
HANDLING FAMILY BUSINESS ISSUES IN A FINANCIAL CRISIS

by Baker A. Smith and John A. Berger

Inadequate business and succession planning are among the major management flaws encountered among underperforming family businesses.

The stakes are greatly increased in a financial crisis. At risk are livelihood, net worth, community status and identity within the family. The mere occurrence of the financial crisis may be a severe blow to the owner's self-esteem. As a result, issues are magnified and emotions can run out of control. Many clients become unable to act.

Normal emotions from the stress of a financial crisis often are worsened by the owner's unrealistic assessment of the situation. The stages of behavioral reaction associated with a troubled business are not unlike those of grieving for a family member. These stages typically include shock, denial, anger, depression and bargaining before acceptance of reality sets in. This may take time the company doesn't have. The intervention of an unbiased third party can be crucial in helping the owner face reality quickly before the company's lifeblood of cash ebbs away.



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Stress may manifest itself in both physical and psychological symptoms. Physical symptoms may run the range of fatigue, back and neck pain, migraine headaches, eczema, arthritis flare-ups, asthma, ulcers, high blood pressure, heart failure and stroke. Psychological symptoms may include anxiety, anger, sleeplessness, frustration, irritation, emotional exhaustion, impatience, insecurity, intolerance, feelings of helplessness, impulsive behavior, impotence, depression and dissatisfaction with life. The mere presence of the third party may ease some of these symptoms. However, immediate multidisciplinary steps need to be taken to solve the personal and business issues.

To avoid a relapse of the crisis, a business plan should contain specific timetables and responsibilities assigned for each action item. The owners become publicly committed to the plan in the process of garnering plan support from all concerned parties — family members, company managers, employees, outside stakeholders, lenders and trade creditors. This is one of the few advantages of planning during a financial crisis.

How can family issues be separated from business issues? In guiding the planning process, the consultant must frequently remind the owner/manager that what is

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best for the business will most likely be best for the family. For example, the owner/manager of a troubled lumber supply business kept objecting that a proposed reorganization and modified succession plan would cost several in-laws their jobs. In fact, without the reorganization, the company was doomed to close and there would be neither jobs nor net worth. With the overwhelming support of the family, including the insiders whose jobs were affected, the reorganization was accomplished and the company regained profitability.

One characteristic of many family business failures is a tendency to use the business to manipulate others. This negative behavior usually results in relationship trauma and hurt feelings. Since it draws energy away from achieving success in the business, both the company and the family suffer.

To illustrate, our firm recently worked with a family-owned manufacturing company, in which the CEO pushed one of his sons into the presidency so hard that he had a nervous breakdown. During the process, we urged the family to reconsider, but they stated that, philosophically,

paternalism and nepotism were values that overrode the needs of the business. In reality, these so-called values were actually manipulative and negative behaviors. After the son became ill, the family finally realized its obligation to do what was best for employees as individuals. This meant removing some family members from situations where they would fail and helping them find new careers outside the company.

Importance of strategic business planning

The strategic business planning process serves the paramount purpose of continually reminding both family and nonfamily managers and shareholders that business existence is dependent on positive cash and profits. This realization helps the ownership separate family from business issues and ultimately gets to the root causes of conflicts. Often, the ways in which family business affairs are conducted are only manifestations of deeper family attitudes and feelings developed outside of and unrelated to the business.

Once family issues are understood and dealt with, the transition to professional management can begin. Professional management, from within or outside the family, is characterized by the execution of an agreed-upon recovery business plan. Such a plan attracts the support of lenders, creditors and outside stakeholders if it addresses key business issues and proper implementation through an appropriately staffed and functional management organization. This organization must be supported by financial information systems and controls that provide top managers with usable data to make timely financial, operating and marketing decisions.

To encourage achievement of strategic objectives, such a plan typically includes performance-monitoring systems and incentive-based compensation programs along with detailed job descriptions and candidate profiles. The accompanying budget typically includes monthly and annual projected income statements, balance sheets and cash flows with detailed written assumptions by line item.

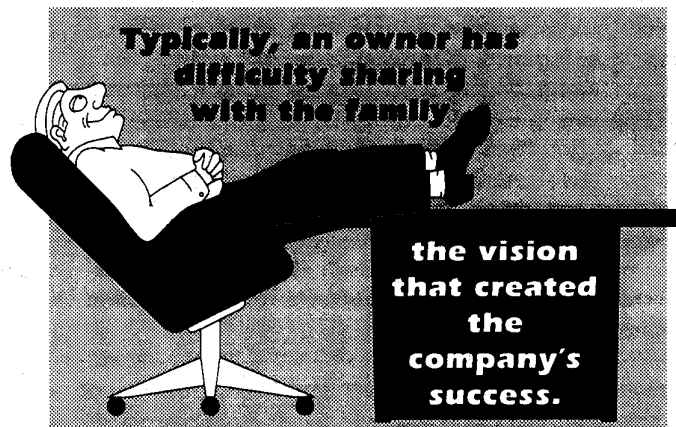
Where does succession come in?

Typically, inadequate business planning is accompanied by inadequate succession planning in both family and nonfamily-owned businesses. Succession may be achieved through the management elements of the recovery business plan, particularly if the succession plan already exists and is appropriate. A succession plan may have been prepared but not implemented because the owner has not disclosed its provisions or the family disagrees with them.

It is essential that the succession plan provide harmony in two major areas: first, estate planning concerns with appropriate business concerns; and second, real desires and interests of the controlling family members with the real desires, interests, and abilities of succeeding family members.

Estate planning conflicts are most likely to arise from the valuation of the business as an asset. If relatives have different assessments, there will be fights. Frequently, family managers view the value of the business differently from nonmanagement shareholders.

When a succession plan must be developed during a financial crisis, it should be done in the overall context of the recovery business plan. Any restructuring of the business that necessitates management reorganization creates an opportunity to determine the best fit for family and nonfamily managers, by assessment and evaluation.



In the evaluation phase, it must be determined whether a manager is a good fit for the new functional organization. An effective manager should be kept and given more responsibility, as appropriate, along with a performance-based incentive plan. A marginal manager needs performance standards and monitoring, as well as an incentive plan. A manager who does not fit needs to be moved to another position in the company or given outplacement assistance. Unfortunately, the inclusion of outplacement as a humane and valuable action benefiting both company and individual is overlooked by many bottom-line managers.

As long as a business remains viable, it is not too late for planning. In a crisis, a multidisciplinary team of professionals can give the broadest perspective to the process and avoid hasty or disastrous mistakes. Third-party professionals usually are sensitive to, and can separate, family and business issues.

What kind of behaviors lead to a financial crisis?

Typically, an owner has difficulty sharing with the family the vision that created the company's success. The business plan allows family members to understand previous and current decisions and acquaints them with business reality while removing the owner's emotional isolation and reducing family stress.

Often, even though the owner/manager can envision a transfer of power, there is no training or teaching of successors. He or she may be impatient, overly critical,

unable to communicate or prone to rely on obsolete experience and knowledge.

The owner/manager must commit to improving the skills of managers and preparing them for the tasks ahead. In growing businesses, the owner/manager may not understand the required skills due to his or her own lack of ability. In these cases, outside professional help may be the answer.

Many chief executives, both family and nonfamily, do not accept their mortality or need for retirement. Frequently, the business has become all-consuming and the thought of not having an important role is frightening and stressful. What usually is missing in such cases is a focus on outside interests and a fully developed personal financial plan.

A serious and common problem among numerous owner/managers is that they do not trust others. For example, the head of an apparel company hoarded information and did not communicate to other managers the critical information they needed to be effective. After counseling, it became clear that his mistrust was unfounded and he agreed to turn the presidency over to his son and, importantly, to approve the execution of a detailed sales and marketing plan.

One of the distinctly unprofessional behaviors of some managers is the usually unconscious effort to sabotage others. There are many possible reasons for such behavior. In such cases it is commonly due to insecurity or jealousy or the need to compete with children or other family members. Again, third-party intervention regarding both business and family issues, as well as the planning process can often alter this negative behavior.

Hiring and retaining loyal but incompetent yes men, both family and nonfamily, is another characteristic of the insecure personality. Achieving owner/manager buy-in to the management organization and staffing portion of the business plan is essential here.

Another shortcoming of many family businesses is the failure to engage competent outside advisors. Either through insecurity or naivete, the owner/manager retains weak board members and ineffective legal and accounting counsel. As a result, he or she forecloses honest and direct feedback about strengths and weaknesses and does not stay

current with new developments in technology and markets. While management has both the better position and the greater responsibility to lead the company, it is important to replace weak advisors with stronger ones. These counselors still must be matched to the personal chemistry of the owner, and the owner must be open to their advice and counsel.

Aversion to risk is a more subtle flaw that surfaces in many family businesses. How can an owner/manager, who previously possessed a true entrepreneurial spirit, become paralyzed by fear of loss and unable to make the changes

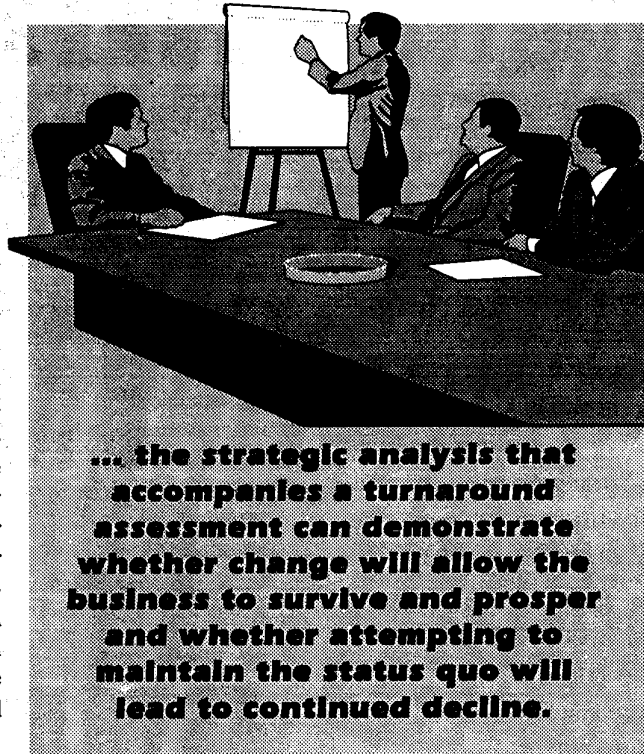
necessary to save the business? Somehow, he or she rationalizes that maintaining the status quo is better than risk of failure. On the other hand, the strategic analysis that accompanies a turnaround assessment can demonstrate whether change will allow the business to survive and prosper and whether attempting to maintain the status quo will lead to continued decline.

In moving from a start-up business to a larger business, many owner/managers do not make the transition to a team management or participative approach. Instead, a dysfunctional organization evolves while growth itself compounds the problems. The owner/manager frequently attempts to retain control of

key functions, such as sales, operations, purchasing and finance, without delegation or consulting key employees. He handles cash like his personal checkbook. In this regard, managerial responsibility is not distinguished from ownership responsibility.

This mind set must be corrected by team building. The consultant holds one-on-one interviews with key managers, both family and nonfamily. As problems are identified, the family issues are separated from the business issues and dealt with in a family meeting.

One of the principal objectives of planning in a crisis is to separate ownership and management issues. Planning and team building are useful as catalysts when the owner/managers are unable to act effectively. They also serve as vehicles to obtain essential commitments from both family and nonfamily managers to move the business forward. In many high-stress situations, a multidisciplinary consulting team can help sort out the issues and get both the individuals and the business back on track. ▲



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