

ATF, Inc.: **Fasteners and Family**

In the summer of 2009 Jason Surber became president of Accurate Threaded Fasteners, Inc. (ATF), the company his father, Don Surber, had owned and led for nearly thirty years. ATF had weathered multiple economic challenges under Don's leadership and had grown to more than \$50 million in annual revenues from the company's product lines, which included cold-headed screws, threaded bolts, and other fasteners.

While he was working to gain the trust of the company's employees, board, and customers, and as the United States emerged from a major recession, Jason also had to think about how best to manage ATF's culture. In addition, he needed to define his professional and personal relationships with his father (who had relinquished his management responsibilities but remained ATF's CEO and board chair), his younger brother, Ryan (who worked in ATF's sales organization), and his youngest brother, Kyle, who had no official role in the company. Finally, Jason had to decide what his overall leadership agenda should be.

Don Surber and ATF

Don Surber joined ATF as its general manager in 1978 and purchased the company soon after. Over the next three decades its revenue grew both organically and through profitable acquisitions.

From ITW to ATF

Don grew up in Indianapolis, Indiana, and graduated from Indiana University in 1967 with a BS in business. After graduation he moved to Chicago and accepted a sales position with Illinois Tool Works (ITW). A year later he married Nancy, his high school sweetheart, who attended DePauw University. Both were the first members of their respective families to graduate from college.

Through the mid-1970s, Don rose through the ITW sales ranks, and the couple moved from Chicago, to Cleveland, to Indianapolis, and then back to Chicago as he switched sales territories and product lines. As the family grew, Nancy left her elementary school teaching position to be a full-time mother, while Don spent long hours working and traveling.

In 1977 ITW promoted Don to general manager of a Kentucky-based manufacturing plant, and the family moved to a rural hamlet in southern Kentucky, where they built a new home. Within a year of moving, however, Don was presented with a new and promising opportunity to head Accurate Threaded Fasteners, Inc., \$12 million subsidiary of major food processor Beatrice Foods Co., located just north of Chicago in Lincolnwood, Illinois. Don accepted the offer to become ATF's general manager and moved his family back to the Chicago suburbs in mid-1978.

From Employee to Owner

When Don learned that Beatrice planned to shed its smaller and noncore subsidiaries, including ATF, he began exploring the possibility of acquiring the company himself. In 1982, after drawn-out negotiations with multiple hesitant lenders, he structured a leveraged buyout of ATF, using his home and all the company's assets as collateral. Don also took on Fred Bishop, a financier and former banker, as a silent partner with a 25 percent equity stake. On April 1, 1982, Don and Fred became the official owners of ATF.

Growth, Integration, and Profitability

The early 1980s were challenging for American heavy industry as the country emerged slowly from a recession and domestic automakers—ATF's primary customers—lost major share to Japanese competitors. During this period Don struggled to keep ATF in business. "I came close to defaulting on the loans several times," Don said. "Once, when a lender was being impatient, I threw the keys to the plant on the banker's desk and said, 'Here you go!'"

ATF revenues grew steadily during the late 1980s as Don recruited and retained a strong management team. He took pride in their successes and those of his shop-floor machinists, many of whom were immigrants seeking a higher living standard. "So many languages were spoken in the plant," Don recalled proudly. In later years the company created a "wall of flags" in its entryway to symbolize its diversity. Don presided over his ATF "family" with a patriarchal style.

As ATF's fortunes rose, Don sought to expand the company's international presence. The first step was a licensing arrangement with EJOT GmbH & Co. KG, a German fastener manufacturer owned by Hans Kocherscheidt. After the companies concluded their agreement Kocherscheidt arranged for his son, Christian, to spend time—ultimately more than a year—at ATF learning the cold-headed fastener business. That arrangement helped motivate ATF and EJOT to launch Asyst, a small 50/50 joint venture of a very different sort: plastic injection molding and assembly within the Lincolnwood plant.

The joint venture, headed by a particularly adept ATF manager, grew steadily. By the mid-1990s Asyst moved to its own manufacturing facility in Kenosha, Wisconsin, and outpaced growth expectations as the German-American team turned out highly profitable headlamp components. As a result, Asyst quickly became one of ATF's largest businesses.

In the late 1980s Don had purchased Frankfort Manufacturing Company, a small Michigan-based company that supplied ATF's tooling. He maintained a controlling interest in that business, but worked with multiple minority partners. Although Frankfort did not follow Asyst's remarkable trajectory, it was modestly profitable, and Don built a new plant for it in Michigan in 1997.

By the late 1990s, the combined annual revenues of ATF, Asyst, and Frankfort were nearly seven times that of the company Don and Fred Bishop had purchased nearly twenty years earlier. In 1999, at age fifty-five, Don stepped down as president of ATF and elevated Don Cunningham, the company's general manager for the previous five years. Cunningham, who now had responsibility for all day-to-day operations at ATF, had extensive experience managing manufacturing facilities within larger organizations.

Don remained chairman of ATF and spent much of his time traveling, with significant focus on growth strategies and alliances. For example, he helped forge alliances with manufacturers of complementary products; two such partnerships—Striker and RIMS—had spin-off potential similar to Asyst. Don also spent considerable effort recruiting international members for the Global Fastener Alliance (GFA), a strategic automotive supplier group he created. By the end of 2000, seven companies (with more than \$1 billion in collective annual sales) from six countries had joined charter members ATF, EJOT, and Richard Bergner Verbindungstechnik GmbH & Co. (RIBE) as members of the GFA.

The Surber Family

As ATF grew, so did the Surber family (see **Exhibit 1** for the Surber family tree in 2009). Don and Nancy were actively involved in their three sons' lives as they grew up and were committed to contributing to their community. For example, Don served on the board of Lake Forest Hospital, and Nancy helped head the hospital's fundraising. They were active in the Young Presidents Organization and, subsequently, the World Presidents Organization.

As children, the Surbers' sons were exposed to ATF only through annual company picnics and occasional time spent at their father's office on weekends. Don and Nancy always encouraged their sons to pursue their natural interests. Ryan and Kyle did short-term, hourly work in the Asyst and Frankfort plants during their college summers; Jason did not work for the company through his twenties. Jason said, "Growing up, my dad never spoke of his long-range plans for ATF. He sometimes complained of the business's fiercely competitive nature, and said he hoped we would find easier or more rewarding ways to earn a living. So I just assumed he would sell the business when he was ready to retire. I realize now that was his subtle way of encouraging me to explore my own interests."

Jason graduated from DePauw University with a BA in history in 1993 and immediately enrolled in law school, graduating in 1996. He joined a small Chicago law firm concentrating on commercial litigation and general corporate work, representing clients embroiled in partnership disputes and families clashing over their businesses. Although Jason found the work interesting, he realized that his longer-term career interests lay outside law.

Jason began sharing his uncertainty about his career path with his parents in the late 1990s. The discussion coincided with the approach of critical decisions regarding ATF's future. Specifically, that was the time that Don was preparing to turn over the company's day-to-day operations to Don Cunningham, along with determining whether ATF should stay part of his and Nancy's estate plan. In June 1998, prompted by their conversations with Jason, Don and Nancy met with all three sons to discuss the possibility of making ATF a true family business. No decisions were made, but it was clear that all three sons were enthusiastic about keeping the business in the family and about possibly working for ATF someday.

Following that meeting, Ryan and Jason began preparing for possible leadership positions with ATF. By then, Ryan had finished his undergraduate work at Miami University (in Ohio), where he had played varsity hockey. In late 1998 he moved to Germany and enrolled in an intensive German-language course, after which he began working for EJOT, living in a one-room apartment on the second floor of Christian Kocherscheidt's house. He rotated through EJOT departments, improving his German and business skills. Subsequently he moved to Portland, Oregon, as the director of international sales for a truck-component manufacturer.

In early 1999 Jason enrolled in the part-time MBA program at Northwestern University's Kellogg School of Management. He left his law firm that summer to work on an independent basis with Stericycle, a Lake Forest-based publicly traded medical waste management company, assisting with the \$440 million acquisition of its largest competitor. After the acquisition, management asked Jason to continue as Stericycle's general counsel and he accepted, serving as the sole in-house attorney for the 2,100-employee firm. In mid-2000 Jason married Kirsten.

At the time of the family's meeting in 1998, Kyle had one year of high school remaining. He later graduated from Colorado State University, where he majored in public relations.

The Surbers held their first official Family Council meeting in December 2000. By then, Jason was thirty and excited to become involved more deeply in the business, leveraging his law experience and ongoing MBA training. Ryan was also eager to enter the business but recognized the value of gaining more outside experience first. Kyle, just turning twenty-one at the time, was open to joining ATF in the future but remained unsure of his career plans. All three recognized the importance of proving themselves outside of ATF before being viewed as credible management candidates. Further, they knew ATF and its affiliates would only hire them on an "arms-length" basis, meaning they would only be considered for open positions that could not be filled by internal hires and for which they were truly qualified. The Surber family was determined not to take any action that could have been perceived as nepotism.

Transition to a Family Enterprise

Once Don saw the potential of making ATF a true multi-generation family enterprise he began considering the best way to make this vision a reality. Don knew that Jason's experience practicing law had given him solid balance-sheet (i.e., acquisition-related) experience and that Kellogg was helping him learn broader business skills, including those related to P&L responsibilities and family business dynamics. Don and Jason decided the best first step to involve Jason in ATF was to put him on the company's board for two years; after that experience he could consider joining as a manager. In the summer of 1999 Jason joined ATF's first formal board of directors, which included Don, Fred Bishop (Don's original partner), and two independent directors. The board played an advisory role without legal or voting functions.

Jason saw his board position as a way to learn about ATF in depth while developing relationships with his fellow directors. Having spent no significant time in a professional capacity at ATF up to that point, Jason was able to gain rich insights into the firm. He described his board position as an "unofficial tryout" for joining ATF in a managerial capacity. Jason's legal and acquisition experience gave him a unique perspective, and the related insights he shared with the board made clear the value he could bring to ATF.

Still, not everyone was comfortable with Jason's director role. Specifically, Don Cunningham, the nonfamily president of ATF since 1999, was apprehensive about what the position represented, especially Jason's possible ascent to mid-level management. Motivated partly by this concern, ATF instituted an "external directors only" session, without Jason, at the end of each board meeting. The measure was taken to reassure nonfamily managers and directors that the family was serious about professionalism in the boardroom and broader company.

The Second Generation Takes the Helm

After proving his value as a board member, Jason joined ATF in August 2001 in a sales management role, his first formal experience working with his father's company. He advanced to a field sales management role with more reports, followed by taking P&L responsibility for an ATF business unit and subsequently becoming VP of sales and marketing.

In 2006 Don Cunningham's time as ATF's president came to an end. Though a capable manager overall, Cunningham had been primarily focused on operations and costs, and was less visionary than Don. As a result, ATF's performance had slipped. Several directors believed Jason was ready to take on the role of president—one suggested "speeding up" Jason's transition to the head position—but his father was more cautious. Porter McLean, Don's former ITW colleague and a close family friend, was tapped as the new president with the understanding that he would be acting more as a steward in the position, in a time-limited capacity. Jason had known McLean since he was in first grade and looked up to him as a close family friend and mentor.

In late 2008 the U.S. credit meltdown hit, spurring a broader financial crisis. McLean worked closely with Jason on many of the issues facing ATF, including new customer initiatives and difficult decisions regarding downsizing, which gave Jason the opportunity to prove himself as a capable business strategist and leader. In spring 2009 McLean decided to step down as president, and the selection process for a new leader began. Jason was a clear candidate, along with the head of Asyst and an outside candidate. Whoever secured the role faced multiple business and leadership challenges. "For the last year of McLean's term in office we endured the worst economic crisis ATF had ever faced," Jason said. The board and Family Council considered the candidates carefully, and Jason emerged as the first choice, becoming ATF's president in July 2009. "He was part of the management for eight years before becoming president," Jason's brother Kyle said. "So it was a very organic move for him."

Sitting in his father's office—*behind* his father's desk—seemed unreal to Jason at first, and he felt the burden of having to prove his value while managing ATF's performance and culture. By then, Fred Bishop, the previous co-owner of ATF, had effectively been bought out, leaving shares of the company fully in the Surbers' hands; Jason knew he had to uphold the value of the shares for his family and the company.

The Surbers had taken several steps to help Jason navigate the transition in roles. First, the years-long gap between Don's and Jason's tenures as president had made for a smoother transition than if Jason had immediately followed his father, trying to fill his large shoes. "I had the gift of space," Jason said. The elder Surber had moved his official office to Kenosha to ensure that Jason was perceived as the go-to executive at the Lincolnwood headquarters.

Jason began to think about some of the specific challenges that lay ahead.

The Challenges Ahead

It did not take much analysis to recognize that Don's personality had influenced ATF's culture significantly. His patriarchal, commanding style and charisma had been imbued in the company over the nearly thirty years he had run it. "He had built solid, lasting relationships with everyone, from the CFO to the cleaning staff," recalled Jason, who described his father as a passionate and intuitive leader who had run ATF with his "heart and his gut." As a result, employees and managers alike routinely approached Don with questions and concerns about matters large and small. His own leadership style was more analytical, so Jason had to think about whether he wanted to perpetuate that strong cultural element for ATF and, if not, how to promote a shift.

Jason also faced the challenge of managing a much larger number of people than ever before—ATF had about 130 employees when he took over. CFO John Glazier said, "Much of management wondered how Jason would deal with that kind of responsibility. There was also the challenge of managing functions that were new to him, like HR and finance." Jason was facing these challenges in a very difficult economic environment. "We were just emerging from the crisis when I became president," he said. "Both our top line and workforce had shrunk by one-third the year before, so I took leadership of a company very much in a bunker mentality but beginning to change mindsets as our industry came back to life." He noted that the economic crisis had "cleansed ATF of some old paradigms," enabling him to walk into the president role with a "clean slate."

In 2005 middle brother Ryan entered the business after previous success working with EJOT and the Oregon-based truck-component company. Ryan joined ATF in a field sales capacity, a function in which he had always exhibited great talent. By contrast, Jason showed more interest in general management than in sales. Ryan and his family were based in Michigan, close to many of ATF's key customers, and he enjoyed the autonomy and distance from the Illinois headquarters. The contrast in strengths and distance also helped diminish potential competition between the brothers.

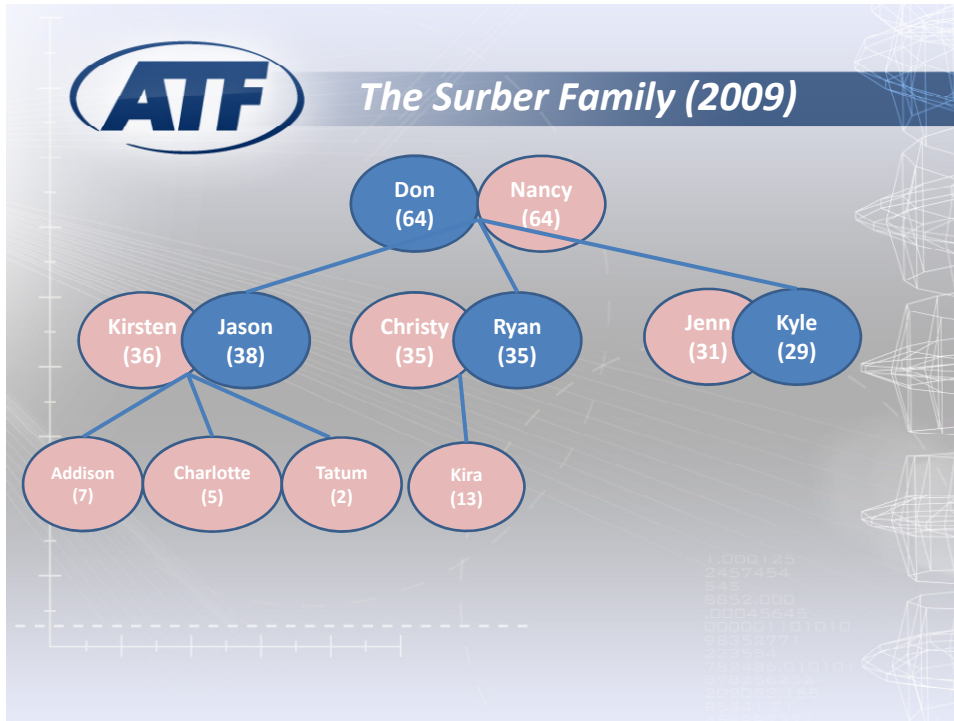
At the time Jason became president, youngest brother Kyle was working outside ATF but had an interest in becoming more involved with the company in the future. Jason had to think about how best to handle the situation. Before Ryan had joined the business, there was mild discomfort within the family, as all three sons had expressed an interest in being more involved with ATF, but the younger two required more outside experience first. Now that both older brothers had joined ATF, they had to be aware of any tension Kyle may have felt about being an "outsider." Similarly, Jason had to figure out the best approach to take with Ryan and Kyle. With Ryan in the business, Jason found himself somewhat in the position of mentor, but at the same time he did not want to lose his close relationship with Kyle.

Of course, Jason also had to manage his relationship with his father. As noted earlier, upon Jason's ascension to president, Don had moved his office out of the Lincolnwood headquarters, retaining a small space that he occupied only two to three times per month. He retained his CEO title, however, a move the board approved as a way to ease early pressure on Jason's performance. At the same time, some board members thought Don's influence during meetings remained stronger than ideal, with Jason deferring to his father on multiple issues. Don also maintained some of the organizational traditions he had started, including a "Lunch with the Chairman" program through which employees across all departments were invited to attend a lunch with Don.

The Future of ATF

Upon assuming the role of ATF president, Jason had to consider his agenda and priorities with regard to multiple areas. Along with gaining credibility in the new position and considering the best strategy and tactics for the business amidst the tail end of a major recession (e.g., how much and how quickly to scale operations), he had to determine how best to manage ATF's culture and what management style to embrace in leading the organization. Jason also had to tackle the challenge of managing his father and his brother Ryan, while thinking about his youngest brother Kyle's possible future entry. The choices he made would affect both the performance of the company he now led and the well-being of the family he represented at ATF's helm.

Exhibit 1: Surber Family Tree in 2009



Note: Blue/darker circles = male family members; pink/lighter circles = female family members. Ages in parentheses.