THE HJ RUSSELL CASE

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ACADEMIC ABSTRACT

This case is designed to teach students the challenges entrepreneurs face in transferring their business to the next generation. This clearly is a difficult process. Only three out of ten entrepreneurs make this transfer successfully. A number of factors should be considered in this process, among which are the relationships of family members from both generations; the career interests of the next generation; the interests and attitude of the spouses of the potential heirs; the preparation and experience of the potential heirs; the state of the company, the human resource needs of the company; the competitive environment of the company.

EXECUTIVE SUMMARY

The HJ Russell case is a story of an African American Entrepreneur who has been highly successful in spite of a severe congenital speech impediment. The case is even more remarkable given the racial barriers which he faced and overcame. The unobtrusive manner in which he approached these barriers is a lesson in strategy for overcoming racism without making news. The case was derived from personal interviews of the entrepreneur and his three children. The entrepreneur has been a business colleague of mine for a number of years, which afforded me a deeper understanding of the dynamics of his entrepreneurial development.

He not only built a successful contracting and real estate development business, he became a leader in an industry that constrained the entry of African Americans into that industry at the time he sought to launch his business.

Because Mr. Russell pursued such a deliberate strategy of management succession and estate planning and execution in an effort to perpetuate his business, I decided to focus the case towards the Management Succession issue; although the racial overtones in his early development stages was so obvious, that that part of the case stands out as well.

A second reason that I opted to focus the case on management succession is that only a few entrepreneurs are able to manage this process successfully, according to the literature on family business succession. In fact, even those entrepreneurs who in the initial stages of management succession appear to be successful, often are derailed by the myriad factors, both endogenous and exogenous, that require insightful understanding and skillful management.

This case can be taught in courses in Family Business, New venture Management and to a lesser degree Estate Planning.
HJ RUSSELL

“Son, if you make a dollar, save a dime, and when you get enough dimes, buy dirt.”
Rogers Russell, [his father]

INTRODUCTION

Born of a father with a third grade education and a mother who was a maid, possessing a severe congenital speech impediment, he matriculated and finished Tuskegee Institute [now Tuskegee University] and launched a business in an industry dominated by white males in the south, where African Americans were precluded by social mores from entering the industry, Herman J. Russell is the epitome of the person who would not let handicaps impede his entrepreneurial success. He not only succeeded, he became one of the key players in the construction industry in Atlanta, Georgia, ultimately serving as general or associate contractor for the construction of such landmark buildings as The Georgia Dome, Centennial Olympic Stadium/Turner Field; Phillips arena and the Coca Cola Executive Offices. In fact, HJ Russell became the 33rd among the 100 largest corporations in Atlanta and 20th among the 100 largest construction contractors in Atlanta. In the process, he built the largest construction contracting corporation among African Americans in the United States. The youngest of eight children, Herman’s father was a plasterer [the forerunner of wallboard], a sub-contractor in the construction industry.

As a plasterer, his father was an entrepreneur, one of the craftsmen that is required to build a house or commercial building; e.g., an electrician, plumber, painter or other craftsmen. He thus, worked for himself as an independent contractor, which is what entrepreneurs do.

Herman saw this entrepreneurial life style as a child and at 12 years old, he began to learn the plastering trade under his father’s tutelage; and at 16 he began to follow the advice of his father. He bought his first piece of ‘dirt,’ a lot that would accommodate a duplex. This first dirt purchase was a portent of bigger things to come as you will see as this case unfolds.

Fast forwarding, after transitioning from being a plasterer to an independent contractor, developing a family [a wife and three children], while spending a lifetime saving and investing in dirt, Herman had the challenge of preserving his considerable wealth that he had accumulated over a 50 year period, for the next generation. To accomplish this objective, Russell planned to execute an estate planning process and a management succession strategy. While these two processes are mutually exclusive, they each can impact the other in the final analysis. Of these two objectives, it was the management succession process that was the most taxing and that kept him awake at night in his effort to preserve the business.

BACKGROUND

Being the youngest of eight siblings, Herman found considerable time to spend with his father as he went about plastering walls of buildings, as a contractor. In the process, Herman learned plastering, an important craft of the construction industry. Perhaps, more importantly, he learned a value system that guided him throughout his life; i.e., “If you earn a dollar, save a dime, then buy dirt.” “I have followed that philosophy throughout my life,” Herman emphasized.

He began working with his father at 12 years old. By sixteen, Herman had mastered the plastering craft. This not only made him valuable to his father, but also it allowed him to earn some dimes. And by 16
years old, he bought his first piece of “dirt.” This was a plot of land that was suitable for the construction of a duplex. In addition, his new found skill was to help pay his way through school at Tuskegee University.

At Tuskegee, he worked as a plasterer part time, to help pay for college expenses. In addition, he worked for his Dad during the summer to augment his savings for school and to begin building the duplex on the ‘dirt’ he had bought. He worked at completing his duplex while still in school. Upon graduation with a degree in construction management in 1952, he completed the duplex; thus began a life time of saving and buying dirt and erecting buildings.

With a degree in construction management, Herman cast his lot with his father, the plastering contractor. But he also created his own plastering company shortly following his graduation from Tuskegee, in 1952. Upon his father’s death in 1957, Herman took over the reigns of his father’s business. After five years of operating the plastering business, Herman realized that he could manage other craftsmen; he thus, changed his corporate focus from plastering to general contractor. It was at this time that he incorporated HJ Russell, Inc. which still endures today.

THE BARRIERS TO BUYING DIRT

Russell knew enough about real estate market values to know the areas where there was likely to be appreciation. He also knew that the social and political mores of the south precluded his buying land in certain areas of the city of Atlanta. A lesser man would have accepted the status quo and confined himself to the areas of the city with less appreciation potential; but Herman did not accept the status quo.

Instead, he hired a white man whose job it was to find and buy land in areas of the city that had appreciation potential, which southern mores decreed that he could not buy. This employee remained on HJ Russell’s payroll for approximately thirty years. “There were many times when I bought land, and when the white real estate investors woke up, I had title to the land,” Herman said.

PENNIES FROM HEAVEN

The US Housing and Urban Development Administration created a program in 1960s to facilitate low and moderate income housing in the United States. The incentive for developers was a significant tax break. Although there was widespread housing development throughout the country under this program; it soon became clear that the Federal Tax System underlying this program was badly flawed and HUD finally discontinued the program.

While the program was in existence, The HJ Russell Company, along with hundreds of housing developers throughout the country, developed thousands of low to moderate income housing units.
STRATEGIC ALLIANCES

Like all business, sometime exogenous factors enter the picture to the benefit of the business. Such was the case of HJ Russell Construction and other minority contractors, including architects, engineers, general and sub-contractors. In this regard, during the reign of Mayor Maynard Jackson, he ushered in a policy that required major commercial contractors to team up with a minority contractor in order to secure business from the city. This period began in 1974 with the building of the $400 million Atlanta Air Port. For the first time in history, minority contractors received in excess of 25 percent of the development of a city contract, or more than $100 million in contracts. This then became a pattern with city contracts, which ultimately carried over into the private sector.

Prior to this period, minority contractors had received less than one percent of contract dollars from the city of Atlanta. They received even less of private sector contracts, the dollar volume of which was significantly larger than the aggregate of city contacts. In fact, the conventional wisdom among mainstream contractors was that minority contractors did not have the skill or experience to perform at the quality level required to construct a facility of the magnitude of the Atlanta Airport. They said “if minority contractors were utilized, there would be widespread cost overruns and significant time delays.”

However, when the facility was completed, Mayor Jackson’s initial statement of his remarks at the dedication ceremony was “And they said it couldn’t be done. You should be aware that this facility came in on time and under budget, with the participation of 25 percent minority contractors.”

Significantly, minorities represented more than 60 percent of the Atlanta population at that time.

Once minority contractors; i.e., architects, engineers, craftsmen and general contractors demonstrated that they had the same level of skills as white contractors, there emerged a new era of strategic alliances between mainstream contractors and minority contractors. As the largest and most well known of the minority contractors, HJ Russell was able to garner a significant share of contracts in alliance with major contractors. Following this era, HJ Russell Construction helped construct much of the skyline of the city of Atlanta under contracts issued outside those of the city. In addition, the joint venture model spread to major cities throughout the United States. HJ Russell Company also expanded to many of those cities.

THE STRUCTURE OF THE HJ RUSSELL COMPANY

Starting as a plastering company in 1952, the HJ Russell Company is currently [2005] a mini-conglomerate. Its core business however, is Construction, Real Estate Development, Property Management and Concession International, an airport concession business, based in several airports throughout the country, beginning in Atlanta.

In addition to its core businesses, HJ Russell acquired a number of non-core business along the way, including a Television Station, a cable system and beer distributorships. As is true of many conglomerates, the Russell Corporation soon discovered that these businesses were outside its management expertise. He therefore sold them when the opportunities presented themselves.

As a measure of the level of dirt buying and development, Table I shows the growth of the core businesses of the HJ Russell Company during the 11 year period ending 2005. Its sales increased from
$165 million in 1996 to $304 million in 2005. Similarly, Table II shows that its employees grew from 500 in 1972 to 1,907 in 2005. While the Company’s rank among the BE 100 fell from 6th place in 1972 to 13th in 2005, it should be noted that the largest firm in the BE 100 grew from $46 million in 1972 to $2.8 billion in 2005, thus causing the Russell company drop in rank. As a further measure of the Russell company growth, from Table III, it can be seen that during the period 1968 to 2006, HJ Russell purchased and developed more than 4600 housing units, of which 3200 were FHA insured, followed by low income housing units of 822, or 18%. The balance was conventional housing. This is dramatic evidence that following his fathers philosophy of saving and buying dirt has paid off.

**TABLE I**

**Consolidated H. J. Russell & Company Revenue History 1996 - 2006 ( Millions of Dollars )**

<table>
<thead>
<tr>
<th>Revenue By Year</th>
<th>Construction Program</th>
<th>Property Mgmt</th>
<th>Total HJR&amp;C</th>
<th>Managed Q</th>
<th>Russell CI</th>
<th>Consolidated Total</th>
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<tbody>
<tr>
<td>2006</td>
<td>206.6</td>
<td>16.7</td>
<td>3.2</td>
<td>222.6</td>
<td>32.6</td>
<td>21.0</td>
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<tr>
<td>2005</td>
<td>166.8</td>
<td>3.7</td>
<td>3.3</td>
<td>173.8</td>
<td>45.3</td>
<td>28.1</td>
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<tr>
<td>2004</td>
<td>146.5</td>
<td>1.5</td>
<td>7.0</td>
<td>155.0</td>
<td>54.7</td>
<td>25.6</td>
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<tr>
<td>2003</td>
<td>133.9</td>
<td>2.7</td>
<td>7.0</td>
<td>143.6</td>
<td>56.9</td>
<td>27.8</td>
</tr>
<tr>
<td>2002</td>
<td>106.8</td>
<td>4.8</td>
<td>6.7</td>
<td>118.3</td>
<td>25.5</td>
<td>16.3</td>
</tr>
<tr>
<td>2001</td>
<td>93.5</td>
<td>1.6</td>
<td>7.7</td>
<td>102.8</td>
<td>50.9</td>
<td>32.7</td>
</tr>
<tr>
<td>2000</td>
<td>80.1</td>
<td>1.0</td>
<td>5.3</td>
<td>86.3</td>
<td>49.5</td>
<td>0.7</td>
</tr>
<tr>
<td>1999</td>
<td>79.8</td>
<td>-</td>
<td>4.1</td>
<td>83.9</td>
<td>59.7</td>
<td>0.7</td>
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<tr>
<td>1998</td>
<td>94.5</td>
<td>-</td>
<td>3.0</td>
<td>97.5</td>
<td>40.5</td>
<td>0.7</td>
</tr>
<tr>
<td>1997</td>
<td>56.7</td>
<td>-</td>
<td>2.5</td>
<td>59.3</td>
<td>36.3</td>
<td>3.0</td>
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<td>1996</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>78.0</td>
<td>39.5</td>
<td>3.1</td>
</tr>
</tbody>
</table>

Source: Company Records

Note; Managed sites is the revenue the flows thru our books from managing the sites.
TABLE II
H.J. RUSSELL COMPANY
SELECTED INDICATORS OVER A 32 YEAR PERIOD (Millions of Dollars)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
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</thead>
<tbody>
<tr>
<td>INDICATOR</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>SALES</td>
<td>$6.00</td>
<td>$51</td>
<td>$105</td>
<td>$143</td>
<td>$173</td>
<td>$191</td>
<td>$304</td>
</tr>
<tr>
<td>Employees</td>
<td>500</td>
<td>275</td>
<td>450</td>
<td>668</td>
<td>1197</td>
<td>1900</td>
<td>1907</td>
</tr>
<tr>
<td>Rank***</td>
<td>6</td>
<td>5</td>
<td>3</td>
<td>4</td>
<td>4</td>
<td>9</td>
<td>13</td>
</tr>
</tbody>
</table>

*** Millions of dollars *** Size rank in the Black Enterprise 100 largest firms
Note: The total sales for the BE 100 in 1992 were $473 million. In 2005 the total was $26 billion. This provides some perspective to H.J. Russell in revenue rank in 2005.

TABLE III
H.J. RUSSELL & COMPANY
HOUSING DEVELOPMENT
SUMMARY FOR SELECTIVE PERIODS

<table>
<thead>
<tr>
<th>Development</th>
<th># of</th>
</tr>
</thead>
<tbody>
<tr>
<td>FHA Insured (RUD) 1968-1982</td>
<td>3,200</td>
</tr>
<tr>
<td>Conventional 1992-1996</td>
<td>220</td>
</tr>
<tr>
<td>Bonds/Low Income Housing Tax 1998-2002</td>
<td>822</td>
</tr>
<tr>
<td>Conventional 2003-Present</td>
<td>365</td>
</tr>
<tr>
<td>Total</td>
<td>4,607</td>
</tr>
</tbody>
</table>

Source: Company Records

GIVING BACK

One of the cardinal principles of success of an entrepreneur, according to Marion Ewing Kauffman, who built a multi billion pharmaceutical business, beginning in his kitchen, was that “the entrepreneur must give back to the community.”

Russell has followed this principle in significant ways. For example, he has created a foundation that provides tutoring for more than one hundred preschool children in the community. While the benefit of such programs is difficult to quantify in the short run, definitive educational research has demonstrated that preschool tutoring enhances the educational success of those children that participate in this type program. In addition to various and sundry contributions to the community, he has made a million dollar contribution to the entrepreneurial programs to each of four universities; including Georgia State, on whose Business Advisory Board he serves, Morehouse College, who awarded him an honorary doctorate, Clark Atlanta University as a tribute to several friends at the university and Tuskegee University on whose board he serves and as an alumnus.
HOW THINGS CHANGE

When Russell entered into the construction industry in the early 1950s, African Americans were precluded from owning real estate in certain parts of the city. They could not belong to the chamber of commerce, nor the exclusive business social clubs of the city. As HJ Russell Corporation became an accepted member of the mainstream construction industry, he was invited, not only to become a member of the Atlanta Chamber of Commerce; [the first among African Americans] he was elected its president, notwithstanding his severe speech impediment. In addition, he was invited to become a member of the Piedmont Driving Club, the number one golf club in Atlanta and the Commerce Club, the top business social club of Atlanta.

Significantly, when Russell began his business in 1952, Atlanta Banks would lend to African American Entrepreneurs with the greatest reluctance. However, when Herman launched the $300 million development in 2,000, he was deluged with calls from banks wanting to lend him money.

PRESERVING HJ RUSSELL ASSETS FOR POSTERITY

By the age of 65, having saved judiciously and invested wisely in “dirt” for almost 50 years as his father had admonished him, Russell had accumulated a significant fortune. He wisely decided that while he was still in good health, he would plan and execute an estate plan. “A well planned and executed estate plan, not only transfers one’s assets to posterity in an orderly manner, while he/she is still living, it will also diminish inheritance taxes,” Herman said.

Since most of Herman’s wealth was in “dirt,” including appropriate buildings, under certain conditions, the law allows the tax payer to transfer one’s real estate at ½ of its value to the next generation. This transfer of heir property, not only minimized possible disputes between the siblings, it also legally diminished his inheritance taxes.

To accomplish this, Herman created a corporation with two classes of stock, one voting and one non-voting. He contributed 90 percent of the assets to his children on an equal basis, the value of which was represented by non-voting stock. The father retained ten percent of the assets, but all of the voting stock and thus control. The upshot was that the children owned 90 percent of the assets while the father kept the voting stock and thus control of the company.

Significantly, after relinquishing the day to day management of HJ Russell Company to his sons, he launched a $300 million real estate development project, the assets of which, according to Herman, “will be devoted to the foundation and my grand children.” My children have enough.” Meanwhile, Herman has followed a policy of contributing $20,000 per year to each grand child from the time they were born. He currently has eight grandchildren.

WHO SHOULD I SELECT TO RUN THE COMPANY FOLLOWING MY RETIREMENT?

“To begin with”, Herman said, “I did not pressure either child to select the company as his/her career. I did give them summer jobs and allowed them to run around the offices, even while they were in elementary school. I then, sent them to the school of their choice for higher education. I also tried to
create an environment within which they would each do his/her best at whatever they chose to do, but to avoid negative sibling rivalry. So they generally compete in love and respect.”

DONATA, THE FIRST BORN

Donata, [Age 43 in 2002] the oldest and the only female, chose the Wharton School of the University of Pennsylvania. Following graduation, she worked for IBM for several years before coming into the family business. Her first executive job with the family business was with the Concession International. It became clear that Donata did not want the hustle bustle of the construction business. Although the consensus between the other two siblings was that Donata is probably the brightest among the three siblings. Instead, her preference was to work with the foundation, and community service. “She thus, has spent her time helping us develop the foundation” Herman said. This is currently where she spends her time.

JEROME, THE MIDDLE CHILD

Jerome [Age 40 in 2002] expressed interest in the company at an early age, beginning in elementary school. He worked in the company during the summers, as did the other siblings. After getting a degree in Business Administration from Georgia State University, he entered the company full time. His first job was Assistant to the General Manager of a company owned Beer Distributorship in Chicago, Illinois, following which he served as President of another company owned beer distributorship in Atlanta. When these profit centers were spun off, Jerome began working full time with the core companies; primarily Real Estate Development and Property Management, which by that time were major assets and profit centers. Having worked his total career at HJ Russell Company and understanding the total business, he was elevated to president and Chief Operating Officer of HJ Russell Company in 1994.

MICHAEL, THE YOUNGEST

Like the other siblings, Michael [Age 37 in 2002] began working in and around the company while still in elementary school. His choice for higher education was the University of Virginia Engineering School. Following graduation from the University of Virginia Engineering School he also earned an M.B.A. from Georgia State University where he earned an MBA degree. He then spent four years working for the largest real estate developer in the city of Atlanta, at that time, following which he began working with the construction division of HJ Russell. Michael has spent the rest of his career in this division, rising to the position of Executive Vice President of HJ Russell Company.

THE SUCCESSION DECISION

Having watched his kids develop throughout their lives, and being ready to give up day-to-day management of the company, Herman knew he was making a decision, the quality of which might not be manifest for several years into the future.

He knew, by experience that the construction industry is driven in large measure, by relationships. He also knew that contracts were not always awarded on the basis of the lowest bid and that many contracts never reach the bid stage. Instead they are decided upon relationships and known skill and experience levels, much of which is subjective. He also knew that construction followed the cyclicality of the real
estate industry and that many contractors were often overleveraged at the top of the cycle, leaving them no wiggle room when the bubble at the top, bursts, which it always does. The result is there is widespread failure among this class of contractor. Herman also knew that when he was first selected to be on the list of the Black Enterprise 100 largest companies in 1972, there were ten construction companies on the list. Currently, [2005] HJ Russell is the only construction company on the list. This suggests that either they failed to keep abreast of the growth rate of the BE 100, or that the business is no longer in existence.

Russell also knew that no matter how skilled an entrepreneur is in construction or any industry, there are exogenous factors that can put him/her out of business at any given time. He specifically recalled when the largest real estate developer in Atlanta in the 1970’s went bankrupt and at the time, he had a worldwide multi billion dollar operation. Herman further recalled the difficulties that this developer encountered working his way back to solvency. He further realized that like the restaurant industry where frequently, a good cook thinks he/she can become a restaurateur. The result is the highest attrition rate in American Industry in a similar manner, often a good carpenter believes that he can become a general contractor, resulting in failure rates not too dissimilar to that of the restaurant industry. Thus, working as a skilled craftsman is significantly different from managing the management functions of a business enterprise. Herman felt, however, that these scenarios did not apply to him.

Most significant of all, Herman knew that in spite of his sterling success and his systematic grooming of his children, that success in one generation does not guarantee success in the next generation, given the myriad factors that determine the success or failure of the company.

Given the knowledge of all of the above, Herman wondered if it might not be wise to seek out a well connected, non-family, highly experienced construction management executive with wide market contacts and give him a three to five year contract, with the view that he may propel the company into an arena that could put the company on an exponential growth/profit trajectory. This approach would give Michael a bit more time to work with an experienced well connected ‘pro’ at both the bottom and the top of the economic cycle.

Nonetheless, following a family retreat, Herman decided that Michael, the youngest sibling should become CEO. Given the industry risks, the competitive environment and the family dynamics, Herman wondered if his decision were the right one.

DISCUSSION QUESTIONS

1. To what factors do you attribute the success to date, of the HJ Russell Company?

2. Given the racial barriers that Herman faced in the early years of the company, what were the entrepreneurial characteristics that were responsible for his survival, in your opinion?

3. Only three out of ten American Family Businesses successfully transfer their businesses to the second generation. What are the factors that make this process so difficult?
4. Given the cyclical and inherent risks in the construction industry, the family dynamics, and Michael’s background, and given the fact that Jerome was already COO of the company, if you had been the father, would you have made the same decision? Why or why not?

5. Obviously, as chairman, Herman could continue to guide Michael; however, as an African American Male, being in his late 70’s, his future life span is unpredictable. Do you think the risk factor would change if something happened to Herman?

6. Herman executed his estate plan several years before his management succession decision was made. What do you think about this approach? Or would you have done it differently?

**SO WHAT**

Conceiving, organizing, launching and growing a new business is a complex and taxing undertaking. Only a few people try it and still fewer succeed at it. Of those that succeed, only about one third successfully transfer the going operation to the next generation. Only about half of those successfully transfer the business to the third generation.

Because of the contribution new and small business make to the American Economy, it is important that every effort be made to assist entrepreneur’s attempt to perpetuate their businesses.

In addition to cases highlighting management succession, there is a great need for a public policy strategy to be put in place to enhance the probability of developing a support system for the perpetuation of new ventures in much the same manner as is the agricultural arena.

Given that this sector produces more than half of the new jobs in the American Economy, setting a target of a 10 percent improvement within a finite time frame would be good public policy, in my opinion.

**HJ RUSSELL**

**Teaching Notes**

This case is designed to teach students the value of the importance of and the strategies for planning a Management Succession Process. While this is the primary focus of the case, with very little imagination, the professor can spend part of the class discussion on the barriers faced by African American Entrepreneurs and productive strategies for addressing this problem.

Like all life endeavors, there is no one way to do most things. Accordingly, this case lends itself to more than one approach.

One approach would be to focus upon the factors that must be considered in planning and executing a management succession process as the lead discussion. After allowing the students to exhaust their opinions as to what factors drive a successful management succession strategy, the discussion could turn
to those attributes that Herman Russell appeared to possess that led to his success under such difficult circumstances.

The class can also be led to explore Herman’s parenting skills, which may have been largely responsible for his successful management succession effort. In this regard, it will be recalled that Herman appeared to possess superior parenting skills. Instead of overtly suggesting to his children that they come into the business, he allowed them to absorb the culture of the business similar to an osmosis process. This process is not unlike that which toy manufacturers use in making toys that allow kids to have fun while they are implicitly learning. As his kids were running around the office and doling small chores, they were absorbing the business culture. By the time they got old enough to understand, they already knew some things about the business that were unaware that they knew.

Finally, and most importantly, the students can be led to focus upon the management succession planning, preparation of the heirs and execution of the decision by HJ Russell.

With respect to the factors that should be considered in the planning and execution of management succession process, there are a number that should be considered. Among the most important are:

1. The state of the company; i.e., what is the financial condition of the company? Is it profitable? Is the balance sheet sound? What are the trends in this regard? In this regard, we can only infer that the HJ Russell and Herman personally, were financially sound. To wit: Herman launched the $100 million real estate development immediately following his retirement from the company. Additionally, the sales and employees of the company continued to increase. [See Table I]

2. What is the quality of the current management staff? Is it universally competent? Or are there gaps in the competency level? We can infer that the HJ Russell Company had a competent support staff, given the number real estate structures it developed during the last ten years. [See Table II& III.]

3. What about the loyalty of the staff? Can they be depended upon to remain with the firm? In this regard, if history is any teacher, we can infer that Herman had built a loyal staff, for example, the company had 500 employees in 1972, and it had more than 1900 in 2005. [See Table I]

4. What is the nature of the current competition in the industry? The likelihood is that it will be the same.

5. Is the company considering diversifying or will it remain in its core business? In this regard, the company had tried diversifying and sold those holdings, concluding that he company did not have the management competency to manage those holdings profitably.

6. If there are more heirs than positions available, how will the management personnel be selected? There was only one major management change and that was Michael. Jerome was happy where he was and Donata was not a candidate for the construction division.

7. What is the relationship between the heirs that will be considered for management positions? Why is this important? Herman had built a family environment that facilitated sibling cooperation. So this did not seem to present a problem.
8. What is the relationship between the heirs and the lead family entrepreneur? Why is this important? The heirs appeared to idolize their father and their father idolized them. Obviously if there had been negative sibling rivalry, Herman could not have made this transition so smoothly.

9. Will there be heirs that want their cash now instead of participating in the business? If so, how will this affect the financial position of the company? No. Herman had built an environment of sibling cooperation and that the company should come first in their behavior.

With respect to the attributes that Herman appears to possess that contributed to his success, some are obvious, others may be inferred. Those that appear to be obvious are: tenacity, educational preparation, frugality, making stepping stones out of stumbling blocks; the value of “giving back”; keen understanding of real estate investment principles; and love of the business that he is in and love of his family.

With respect to his strategy of planning and executing the transfer of his wealth to his heirs and the management planning process, this was a difficult decision both from a family perspective and from a business perspective.

The evidence seems clear that the oldest son, Jerome was being groomed for the CEO position of the management succession hierarchy. He had risen to the presidency of the company and Chief Operation Officer. In the final analysis, Michael, the youngest was promoted from Executive Vice President to that of Chief Executive Officer, assuming this position from his father.

In most families, such a decision to select the youngest son over the oldest and who had served the longest, and had been promoted to second in command, would have raised some serious questions among the other siblings. In the Russell Family, there appeared to be an unusual love and mutual respect between the two siblings that were under consideration, thus making the decision less painful. Both Michael and Jerome said “there was little or no change in the responsibilities of the two siblings; only the title of CEO was conferred on Michael from our father, but we continue to do the things we did before the title change.”

It thus appears that the management succession has been uneventful to date. Nonetheless it should be recalled, that it is not uncommon for smooth management succession to turn sour following some unforeseen event; e.g., a death, divorce, a major mistake or a change in the competitive environment or a fractured relationship that had been key in the operation of the company. In addition, it should be recalled that the largest developer in Atlanta had gone bankrupt when the real estate bubble burst in a prior period.

Given these facts, the class might be asked to consider whether a highly skilled and well connected construction executive might be a reasonable interim CEO.

Because the management success was executed with very little apparent difficulty, it may difficult to get the students to think along these lines; but a thorough discussion of this alternative should precede the vote as to which alternative they would chose, as the final act of the class.