much better. That gets to the core purpose of why the family wanted to bring in a senior executive with a skill set acquired in non-family enterprises; someone that was more data and performance oriented who could lead, communicate, and structure the business in a way that enabled the greatest potential for growth and sustainability as they intended it to be.

***PK:** Upon your arrival, how did the transition work with the existing employees?*

John Huber: They were happy to have someone come on board as the leadership dilemma the family had been facing, in terms of determining succession, had naturally created some factions within the company. I had to gain the respect of the people who reported to me, but also make some changes to my staff to ensure team cohesiveness, and work through a lot of dynamics. Then you always have the people who want to test you as to whether you are really running the company or is the family still running the company? And you have individuals who passively accept you until they find out what's going on and then pick their sides. Your leadership gets tested; however, in the end, you hopefully gain the respect of your people as a team that's working together.

Family Engagement and the Challenge of Succession Planning

“...the family decided that they wanted to assess the business and in that process of determining the company’s future strategic direction, it was recommended that they hire a CEO from the outside and also appoint two outside Board members.”

***PK:** How is the family’s involvement in Radiator Specialty Company structured?*

John Huber: Two brothers are associated with the company working full time; the other brother works part time. As previously mentioned the oldest brother is the Chairman and that is his full-time job. The youngest brother works part time and supports our HR department with training and personnel development projects. He is, by profession, a family psychologist. The middle brother runs the Blumenthal Foundation, which has been funded by the company for philanthropic investments.

***PK:** What criteria were used to select the non-family Board members?*

John Huber: They were invited to join based on their knowledge and expertise, an approach that goes back about ten years ago when RSC did not have outside Board members. At the time, the family decided that they wanted to assess the business and in that process of determining the company’s future strategic direction, it was recommended that they hire a CEO from the outside and also appoint two outside Board members.

***PK:** With an even number of Board members, is that a challenge when there’s a split vote?*

John Huber: We haven’t had that happen.

***PK:** What if it were to happen in the future?*

John Huber: The owners would obviously have the deciding vote, requiring a majority two of the three. If the Board was split 50/50, two-thirds of the owners would make the call.

***PK:** Has there been any formal grooming of younger generation family members? There’s quite a large age range and number of children…*

John Huber: We meet with the brothers’ children — seven of them, ranging in age from about 16 to 35 — twice a year to discuss the business; what’s happening now, where’s it going, what are the key strategic initiatives, and in general how does it all work. We’ll cover marketing or sales, then accounting and finance. But the children, at this point in time, have not expressed interest in joining the company, therefore there isn’t an established criterion in place for family members entering or exiting the business. It always depends on individual family experience and each child. The two oldest are women and they decided to pursue non-profit opportunities, preferring to not be a part of a for-profit organization.

In terms of overall succession transitioning, I have discussed openly with the Board my interest and intention to remain here. At one point, after about five years, they were very concerned about whether they should begin looking for another candidate. We put a succession plan in place that includes two or more candidates who I feel could take over my position, within a short period of time, if that was something the family wanted to do.

"They understood that bringing in someone from the outside to run the company... had the potential to strain family relationships and interactions. By utilizing an intermediary, an outside consultant who was local and specialized in family businesses, a fair and impartial assessment of the company could be achieved..."

***PK:** From an ownership standpoint, you note that the family expects to continue, though ownership will be dispersed among a greater number of family members as the next generation gets involved. How will that re-shape the leadership?*

John Huber: The family and I meet at least once if not twice a year to discuss strategy and succession planning. I prepare a planning document and present it to the family and the Board. We compare notes on candidates I've identified as having the right set of capabilities… professional, personal characteristics. Then we work together to provide an opportunity for those individuals to be in a role where the family may better evaluate their potential, such as through specific job assignments and varying responsibilities.

The Company CEO as De-facto CEO of the Family… Inevitable?

***PK:** Often the CEO of a family business becomes the de-facto CEO of the family - even if there isn't a generational difference. Do you find this to be the case? Does the family defer to you for family issues or concerns?*

John Huber: Not very often. First and foremost my responsibility is to run the business, report to the owners, and ensure that they are fully informed about all that is transpiring. Our relationship is very open and candid. As far as working with the personal issues that may play into the organization's dynamics, about 12 years ago the family hired a consultant who works with family businesses on these matters. I give the mother and father credit for this. They foresaw that averting problems was smart and they wanted to be sure that their three children didn't have huge conflicts that posed problems for themselves, their families, and the company. This consultant still meets with the three sons every other month. They discuss the business, their investments, and any issues they may have with one another. I participate in part of those meetings, generally to discuss business matters — profitability, cash flow, etc.

***PK:** Is it critical that companies engage a consulting firm to mediate the succession process when the family has expressed interest in considering a candidate from the outside?*

John Huber: In RSC's context, it was a good move by the family because they were interested in holding the family together. They understood that bringing in someone from the outside to run the company — when the oldest son, who was in his early 50s at the time, was heading up things — had the potential to strain family relationships and interactions. By utilizing an intermediary, an outside consultant who was local and specialized in family businesses, a fair and impartial assessment of the company could be achieved, making clear the best option for going forward. It enabled the family to transition from where they were to where they wanted to be with the older brother contributing as Chairman.

The family had a strong inclination that they were going to seek outside leadership before the consultant was brought in and that the consultation would likely support such an outcome. But they were also keen on acquiring an independent strategic assessment of the business. Since RSC never had a strategic plan, after I had been here for a year or more, we brought the assessment consultant back in to help us develop that plan.

"Since we all reach into the same cookie jar when we need money, it's critical that we are in sync, and we discuss these things very openly."

***PK:** John, how are you rewarded: On a phantom stock basis or another incentive program?*

John Huber: I have an annual bonus plan and also a long-term incentive plan, which is based on the performance of the company. However, I have no ownership stake.

***PK:** In a memorable advertisement for Patek Philippe Watches, a picture of a father with his young son is captioned with: "You never really own a Patek Philippe watch, you just take care of it for the next generation." That sense of stewardship is very common in family businesses; a factor that likely contributes to their longevity. Is the RSC family looking longer range, gifting and transitioning ownership to the younger generation? Do they understand the role of ownership?*

John Huber: In our strategic conversations, that is one of the first or second items that come up with the Board: "Do we want to sell or do we want to keep running it?" And they always confirm their desire to continue running RSC and to make it even better.

The family is very interested in the community, having been here in Charlotte for a long time. They feel the business is just as much a part of Charlotte as they are. This isn't their only investment; they're also heavily invested in real estate and real estate development. I have to keep in mind that I'm competing for the funds that they have, therefore it's critical to demonstrate good opportunities for investment in the company.

Radiator Specialty Company has been the goose over the years, much more so in the early and mid years. Naturally, with 85 years of history, there are ups and downs. However, RSC is not as much the goose today as it was in the past.

***PK:** Is it your sense that the needs of the family are in sync with the goals and needs of the business?*

John Huber: Since we all reach into the same cookie jar when we need money, it's critical that we are in sync, and we discuss these things very openly. The owners listen to our capital investment opportunities, and for the most part, they follow the direction we recommend.

Building Sustainable Success in a Changed Environment

***PK:** From 1,000 feet up, with all that is transpiring in the U.S. regarding Washington, Wall Street, and Main Street, what issues are front and center on your radar?*

John Huber: We're facing all the issues that everyone else is; cash used to be king and now it's everything. We're running the business for cash and obviously for profits too, but really catering to our customers to try to retain the ones we have, build on our relationships, and find new customers.

Before joining RSC, I worked exclusively for public companies and that is certainly different than a privately-held family enterprise. However, when things turn down, I'm not looking any further out than the next month. It gets to be day-to-day. You just can't let any opportunity slip by. You have to control expenses on a daily basis, have the right systems in place for real-time monitoring, look for incremental growth, and keep a close eye on cash flow — all the things that any strong organization should be doing. We're also looking after our people to ensure that those who are really important to the business long term stay here.

"You need to have integrity, whether it's public or private. And I don't think you draw the line; there isn't any line to draw. If you have the integrity that's there for the accountability, you're transparent, and you carry the responsibility no matter who you're working for. I wouldn't do things a whole lot differently as a CEO in a family-owned company than in a public one."

***PK:** What's the family's position relative to reinvestment — are they looking at mergers and acquisitions or possibly to harvest?*

John Huber: I'm happy to report that they're looking for business development, mergers and acquisitions, and also organic growth. In fact, in the past year, we hired a vice president to focus 100% of his time on business development. Right now, if you do have some money, it's a great buy out there if you've got the guts to spend it. There's a significant opportunity to hire good people and be able to land some very attractive value propositions in new companies. We're definitely going down that route while also investing in the development of our brands. Many companies are hunkering down and not spending money on advertizing and promotions; we believe that by the fall, we'll be rolling out a major program to improve our brand awareness and thereby sell more products.

Leverage Your Values as a Defining Asset

***PK:** The world has entered a new era of heightened expectations for transparency, accountability, and responsibility. From your experience in publicly-held companies, that means one thing. What do you think it means now, as the CEO of a family-owned business in which your stakeholders are defined differently? And given this economically-challenging time, what do these expectations mean for you and RSC?*

John Huber: You need to have integrity, whether it's public or private. And I don't think you draw the line; there isn't any line to draw. If you have the integrity that's there for the accountability, you're transparent, and you carry the responsibility no matter who you're working for. I wouldn't do things a whole lot differently as a CEO in a family-owned company than in a public one. There may be a lot more reports to fill out for a public company but at the end of the day, I have to certify with our auditors that this is a business fulfilling its promises. And yes, I'll sign those documents to attest to that. Fortunately, we also have some very good CPAs, an excellent legal person on staff, good MIS and other technical folks to lean on. These people keep me out of jail. They ensure we avoid mistakes and that we look at positive alternatives when they surface.

Even with all of that support in place, you still need a set of core values to guide your behavior. RSC had those values instilled throughout the company before I came. They are essential to what the company is all about. Today, during these difficult times, managers and leaders are probably even more frequently tested regarding those values. Integrity during difficult times is critical because this is when somebody might be tempted to take a shortcut and do something that later on they would regret.

***PK:** Regarding the solidity and consistency of RSC's core values, what about its culture? Has it changed within the business with your tenure?*

John Huber: I would think so. We went from a family business that was very nurturing — thinking of everyone almost as children or cousins of the business — to being run more by the numbers and the data, not by the personalities or the relationships. Don't get me wrong: It's in the RSC DNA to treat people with respect, trust, and honesty. Those values are critical, however there is a difference in how the business was before and how it is now.

For example, when I arrived there were nearly 550 employees and now we have roughly the same sales volume and half the personnel. That change alone was something that was contrary to what the family would have done.

> *"Make sure... that there is good chemistry between you and the family, and that your values are aligned. You also need to ensure that you hold the same ideas and vision for the organization... It requires a heart-to-heart exchange from the get-go."*

Guidance for Other CEO Candidates on the Outside and Looking In

***PK:** What sorts of experiences are initially best learned outside of the family business domain?*

John Huber: That's a good question. You certainly have to come into a family business with a certain amount of knowledge, experience, and capability because you're going to be tested in similar ways as you would in other businesses. It's even more important because the people who I sit across the table from own the company. It's not a group of shareholders who I would never, or would seldom, see. The commitment is more significant and meaningful, and as a result a lot more effort goes into achieving success for them. But as far as any particular experiences, business comes down to generating sales, watching your costs, and generating profit so that you can grow and improve. It's the same whether you're private or public. I don't have any experiences that I would say are so unique, or that I gained on the outside, that would work better in this business versus any other. I've yet to find that silver bullet that fixes everything.

***PK:** What other pearls of wisdom can you offer other non-family member CEOs heading up a family enterprise?*

John Huber: The one trait you need more than any other in this role is an affinity for multi-tasking. You must also remain true to yourself, lead with confidence, support your team, listen, communicate, and then take action.

Make sure, too, that there is good chemistry between you and the family, and that your values are aligned. You also need to ensure that you hold the same ideas and vision for the organization — where they want to take the company, and that there is a very good understanding of these issues upfront. It requires a heart-to-heart exchange from the get-go.

Let me illustrate with a funny experience: Shortly after I arrived at RSC, I looked at the amount of cash in the bank and thought about what we were going to be doing with it for capital expenditures and other growth initiatives. About a month later, I had my first surprise working for a private company. I learned that the owners already had plans for a good portion of the cash! That was my first real indoctrination to the differences between a publicly-held entity and a private company.

Cash flow in a family business is all about having the ambitions of the family and the needs of the business in sync. That is essential to your success as an outside executive brought in to make changes and improvements, and it's critical for the sustainable success of the company. You need to think of cash like it's your own, although you don't hold the purse strings.

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FFI Intelligence Matters

FFI Board of Directors

FFI Family Business Advisory Committee

Family Firm Institute

200 Lincoln St., Suite 201
Boston, MA 02111
617.482.3045
ffi@ffi.org

Judy Green
Executive Director

Janet Horton
Associate Executive Director

Media Inquiries

Art Stewart
Stewart Strategies Group, LLC
Washington, DC
703.824.8044
ffi@stewartgrp.com

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Family Firm Institute

200 Lincoln Street, #201
Boston, MA 02111
Phone 617.482.3045
Fax 617.482.3049
ffi@ffi.org