Generational Differences in Family Business Leadership: A Case Study

By

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February 25, 2011

Submitted to:
Small Business Institute Journal

Best Teaching Paper
2011 Small Business Institute Conference
Bonita Springs, FL

Key words: entrepreneurship, family business, small business, successor, succession, conflict
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ABSTRACT

The primary subject matter of this case is small family business management, specifically comparing the leadership styles of a family business leader and his successor and quantifying those differences as reflected in the financial performance of the company. Comparisons are made through the use of ratio analysis. I also examine some of the complex interactions among family members as a business moves from second to third generation management and ownership. Appropriate for junior and senior level undergraduate courses, the case can be taught in one class hour and requires roughly three hours of outside preparation by students. The events described in this case are based on real world experiences, but all names have been disguised.

INTRODUCTION

The afternoon thunder storm boomed across the tropical skies of West Palm Beach, Florida as it did most summer days at 3PM give or take an hour. The electricity flickered briefly, but stayed on. Safely ensconced at his desk, tucked away in the back corner of the office area of the Wright Furniture Company’s store, Thomas Wright, Jr. stared at the cancellation notices on his desk in shock and disbelief. Once again his father had wiped out two weeks of his work at the Furniture Market in Hickory and High Point, North Carolina. "Why did he bother to send me up there, if he was just going to cancel everything once I got back home and he saw the purchase orders," Thomas wondered to himself as he stewed over the batch of cancellations. "I found some real deals at Broyhill and Stanley with dating (extended payment terms) and freight discounts. I know the merchandise would sell quickly - practically walk off the floor - well before we would have to pay for it. What is he worried about? Why is he so conservative?"
Rather than approach his father while he was steaming, Thomas, who was wise for his forty years, chose to cool off and drink a cup of coffee. After a few minutes, the back of his neck and ears slowly turned back from their temporarily bright red color and Thomas regained control of his emotions. “It just wouldn’t do any good to let Father see me in an angry state,” Thomas mused to himself. Now, he rose from his desk, and strode forward to face his father, Thomas J. Wright, Sr., (hereafter referred to as T.J.) who was busily engaged in one of his favorite occupations, opening the afternoon mail. This task, while seemingly innocuous, signified the possession of power at Wright Furniture. The person who opened the mail saw the bills, payments, invoices, and other correspondence of importance first and directed that correspondence to the accounts payable clerk, the accounts receivable clerk, the secretary, the advertising manager, or whoever else may be concerned.

T.J. Wright Sr.’s desk was positioned strategically in the middle of the store’s office area, looking into the showroom. The desks of the secretary, Mrs. Ruby Woodall, and the advertising manager, A. D. Rogers were in front of T.J.’s desk and butted up against the low wooden railing and gate that separated the office from the showroom. T. J. looked up as his son approached and spoke calmly in his melodious southern accent, "What can I do for you, son?"

"Father, why have you cancelled my orders from the Furniture Market?" asked Thomas.

"Tommy, I believe that you worked very hard and I am sure that you made some remarkably good purchases at the Market, but the timing just isn't right. We cannot have those orders coming in during July and August, which are our slowest retail months of the year. West Palm Beach practically shuts down in the summer. We would not be able to sell that merchandise until December or January," replied T.J.

"Perhaps, that is so, but I negotiated for excellent dating and freight discounts from the manufacturers. We will not have to pay for the furniture until January any way," Thomas asserted.
"I understand that, Tommy, but I do not want to take on the risk of overloading our inventory. We have to pay our bills and I do not want to jeopardize our financial standing. You may choose to do things differently in the future, but for now I am in charge and I am sorry, but this is the way I want to run the company," said T. J. with finality.

COMPANY HISTORY

In the early 1920s, the boll weevil, a beetle measuring about six millimeters in length, migrated from Central America to the southern United States. This devastating pest destroyed the cotton crops of the region and forced thousands to relocate to other areas of the country (Wikipedia, 2010). John B. Wright owned and operated a general store in Forsyth, Georgia for over forty-four years, but following the advice of his oldest son, T. J. Wright, Sr., John agreed to leave central Georgia. In contrast to the rest of the region, an economic boom was underway in southeast Florida, occasioned by the opening of Henry Flagler’s Florida East Coast Railway (Standiford, 2002). Extending his railroad two hundred and fifty miles south of St. Augustine, Flagler pioneered the development of Palm Beach with the construction of two large hotels, The Royal Poinciana and The Breakers. The hotels drew wealthy winter visitors to Palm Beach for the first time. To service the hotels and his mansion, White Hall, Flagler encouraged the founding of West Palm Beach across Lake Worth (the present day intra-coastal waterway) on the mainland. The town officially incorporated in 1894 (Drake & Marconi, 2006). John and his wife, Victoria, along with six of their children and their families, decided to move to West Palm Beach.

Starting the Business

Again following the advice of his oldest son, T.J., John Wright chose to start a retail home furniture store in West Palm Beach, departing from the general store format used in Georgia. The family formed Wright Furniture Company and opened an 11,000 sq. ft. store at 711 North Dixie Highway in West Palm Beach ("Furniture Company," 1935). With an investment of $10,000, John Wright became president of
the company. Each of his three sons invested $1000 in the business. Leonard became vice president, T.J., Sr. was the secretary-treasurer, and Richard served in sales for the company.

The Second Generation: Three Sons

T.J. Wright, Sr., the sixth child and oldest surviving son of his parents, John and Victoria, was born in the family home in Forsyth, GA. T.J. attended a military prep school, Gordon College (Named for Confederate General Thomas B. Gordon), and graduated from Alabama Polytechnic Institute (later known as Auburn University) with a degree in electrical engineering. He served in the U.S. Army earning the rank of captain. At six feet three inches in height, T. J. was a handsome man and possessed the charm and grace of a southern gentleman. While at home from the army, he met Pearl Norton in his father’s general store and later married her.

After finishing his career in the U. S. Army, T.J. worked first for Westinghouse in Pittsburgh, PA as an engineer. Quickly tiring of the northern climate and engineering, T.J. and Pearl moved back to Atlanta, GA, where T.J. worked at Mather Furniture, a retail company, for four years before deciding to move to Florida with the majority of the Wright family. At Mather, T. J. acquired knowledge of the furniture industry, which was instrumental in the subsequent founding and development of the family business. T.J. and Pearl had three children: Mary Wright Gordon, Karen Wright Miller, and Thomas Wright, Jr.

Both of T. J.’s surviving brothers came into the family business. R. Leonard Wright, who was a few years younger than T.J., moved with the family to West Palm Beach and received about 30 percent of the stock ownership in Wright Furniture. However, the retail life style did not suit Leonard and he left Wright Furniture for a career on the road as a manufacturer’s representative for the Broyhill Furniture Company. Leonard retained his stock ownership in Wright Furniture and the title of Vice President for many years.
T. J.'s youngest brother, Richard F. Wright, also grew up in Forsyth, GA. Richard moved with the family to West Palm Beach and originally bought into the Wright Furniture Company with an investment of $1000. However, five years after the store opened in West Palm Beach and three years after Leonard left to work for Broyhill, Richard decided to open his own business. With initial financial assistance from his father, Richard moved to Miami and opened a furniture store, which he operated independently. In a series of transactions, Richard relinquished his stock ownership in the West Palm Beach company. So, after five years, the Wright Furniture Company only had one active second generation family manager - T.J. Wright, Sr.

T. J. Wright, Sr.'s Leadership

Eight years after moving to West Palm Beach and opening Wright Furniture, John B. Wright passed away. T.J. Wright, Sr. became president of the company and acquired 54 percent of the company's stock by inheritance from his father and the buy-out of his brother, Richard. The remaining 46 percent of the company's stock was spread out among T.J.'s siblings and their children with the largest amount (30 percent) belonging to Leonard Wright and his descendants. Under the leadership of T. J. Wright, Sr., the company purchased and remodeled a larger store (18,000 sq. ft.) that was in the center of the city's business district at 333 Datura St. and T.J. moved the headquarters and center of operations of the company from 711 North Dixie. The company operated successfully through several terrible hurricanes that directly hit West Palm Beach, the stock market crash and great depression, and the rationing and scarcity of consumer goods occasioned by the Second World War.

In the years just before the U.S. entered World War II, the military began a steady build-up of troops and training facilities. The warm climate and flat terrain of south Florida was especially conducive to military training in general and aviation training in particular. The U.S. Army Air Corps moved into Morrison Field in West Palm Beach (Drake & Marconi, 2006). As part of their patriotic war effort, the citizens of West Palm Beach regularly invited soldiers into their homes to entertain them and prevent
homesickness. Pearl Wright practiced this hospitality, by inviting soldiers who attended the First Baptist Church, over to her house for dinner on Sunday afternoon. In this manner, both of her daughters - Mary and Karen met their prospective husbands.

After the war ended and the economic restrictions on the production of consumer goods were lifted, T. J. Wright, Sr. led the company to open two additional stores. The first store was located in Delray Beach at 314 Atlantic Ave (the old downtown), which is 20 miles south of West Palm Beach. Later, the store was moved to 1648 North Federal Highway (on the major road of the day - US Highway 1). T.J. Wright, Sr. chose Eric Miller, the husband of his daughter, Karen, as the manager of the Delray Beach store. During this time period, T.J Wright, Sr. opened a store in Lake Worth at 813 Lake Avenue (the old downtown). The Lake Worth store was located roughly half-way between West Palm Beach and Delray Beach. These two additional stores were much smaller than the West Palm Beach store and served towns with lower populations. T.J. Wright, Sr. served as president of the company for 35 years. His tenure as president was marked by very steady annual profits and a generous dividend policy in which the family stockholders received payments each year. Due to his conservative management approach, the company acquired cash reserves, but remained small with just the three stores.

**Third Generation: A New Direction**

As soon as he finished college, Thomas J. Wright, Jr., joined the company full-time. Within another two years, Thomas married Doris Pike, a young lady from West Palm Beach. Doris met Thomas while attending Palm Beach High School, but she went on to finish her college degree at Mary Washington College of the University of Virginia. Thomas and Doris also became the parents of two daughters and a son just as T.J. Wright, Sr. and Pearl had in the preceding generation. Family tradition reports that T. J. Wright, Sr., delighted with the news that a grandson had been born, remarked, "Now, we have someone to run the business for another generation."
In his will, T.J. Wright, Sr. gave his three children: Mary, Karen, and Thomas Wright, Jr. equal amounts of his Wright Furniture stock, meaning each child received 18 percent of the company's stock. However, Thomas received the right to make all management decisions for the company. Neither Mary, nor Karen worked for the company. Mary married a college professor and lived in Macon, GA. Karen's husband managed the Delray Beach store for approximately twenty years until his retirement due to health concerns.

Following the death of T. J. Wright, Sr., Thomas consolidated his control of the company in a transition period. Then, within a few years, he embarked on an expansion program. First, Thomas bought property at U.S 1 and Northlake Blvd. in North Palm Beach (10 miles north of West Palm Beach) and built a two-story 30,000 sq. ft store. Although the distance from West Palm Beach is small, the North County area is considered a separate shopping area in Palm Beach County. The North Palm Beach store immediately became the flagship store for the company and maintained the top sales position for many years. Next, Thomas purchased property at Belvedere Rd and I-95 in West Palm Beach and opened a second West Palm Beach store there. During this time period, the downtown areas in South Florida and across the country as well began to decline as retail centers. The Datura St. store steadily declined in sales as consumers preferred shopping in the suburbs. The Belvedere Rd. store grew steadily in sales and surpassed the Datura St. store. Subsequently, Thomas Wright purchased property on U.S. 1 in Lake Worth and moved the store from its old downtown location and doubled the square footage of selling space in the process. Under Thomas Wright's leadership, the sales of the company tripled, but Thomas could not maintain the dividend policy that his father followed. With the expansion of the company, funds were no longer available to pay dividends to the family stockholders. Understandably, tensions began to grow among the relatives.
Buying Out the Relatives

According to Jack Anthony, Thomas’ friend and advisor, “T.J., Sr. did not do Thomas any favors concerning the stock ownership situation. I can only imagine that he had some different goals in mind. The way the stock was distributed benefited the extended Wright family - the aunts and cousins, but it did not benefit Thomas as the direct heir and manager of the company. He left a tremendous burden on Thomas to clear up the ownership of the company.” To quell the complaints of the relatives and to gain complete control over the company, Thomas embarked on a lengthy campaign to buy-out the stockholding relatives one-by-one. Over a fifteen year period, Thomas re-purchased the stock of a dozen relatives at the cost of over 1.5 million dollars. Uncle Leonard’s daughter, Laura, and Thomas’ oldest sister, Mary, proved to be most difficult in the process. According to Thomas, “Unfortunately, Mary and Laura, who both live in Georgia and have rarely visited the stores here, have little idea about the trials and tribulations of the furniture business. They tend to have unrealistic expectations of our profitability. Also, they tend to think of the company as ‘using my father's/ uncle's capital to make money.’”

FAMILY BUSINESS STUDIES

Family business researchers have proposed that successors differ from founders by nature (Cater & Justis, 2009). Founders may risk everything they have to start a business. Then, at the end of their careers, founders may appear to be risk averse because they perceive a possible loss of their career’s work. Successors are not entrepreneurs who are starting their own businesses, rather successors are managers who enter a going concern with a complex set of challenges that they did not create. As opposed to the founder of a family firm, the successor typically enters the firm on a lower level and works his way up through the ranks as he acquires knowledge of the firm (Cabrera-Suarez, De Saa, & Garcia-Almeida, 2001). The successor must wait until the founder steps down and turns over the
leadership of the business (Stafford, Duncan, Danes, & Winter, 1999). This view of the successor entails growth and development from student to manager to top executive. The process of succession involves trust between the incumbent and successor generations (Handler, 1990). The practice of letting go of the family firm may be difficult for incumbents (Dyck, Mauws, Starke, & Mischke, 2002) as the process of development may be difficult for the successors (Fiegener, Brown, Prince, & File, 1994).

Conflict is common among leaders in family firms, but a good working relationship between the predecessor and the successor is vital to any transfer of power (Cabrera-Suarez et al., 2001). The incumbent must be willing to let go of the control of the business (Dyer, 1986), delegate responsibility, and allow the successor to make decisions and mistakes (Handler, 1990). Some incumbents refuse to train or coach their chosen successor, resorting to a type of undermining behavior, while some owners simply envy their children (Morris, Williams, Allen, & Avila, 1997). Still others act as if they are immortal and need no successor (Bjuggren & Sund, 2001) or determine that they will die in office (Howorth & Ali, 2001).

The perceptions of their role in the family firm may differ between the generations (Birley, 2002; Eddleston, 2008; Sharma & Irving, 2005). In the process of succession, parents take some risk that their children will perform honorably and successfully in the family firm (Barach & Gantisky, 1995).

**DECISION: EXPANSION OR CAUTION?**

Seated in the thickly comfortable leather office chair, Thomas swiveled to face the conference table, placed his elbows on the dark mahogany surface, and rested his head in his hands as he waited for the appearance of Lou Shapiro, the sharp young CPA. Thomas lifted his head, stared out the huge glass window of the eighth-story office of Cahill, Lewis, and Carter, P. A., and marveled at the shimmering blue beauty of the Intracoastal waterway and the precise rows of royal palm trees planted at the entrance to the island of Palm Beach. Thomas thought to himself, "This young CPA is about to tell me
how to run Wright Furniture. Having never managed a furniture store, he will look at the financial statements and impart his wisdom unto me. I have twenty years of experience as president of this company and yet here I am subjecting myself to this scrutiny."

Lou popped his head through the door and greeted Thomas, “Good morning, Mr. Wright, how are you today?”

“Hello, Lou, I am doing just fine. Tell me, how are the statements looking now?”

“Well, Mr. Wright, here is the latest set of financial statements for the year just ended, hot off the press. We have the latest profit-and-loss statement for Wright Furniture Company (See Table 1.) and the latest balance sheet (See Table 2.),” Lou responded as he handed the documents to Thomas. “Mr. Wright, I know that you are concerned with the progress of the company, both short term and long term. So, I thought that today we might take a look not only at the most recent statements, but also go back and compare some past statements.”

"Yes, I have often wondered if I am using the right strategy with my expansion program. For several years after my father passed away, I did not make any significant changes to Wright Furniture. Now in the past few years, I have opened two new large stores and expanded the other stores," said Thomas.

Let’s look at the present financial statements and then compare them to the statements from the end of your father’s tenure as president of the company. Here are the Wright Furniture Company statements from the last few years before your father, T.J. Wright, Sr. passed away, both the income statement (See Table 3.) and the balance sheet (See Table 4.)," Lou replied. "We should run a comparative ratio analysis. Even before running that analysis though, some changes are readily apparent. During your father’s tenure, the company sold merchandise on installment. Customers bought the furniture with a little money down and then came into the store weekly to make payments."
"Yes, the dollar down and a dollar per week payment program worked great for many years, but we began to suffer larger and larger write-offs for bad loans. It became more and more difficult for us to collect the payments as people became more transient, moving in and out of the area. Times change and the days of doing business with a hand shake and a promise have passed. We had to get out of the credit business and that is reflected in our financial statements," explained Thomas.

"The other thing that immediately stands out to me is a change in the financial structure of the company from a position of very little debt under your father's leadership to the use of leverage under your direction," remarked Lou.

"My father believed in paying bills as soon as they hit his desk and operating the company without borrowing from anybody. This may have been as a result of surviving the Great Depression and the World Wars. You will see that there is no interest expense on his statements and no long term debt. In my case, the expansion program has introduced a higher level of risk into the business because of the need to borrow," admitted Thomas. "At the same time, we are a much stronger company, have increased our market share here in the West Palm Beach area, and may be able to defend our position against the encroachment of national retail chains and the strong furniture retailers in Miami and Fort Lauderdale that may move into our market area."

"In reviewing the income statements for the current year and the past two years, I see some volatility in your profitability. Your father had steady revenues and profits," stated Lou.

"The days of steady, linear increases in sales and profits may be past for our company," Thomas answered. "We face a growing but unpredictable market in Palm Beach County, subject to cyclical fluctuations. Nevertheless, I am optimistic about our future and I plan to expand up the coast and open new stores in Stuart (40 miles north of West Palm Beach) and Vero Beach (80 miles north of West Palm Beach)."
"Mr. Wright, as your accountant and from my review of your financial statements, I feel that it is my duty to advise you to exercise caution and restraint in such an expansion program," Lou stated with admonishment.

"Thank you for your advice, Lou, and I understand what you are saying, but I am the retailer here and I think that the market is wide open for growth and expansion. Someone will sell furniture to all those people who are going to move to South Florida in the next few years - why not Wright Furniture?" Thomas questioned.
REFERENCES


Appendix

Appendix Table 1: Wright Furniture Company
Income Statement
For the Current Year Ended June 30
(Thomas Wright, Jr. - CEO and President)

<table>
<thead>
<tr>
<th></th>
<th>Current Year</th>
<th>Prior Year</th>
<th>2 Years Prior</th>
</tr>
</thead>
<tbody>
<tr>
<td>NET SALES</td>
<td>5,458,443</td>
<td>6,568,127</td>
<td>5,162,287</td>
</tr>
<tr>
<td>COST OF GOODS SOLD</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Beginning Inventory</td>
<td>1,698,943</td>
<td>1,544,530</td>
<td>1,457,080</td>
</tr>
<tr>
<td>+ Purchases</td>
<td>2,712,152</td>
<td>3,690,945</td>
<td>2,904,773</td>
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<tr>
<td>Goods Available for Sale</td>
<td>4,411,095</td>
<td>5,235,475</td>
<td>4,361,853</td>
</tr>
<tr>
<td>- Ending Inventory</td>
<td>1,523,702</td>
<td>1,698,943</td>
<td>1,544,530</td>
</tr>
<tr>
<td>COST OF GOODS SOLD</td>
<td>2,887,393</td>
<td>3,536,532</td>
<td>2,817,323</td>
</tr>
<tr>
<td>GROSS PROFIT</td>
<td>2,571,050</td>
<td>3,031,595</td>
<td>2,344,964</td>
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<tr>
<td>OPERATING EXPENSES</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Administrative</td>
<td>663,952</td>
<td>551,256</td>
<td>553,736</td>
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<tr>
<td>Occupancy</td>
<td>332,838</td>
<td>311,793</td>
<td>244,872</td>
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<tr>
<td>Interest</td>
<td>112,327</td>
<td>107,115</td>
<td>85,868</td>
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<tr>
<td>Advertising</td>
<td>383,570</td>
<td>328,576</td>
<td>298,382</td>
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<tr>
<td>Selling</td>
<td>515,270</td>
<td>614,329</td>
<td>504,369</td>
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<tr>
<td>Handling</td>
<td>193,289</td>
<td>216,330</td>
<td>186,278</td>
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<tr>
<td>Delivery</td>
<td>222,129</td>
<td>224,179</td>
<td>237,227</td>
</tr>
<tr>
<td>Total Operating Expenses</td>
<td>2,523,375</td>
<td>2,353,578</td>
<td>2,110,732</td>
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<tr>
<td>OTHER INCOME</td>
<td>16,013</td>
<td>34,501</td>
<td>18,647</td>
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<tr>
<td>NET PROFIT BEFORE INCOME TAXES</td>
<td>63,688</td>
<td>712,518</td>
<td>252,879</td>
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<tr>
<td>PROVISION FOR INCOME TAXES</td>
<td>17,958</td>
<td>321,764</td>
<td>74,860</td>
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<tr>
<td>NET INCOME AFTER TAXES</td>
<td>45,730</td>
<td>390,754</td>
<td>178,019</td>
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Appendix Table 2: Wright Furniture Company
Balance Sheet
For the Current Year Ended June 30
(Thomas Wright, Jr. - CEO and President)

<table>
<thead>
<tr>
<th>ASSETS</th>
<th></th>
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</thead>
<tbody>
<tr>
<td><strong>CURRENT ASSETS</strong></td>
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</tr>
<tr>
<td>Cash</td>
<td>128,737</td>
</tr>
<tr>
<td>Accounts Receivable</td>
<td>113,836</td>
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<tr>
<td>Merchandise Inventory</td>
<td>1,523,702</td>
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<tr>
<td>Prepaid Expenses</td>
<td>20,313</td>
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<tr>
<td>Total Current Assets</td>
<td>1,786,588</td>
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<table>
<thead>
<tr>
<th><strong>FIXED ASSETS</strong></th>
<th>2,396,172</th>
<th>1,574,148</th>
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<tbody>
<tr>
<td>Cost</td>
<td>Accumulated Depreciation</td>
<td></td>
</tr>
<tr>
<td>-----------------------------</td>
<td>-----------</td>
<td>-----------</td>
</tr>
<tr>
<td>Land</td>
<td>354,908</td>
<td>84,724</td>
</tr>
<tr>
<td>Buildings</td>
<td>1,612,163</td>
<td>586,838</td>
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<tr>
<td>Delivery Equipment</td>
<td>134,727</td>
<td>47,547</td>
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<tr>
<td>Warehouse Equipment</td>
<td>51,607</td>
<td>29,522</td>
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<tr>
<td>Office Equipment</td>
<td>150,651</td>
<td>47,547</td>
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<tr>
<td>Leasehold Improvements</td>
<td>92,116</td>
<td>73,393</td>
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<tr>
<td></td>
<td>2,396,172</td>
<td>1,574,148</td>
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<table>
<thead>
<tr>
<th><strong>OTHER ASSETS</strong></th>
<th>3,475,287</th>
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</thead>
<tbody>
<tr>
<td>Cash Surrender Value of Executive's Life Insurance</td>
<td>97,528</td>
</tr>
<tr>
<td>Investment - Downtown Properties, Inc.</td>
<td>16,200</td>
</tr>
<tr>
<td>Utilities Deposits</td>
<td>823</td>
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</tbody>
</table>


LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES
Current Maturities of Long-Term Debt 71,933
Accounts Payable 206,595
Deposits on Undelivered Merchandise 85,045
Sales Tax Payable 1,466
Income Taxes Payable 87,764
Other Accrued Expenses 94,928
Total Current Liabilities 547,731

LONG-TERM DEBT 878,491

STOCKHOLDERS' EQUITY
Capital Stock -$100 Par Value -
   Issued 1,500 Shares 150,000
Retained Earnings 1,899,065 2,049,065 3,475,287

Table 3: Wright Furniture Company
Income Statement
For the Fiscal Year Ended June 30, 1980
(T. J. Wright, Sr. - CEO and President)

<table>
<thead>
<tr>
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<th></th>
<th></th>
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<tbody>
<tr>
<td>NET SALES</td>
<td>1,414,918</td>
<td>1,237,012</td>
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<tr>
<td>COST OF GOODS SOLD</td>
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<tr>
<td>Beginning Inventory</td>
<td>186,225</td>
<td>197,141</td>
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<tr>
<td>+ Purchases</td>
<td>902,713</td>
<td>705,647</td>
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<tr>
<td>Goods Available for Sale</td>
<td>1,088,938</td>
<td>902,788</td>
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<tr>
<td>- Ending Inventory</td>
<td>253,876</td>
<td>186,225</td>
</tr>
<tr>
<td>COST OF GOODS SOLD</td>
<td>835,062</td>
<td>716,563</td>
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<tr>
<td>GROSS PROFIT</td>
<td>579,002</td>
<td>520,449</td>
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<tr>
<td>OPERATING EXPENSES</td>
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<td></td>
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<tr>
<td>Administrative</td>
<td>110,226</td>
<td>102,215</td>
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<tr>
<td>Occupancy</td>
<td>142,661</td>
<td>117,357</td>
</tr>
<tr>
<td>Advertising</td>
<td>68,652</td>
<td>48,935</td>
</tr>
<tr>
<td>Selling</td>
<td>103,354</td>
<td>97,104</td>
</tr>
<tr>
<td>Handling</td>
<td>28,200</td>
<td>25,554</td>
</tr>
<tr>
<td>Delivery</td>
<td>25,276</td>
<td>22,147</td>
</tr>
<tr>
<td>Total Operating Expenses</td>
<td>478,369</td>
<td>413,312</td>
</tr>
<tr>
<td>NET PROFIT BEFORE INCOME TAXES</td>
<td>100,633</td>
<td>107,137</td>
</tr>
<tr>
<td>PROVISION FOR INCOME TAXES</td>
<td>30,409</td>
<td>34,894</td>
</tr>
<tr>
<td>NET INCOME AFTER TAXES</td>
<td>70,224</td>
<td>72,243</td>
</tr>
</tbody>
</table>

Table 4: Wright Furniture Company

Balance Sheet
For the Fiscal Year Ended June 30, 1980
(T. J. Wright, Sr. - CEO and President)

### ASSETS

#### CURRENT ASSETS
- Cash: $140,513
- Accounts Receivable: $657,220
- Merchandise Inventory: $253,876
- **Total Current Assets**: $1,051,609

#### FIXED ASSETS

<table>
<thead>
<tr>
<th>Asset</th>
<th>Cost</th>
<th>Accumulated Depreciation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land</td>
<td>$149,900</td>
<td></td>
</tr>
<tr>
<td>Buildings</td>
<td>$150,930</td>
<td>$107,756</td>
</tr>
<tr>
<td>Delivery Equipment</td>
<td>$30,477</td>
<td>$20,188</td>
</tr>
<tr>
<td>Warehouse Equipment</td>
<td>$51,607</td>
<td>$29,522</td>
</tr>
<tr>
<td>Office Equipment</td>
<td>$5,700</td>
<td>$4,987</td>
</tr>
<tr>
<td>Leasehold Improvements</td>
<td>$65,910</td>
<td>$57,304</td>
</tr>
<tr>
<td></td>
<td>$454,524</td>
<td>$219,757</td>
</tr>
<tr>
<td><strong>TOTAL ASSETS</strong></td>
<td></td>
<td>$234,767</td>
</tr>
</tbody>
</table>

### LIABILITIES AND STOCKHOLDERS’ EQUITY

#### CURRENT LIABILITIES
- Accounts Payable: $113,728
- Accounts Payable - Stockholders: $12,698
- Sales Tax Payable: $1,745
- Other Accrued Expenses: $1,589
- **Total Current Liabilities**: $129,760

#### STOCKHOLDERS’ EQUITY
- Capital Stock - $100 Par Value - Issued 1,500 Shares: $150,000
- Retained Earnings: $1,006,616
- **Total Stockholders’ Equity**: $1,156,616
Generational Differences in Family Business Leadership: A Case Study, Instructor's Note
John James Cater III, Nicholls State University

INTRODUCTION

This case compares the leadership of a family business owner and his successor. While both leaders were successful, their goals and strategies differed markedly. After serving thirty-five years as president of Wright Furniture Company, T. J. Wright, Sr. appeared to be very conservative in the eyes of his son. Soon after gaining control of the company, Thomas Wright, Jr. repurchased the company stock of relatives and launched an ambitious expansion program – two bold initiatives that required considerable capital outlay. In retrospect, Thomas wondered if his strategy was the right one, but he still planned to embark on further expansion by opening two new stores as soon as possible. The purpose of this study is to aid students in their understanding of the challenges involved in family business leadership in general and more specifically to quantify the results of small family business leaders' decisions as reflected in comparative financial statements. To this end, the author employs a ratio analysis.

Methodology

Multiple in-depth qualitative interviews with the key actors in the case, including Thomas Wright, Doris Wright, and Jack Anthony were performed. These interviews were semi-structured in nature and conducted individually. The author enjoyed full access to company documents, records, reports, and annual statements covering a thirty year period. The author visited on site, making physical observations and also gathered newspaper and magazine articles, advertisements, company catalogs, and other documents.

Teaching Approach

The case’s focus on small family business leadership and the application of ratio analysis makes it appropriate for use in Entrepreneurship or Small Business Management courses at the undergraduate level. The author highlights issues that may develop when family business successors modify the business strategy of their predecessors. The case serves as an appropriate companion exercise in Entrepreneurship or Small
Business textbooks, especially in chapters dealing with family business issues or financial planning. Students should read the case after the class covers the family business or financial planning chapter. Each student should individually prepare written answers for the discussion questions attached to this Instructor’s Note. During the next class period, the instructor should first introduce the case, lead a general discussion of the facts, and then apply principles from the textbook. The instructor may lead a case discussion, having students explain the different vantage points of the older generation leader, the successor, and the financial advisor.

CASE OVERVIEW

The case opens with a scene depicting conflict between a successor and an incumbent family business leader. Thomas Wright, Jr. discovers that several weeks worth of his efforts at the Southern Furniture Market in North Carolina have been wiped out by his father’s cancellation of the entire series of purchase orders. T.J. Wright, Sr. asserts his authority as the leader of Wright Furniture and declares that his conservative buying strategy will prevail.

Then, in a flashback, the history of Wright Furniture is described. After moving from central Georgia, John Wright along with three of his sons, including T.J. Wright, Sr., started the company in West Palm Beach, FL. Within eight years, John Wright passed away and two of his sons moved on to other interests, leaving T. J. Wright, Sr. as the sole second generation family business leader at Wright Furniture. T.J., Sr. led the company for thirty-five years, consistently earning annual profits and paying regular dividends to stockholding relatives. T.J.. Sr. did open two small stores south of West Palm Beach, but his leadership was conservative albeit successful.

After serving Wright Furniture for many years in sales, advertising, buying, and financial management, Thomas Wright, Jr. assumed the mantle of leadership following his father’s death. Thomas embarked on a substantial expansion program, opening two large stores and expanding the showroom space of the
three existing stores. At the same time, Thomas consolidated the ownership of Wright Furniture in his own hands, paying over 1.5 million dollars over a fifteen year period to his sisters, aunts, uncle, and cousins to repurchase their stock.

The case closes as Thomas meets with Lou Shapiro, his accountant, to analyze the financial status of the company and to discuss strategic plans. Like many accountants, Lou advises caution as Thomas expresses the desire to open two new stores north of West Palm Beach. Students are left with the challenges of analyzing the company financial statements through a comparative ratio analysis and determining the best strategy for the company - expansion or caution.

**LEARNING OBJECTIVES**

Through analysis of this case, students will be expected to:

1. Analyze key financial factors in a small family business through a comparative ratio analysis.
2. Compare the impact of small family business leaders' strategic decisions on the financial standing of the company.
3. Propose a strategic direction for a small family business based on an evaluation of the company's financial statements.
4. Assess the impact of generational differences on small family business leaders.

**DISCUSSION QUESTIONS**

1. Conduct a ratio analysis to measure the financial performance of Wright Furniture under the leadership of Thomas Wright, Jr. From the information provided in Table 1 and Table 2, compute the following ratios for the current year ended June 30.
   a.) Current Ratio  b.) Quick Ratio  c.) Debt Ratio  d.) Times Interest Earned Ratio  
   e.) Average Inventory Turnover Ratio  f.) Gross Profit to Net Sales Ratio  g.) Net Profit to Sales Ratio  
   h.) Net Profit to Equity Ratio
a.) Current Ratio = Current Assets/ Current Liabilities  
\[
\frac{1,786,588}{547,731} = 3.26
\]

b.) Quick Ratio = Current Assets - Inventory / Current Liabilities  
\[
\frac{1,786,588 - 1,523,702}{547,731} = 0.48
\]

c.) Debt Ratio = Total Debt / Total Assets  
\[
\frac{1,426,222}{3,475.287} = 0.41
\]

d.) Times Interest Earned Ratio = Earnings Before Interest and Taxes / Total Interest Expense  
\[
\frac{63,688 + 112,327}{112,327} = 1.57
\]

e.) Average Inventory Turnover Ratio = Cost of Goods Sold / Average Inventory  
\[
\text{Average Inventory} = \frac{1,698,943 + 1,523,702}{2} = \frac{1,611,322}{2,887,393} = 0.71
\]

f.) Gross Profit to Net Sales = Gross Profit /Net Sales  
\[
\frac{2,571,050}{5,458,443} = 0.47
\]

g.) Net Profit to Sales Ratio = Net Profit After Taxes / Net Sales  
\[
\frac{45,370}{5,458,443} = 0.01
\]

h.) Net Profit to Equity Ratio = Net Profit After Taxes / Owners' Equity  
\[
\frac{45,370}{2,224,306} = 0.02
\]

2. Conduct a ratio analysis to measure the financial performance of Wright Furniture under the leadership of T. J. Wright, Sr. From the information provided in Table 3 and Table 4, compute the following ratios for the Fiscal Year Ended June 30, 1980.

a.) Current Ratio 
b.) Quick Ratio 
c.) Debt Ratio 
d.) Times Interest Earned Ratio 
e.) Average Inventory Turnover Ratio 
f.) Gross Profit to Net Sales Ratio 
g.) Net Profit to Sales Ratio 
h.) Net Profit to Equity Ratio 

a.) Current Ratio = Current Assets/ Current Liabilities  
\[
\frac{1,051,609}{129,760} = 8.10
\]

b.) Quick Ratio = Current Assets - Inventory / Current Liabilities  
\[
\frac{1,051,609 - 253,876}{129,760} = 6.15
\]

c.) Debt Ratio = Total Debt / Total Assets  
\[
\frac{129,760}{1,286,376} = 0.10
\]

d.) Times Interest Earned Ratio = Earnings Before Interest and Taxes / Total Interest Expense  
\[
\frac{100,633}{0} = \text{Undefined}
\]
e.) Average Inventory Turnover Ratio = Cost of Goods Sold / Average Inventory

Average Inventory = 186,225 + 253,876 / 2 = 220,050 835,062 / 220,050 = 3.79

f.) Gross Profit to Net Sales Ratio = Gross Profit / Net Sales 579,002 /1,414,918 = 0.41

g.) Net Profit to Sales Ratio = Net Profit After Taxes / Net Sales 70,224 / 1,414,918 = 0.05

h.) Net Profit to Equity Ratio = Net Profit After Taxes / Owners' Equity 70,224 / 1,156,616 = 0.06

3. Compare the results of the ratio analysis for Wright Furniture under the leadership of Thomas Wright, Jr. and the leadership of T. J. Wright, Sr. Complete the following table. Then, explain the results.

<table>
<thead>
<tr>
<th>Ratio</th>
<th>Thomas Wright, Jr.</th>
<th>T.J. Wright, Sr.</th>
<th>Industry Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current</td>
<td>3.26</td>
<td>8.10</td>
<td>1.61</td>
</tr>
<tr>
<td>Quick</td>
<td>0.48</td>
<td>6.15</td>
<td>0.38</td>
</tr>
<tr>
<td>Debt</td>
<td>0.41</td>
<td>0.10</td>
<td>0.64</td>
</tr>
<tr>
<td>Times Interest Earned</td>
<td>1.57</td>
<td>Undefined</td>
<td>2.00</td>
</tr>
<tr>
<td>Inventory Turnover</td>
<td>1.79</td>
<td>3.79</td>
<td>4.03</td>
</tr>
<tr>
<td>Gross Profit/Sales</td>
<td>0.47</td>
<td>0.41</td>
<td>0.42</td>
</tr>
<tr>
<td>Net Profit/Sales</td>
<td>0.01</td>
<td>0.05</td>
<td>0.05</td>
</tr>
<tr>
<td>Net Profit/Equity</td>
<td>0.02</td>
<td>0.06</td>
<td>0.05</td>
</tr>
</tbody>
</table>

The comparative ratio analysis shows a healthy Wright Furniture Company under the leadership of both T.J. Wright, Sr. and Thomas Wright, Jr. The current ratio is very high under both leaders. The quick ratio shows a far greater emphasis by Thomas to invest in inventory, but his quick ratio is still above the industry average. The debt ratio shows extremely low debt under T.J., Sr., but the ratio is still significantly better than the industry average under Thomas. This shows that there is still excess
borrowing capacity. The times interest earned ratio is undefined under T.J., Sr. because there was no long term debt, nor interest expense. Inventory turns under Thomas' leadership slowed below the industry average, meaning that Thomas may have carried too much inventory to support the company's sales. Thomas' buying strength is reflected in a gross profit nearly five percentage points above the industry average. This means that the products he purchased commanded a premium price at retail and that he may have capitalized on discounts and special purchases from manufacturers as highlighted in the opening scene of the case. The profitability ratios reflect the steady profits earned under T.J., Sr.'s leadership. The profits for one year reported under Thomas' leadership were low.

4. From the information provided in the Wright Furniture Company Income Statements in Tables 1 and 3, compare the trends in Net Sales and Net Income After Taxes for the company under the leadership of Thomas Wright, Jr. and the leadership of T. J. Wright, Sr.

The company showed sales increases and profitability under the leadership of both Thomas Wright, Jr. and his father, T. J. Wright, Sr. during the comparative three-year periods. Both leaders were successful. The sales and profits under Thomas Wright, Jr. showed greater volatility in that the prior year was far better than the current year. Under the questioning of Lou Shapiro, Thomas explained that this variance should be expected because of the greater cyclical swings in the South Florida economy. In contrast, T.J. Wright, Sr. led a smaller company in a steadier environment toward the end of his tenure as president of Wright Furniture Company. Greater variability in sales and profits may also have occurred because of Thomas' more aggressive approach to store expansion, inventory management, and advertising expenditures.

5. The case ends as Thomas Wright, Jr. and Lou Shapiro discuss the possibility of expansion - the opening of two new stores for Wright Furniture north of Palm Beach County. Evaluate the situation.
Should Thomas Wright, Jr. open the two new stores? Explain the major concerns and then clearly state your recommendation.

The major concerns involved in an expansion program for Wright Furniture stem from a probable increase in funding through the use of debt. Any time a small business borrows money, the risk of losing the entire company increases. Conservative small family business leaders, such as T.J. Wright, Sr., attempt to avoid such risk. In this situation, Thomas Wright would likely have to borrow money to buy properties or to buy merchandise to fill new showrooms. An economic recession could have a devastating impact on sales. Consumers typically defer purchases of durable goods, such as home furniture, during an economic downturn. Given the boom and bust history of the South Florida economy, such concerns are serious.

However, most economic experts would agree that the South Florida economy will grow tremendously over time, given some fluctuations. Thomas Wright, Jr. is correct in his assertion, “Someone will sell furniture to all those people who are going to move to South Florida in the next few years.” The debt ratio for Wright Furniture also compares favorably to the industry average. Therefore, the best recommendation for the company would be to proceed with the expansion plans in a timely, but not hasty, fashion.

6. According to family business studies, successors differ from founders in some basic ways. Describe some of the generational differences between T. J. Wright, Sr. and his successor, Thomas Wright, Jr.

T.J. Wright, Sr., the second generation leader of Wright Furniture, was involved with the founding of the company. At the company’s inception, T.J., Sr. risked everything he had to move from central Georgia to West Palm Beach. Over his thirty-five year tenure as president of Wright Furniture, T.J., Sr. built a strong company and invested his career and life’s savings in the business. Thus, by the end of his career,
T.J., Sr. had everything to lose in the business (Cater & Justis, 2009). Understandably, he adopted a conservative leadership approach.

In contrast, Thomas Wright, Jr., grew up in the family business and advanced through the ranks of the company from student to manager to top executive (Cabrera-Suarez, De Saa, & Garcia-Almeida, 2001). Although the two family business leaders worked respectfully and cooperatively together, T.J. Wright, Sr. had difficulty letting go (Dyer, 1986) and allowing Thomas to make decisions and mistakes (Handler, 1990). After waiting for T.J., Sr. to step down as president or pass away (Stafford, Duncan, Danes, & Winter, 1999), Thomas was ready to change the direction of the company and adopted a more aggressive growth strategy. T.J. Wright, Sr. correctly took the risk (Barach & Gantisky, 1995) that his son, Thomas, would perform honorably and successfully for the company although employing his own leadership style.
REFERENCES


