

A non-family CEO in the driver's seat

Bob Egge realized his vice president/general manager was the best person to lead his nearly century-old family business, a key player in the automotive aftermarket. So, out of the blue, he stepped down from the helm.

By Margaret Steen

Ernie Silvers was sitting in his office at Egge Machine Co. one day in 2005 when his boss, company owner Bob Egge, walked in. Silvers, who at the time was vice president and general manager, chatted with Egge about the daily operations of the company's business: making pistons and valves and reselling engine parts.

Then, out of the blue, Egge said, "'You know, you're kind of running things here. I'm going to change your title to CEO,'" Silvers recalls. There was no formal interview. "It wasn't a question," Silvers says, and there wasn't much discussion, either. "Bob is not a big talker. I asked, 'Gosh, are you serious about this?'" Egge was serious, and Silvers has been running the company—owned by Egge, now 56, and his sister, Kathy Weaver, 57—ever since.

It may seem surprising for an owner who is involved in a business to give up day-to-day control to an outside CEO. Indeed, Egge calls turning over the reins "one of the hardest decisions of my life."

But ideas about hiring an outsider have changed in recent years, says family business consultant Leslie Dashew. "The whole notion of keeping the business in the family without running it is acceptable," Dashew says. "People have started to differentiate the role of owner from manager."

The story of how and why Egge gave up daily control of his company illustrates the succession planning challenges faced by many family businesses, particularly small ones.

An adaptable company

In 1915 Egge's grandfather Edward N. Egge founded a car and tractor repair business in Texas. He moved the company to Los Angeles in 1923 in hopes that he could do more business in an area with more cars. His two sons—Bob Egge's father and uncle—joined him in the business, which expanded to making pistons.

World War II changed the business in several ways. The company couldn't make pistons because the aluminum was needed for the war effort. Fuel rationing limited how much people drove, so demand for car parts fell. Egge's father, Nels, who had had polio and couldn't join the military, kept the business going by making parts for the Navy and repairing engines while his brother, Edward, served in the Coast Guard.

When the war ended, there wasn't enough business for both of them. Edward had learned to repair boat engines in the military, so he started Egge Marine and continued in business selling parts for boat engines. (The company still operates in Long Beach Calif.) Nels kept the auto side of the business, making pistons and reselling old engine parts.

By the late 1950s, "my dad was buying parts wherever he could: at auctions, at stock buyouts," Bob Egge says. "We'd buy valves from different people, rings, gaskets, bearings."

"What for us is current inventory is old inventory for other people," Weaver says. "Our dad had a great knack for finding excess inventory—that's what we're built on. He didn't want to deal with paperwork; he liked the machine shop."

By 1972, all that excess inventory was too much for the space they had, so Egge's father moved the company to a more spacious location in Santa Fe Springs, Calif., where it remains today.

Both Bob Egge and his sister, Kathy, fell into working for the company. They grew up with it, Kathy helping her mother, Bettye, with the books and Bob working with his father in the shop.

"We got paid \$5 a day," Kathy Weaver says. "We had an appreciation for the work that went with money."

"My dad would buy parts wherever he could, and on weekends and evenings we'd sort out parts, renumber them at home in the garage," Egge says. "I started to even come to the shop on Saturdays, sweeping floors and cleaning out machines. I liked it. I still

like being around the machines.”

Weaver planned to become a teacher but ultimately, after she had children, started working part-time with her mother. Gradually she ended up as the company’s bookkeeper, a position she didn’t leave until just a few years ago.

Their parents “didn’t talk too much” about their expectations for their children as far as the company went, Egge says. Rather, he says, he “kind of assumed” he’d run the business as his father had. “My dad and I worked side-by-side for many years in the shop.” However, Egge acknowledges, I wasn’t that much involved on the business side of it.”

When Egge’s father retired in 1994, he and his sister took over the business. Egge focused on manufacturing, his sister on finances and his sister’s husband, Craig, on business issues. Egge and Weaver’s parents died in 1999 and 2003, leaving them the sole owners of the company. Egge owns 51% and Weaver 49%.

After about a decade of this arrangement, Weaver’s husband left the company. He and Egge had very different work styles. “Working in a family business, certain compromises are made that create stressful situations in both the business and the family,” Craig Weaver says. “I felt it was time to move on.”

Much of the work he had been doing fell to Silvers.

Silvers had started as the company’s sales manager in 1995 after spending time in the military, working with his own father in his father’s trucking business, and holding a series of other jobs in the automotive aftermarket industry. During his time at Egge, he completed an undergraduate degree and got an MBA. He was promoted several times before becoming CEO in 2005.

Challenging times

Today, Egge sells pistons, valves and other engine parts mostly for cars from the 1950s and ’60s, though the company has parts for engines going back to 1896 and made as recently as the 1980s. Most of the company’s customers are businesses such as auto repair shops, engine rebuilders and restoration shops. About 80% of the company’s business is wholesale. Only a small number of its sales come via its storefront; most orders come via the Internet or phone.

Among the company’s 38 employees is one of Egge’s sons, Daniel, 24, who programs the computerized lathes the company uses to manufacture the pistons and valves.

The business is larger and more complex than it was when Egge’s father was running it. Weaver says she doubts she and her brother could have kept the business sustainable through the recent recession if they hadn’t had professional management. “Bob and I still feel a responsibility for the employees, to keep them employed,” she says. “We know to do that, the business has to keep going.”

This type of challenge is not uncommon among family businesses, advisers say. For one thing, even if the children or grandchildren of a founder are just as capable and engaged in the business as the founder was, times change.

“People change, and markets change,” says Dennis Jaffe, a family business consultant and a professor of psychology and organizational systems at Saybrook University in San Francisco. A family may own a store that is suddenly challenged by the opening of a Walmart nearby. A manufacturing business may face competition from China where costs are less.

A family member who takes over the business must learn not only how to run the business but how to “really change it if it’s facing difficulty,” Jaffe says.

For Egge, naming Silvers CEO seemed a logical choice. “He was doing most of that work. We decided to just make him CEO,” Egge says. “He developed into that position before we did it.”

That’s didn’t make it easy, though.

“You feel like you lose control,” Egge says. “I still own the place, but I’m working for him.”

But Egge says he realized that his preparation and personality were not well suited to leading the company through challenging times to growth. “People are not my forté,” he says. He attended junior college and got two associate’s degrees, one in manufacturing and the other in business management. “What I learned in college, by the time I needed it, I’d forgotten most of

it,” he says. “I always worked in the shop. I never did that much to run the business.”

Weaver, who discussed the decision with her brother before he made it, says it was clear that running the business wasn’t really what her brother wanted to do. “He’d just as soon be in the shop or behind the scenes,” Weaver says. “Dealing with banks, vendors, publicity and the schmooze factor that needs to come in at that level—he had no desire to do it, yet it’s a necessary skill to run a business.”

Still, Weaver says, she could see how difficult it was for her brother to give up control: “It meant he had to admit that he couldn’t lead the company that had his name on the door.”

Hiring an outsider to run the company is not without pitfalls. “An outside person who’s hired to run the company doesn’t care about it the way the family does,” Jaffe says. Not all CEOs are successful, whether they’re running a family business or a publicly traded company. A poor CEO can harm the business; a good one is at risk of being hired away by a competitor in a way that a family member would not be. “There are all kinds of challenges to even having a good outside person,” Jaffe says.

Egge and Weaver, though, believe that for their company, the change has worked out well.

Silvers “has all the skills that Bob and I both lack in running a business,” Weaver says. “He’s able to make the hard decisions dealing with people and money and cutbacks. He has some vision of how to grow things.”

Egge says Silvers’ expertise has been especially helpful in getting through the recession. When the company was considering staff cuts, for example, Silvers decided to use a work-share program that allowed employees to work reduced schedules and receive some government assistance.

Today Egge runs the warehouse and consults on repairs and electrical work. “I do a lot of research on parts—stuff that we’ve bought over the years that has just been sitting here on palettes,” he says. “It’s what I grew up doing, and I enjoy it.”

Silvers talks with Egge at least each week, often more frequently. The company’s board, which meets quarterly, consists of Silvers; Weaver and Egge; Egge’s wife, Judy, and Weaver’s husband, Craig. An outside financial adviser occasionally attends board meetings and offers advice as well.

Silvers says Egge “is there every day, but he’s not overly involved. He keeps apprised of what’s happening but doesn’t have a direct hand in it.”

Both Silvers and Egge says they have a good working relationship.

“My job is to be the fiduciary of his organization and make sure he knows full well what’s going on and that I’m in line with him,” Silvers says. “Part of my responsibility is to make sure there are no surprises.”

Does Silvers regret working for a company where he has no ownership stake? “Oftentimes I’m asked, why don’t you start your own company?” Silvers says. “I may well do that. But right now I have this responsibility of piloting this 95-year-old company for the owner while they’re sorting out how it’s going to transition to the next generation.”

Future plans

The partnership with Silvers has kept the business going so far. But the long-term future is less clear.

Weaver says the current plan is for her two children to eventually split her share of the company. But since neither is interested in the business, she is considering alternatives, including selling her share.

This is a common scenario for family businesses in which one owner works for the company and the other does not, consultant Dashew says. “A lot of times,” she says, “businesses have just the vision of the founder or his successor. There’s no shared vision. This can end up with one family member saying, ‘Let’s sell,’ and one saying ‘Let’s keep.’”

Weaver knows, though, that things can change. “They’re all still too young to know what they really want to do,” she says of her children and her brother’s, all of whom are young adults.

Egge has four sons and a daughter. He has talked to all of them about the business, but four of his children are pursuing their

own careers. It's too soon to know whether Daniel Egge, who programs the company's computerized lathes, will run the business someday.

"I'd like to always be involved in the company," Daniel says. "I don't know if I'll be actually making the day-to-day decisions." He says he prefers doing hands-on work to a desk job—but he realizes his preferences may change. "I want to make sure I'm prepared for whichever way I go in the future," he says.

Bob Egge says he has discussed the situation with his son: "I've said, 'You're not getting the business until you get a four-year degree.'" Egge says he felt his lack of a four-year degree had hampered him. His son is currently taking courses at a two-year college.

"I'm not sure if he actually wants to run the business," Egge says. "He's like me—he likes the machines. We haven't gotten that far yet."

Silvers says he is encouraging Egge and Weaver to work on a succession plan.

"That's one of the more difficult things for me to implement. I just sort of hold it together until the family decides how they want to do it," Silvers says. He does have one piece of advice, though: "I think owners' kids—and I have been one myself—need to have the opportunity to figure out: Do I really want to be here?"

Margaret Steen is a freelance writer based in Los Altos, Calif.