

Working with the Troubled Family Business



by Gerald Sherman

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Family owned companies represent, by far, the greatest number of business entities in the U.S. economy. For many turnaround professionals, regardless of their area of specialty, family owned businesses represent a significant percentage of both their clientele and revenue. Despite all the time, effort and attention they have received, however, family owned businesses in general—and troubled ones in particular—continue to represent a most difficult challenge. Often, seemingly good advice and common sense are heavily resisted and sound professional work is effectively negated. As a foundation for working with troubled family owned businesses, there are seven strategies that should help to improve the turnaround professional's effectiveness.

1. **Respect the Power of the Family System.** The family system is powerful in every family owned business. In the troubled firm, the family system is often so strong that it prevents sound business decisions from being made and implemented. Trained family business psychologists clearly understand the power of the family to interfere with good business practice. The turnaround professional must understand that the troubled family firm may simply lack the ability to

recognize, let alone address, the issues that are hurting their business. Further, because of the power of the dysfunctional family system, good advice will often be resisted. Don't expect the family owned business to simply act on your recommendations.

2. **Try to Understand the Family Power Structure.** The true power structure of the family, with respect to the business, is often both subtle and difficult to decipher. For example, the CEO's young daughter or son, while holding a secondary position within the organization, may have the ability to heavily influence key decisions. Similarly, spouses not active in day-to-day operations or seemingly retired elders can also hold inordinate levels of power. Understanding and addressing these family members, if possible, can sometimes make a critical difference in a turnaround professional's effectiveness.
3. **Align Yourself with Great Care.** In many family owned businesses, family members have conflicting interests and divergent goals. It is important for outside professionals, regardless of their area of involvement, to align themselves

with great care. Generally, this alignment must be with the business rather than with any particular family member or group of family members. In some cases, however, the alignment may have to be with shareholders rather than the business, per se. For example, older shareholders might choose to liquidate when a successful turnaround might be possible. In every troubled situation, hard decisions will have to be made and turnaround professionals need to be viewed as being aligned appropriately in order to have the best chance of being effective.

4. **Foster Communications.** Family businesses often develop an informal and inconsistent pattern of communications. It is very common within the troubled family owned business to find that they have no program of scheduled management meetings to address and resolve issues. The simple establishment of a regularly scheduled meeting for senior management can begin a process of proactively addressing business issues in a professional, objective fashion. Formal agendas and minutes are also very helpful.
5. **Understand the Power of Incumbent Outside Professionals.** Family owned businesses often have relied upon the same outside CPAs, attorneys or consultants for many years or even decades. On many occasions, the long-standing nature of these relationships gives these other professionals an extraordinary level of influence. It can often be critical to have the support of these incumbents in order for the turnaround professional to be effective. In some cases, this may not

be possible and a strategy for dealing with those professionals will have to be developed.

6. **Recognize Your Limitations.** A fully empowered interim manager may have the authority to make and implement decisions. In most circumstances, however, the turnaround professional is not playing that role. Regardless, unless clinically trained in family dynamics and various aspects of psychology, no turnaround professional has the training to truly understand the dynamics that may be critical to a troubled family business. When sound business recommendations are consistently not being acted upon, it will be far more effective for the turnaround professional to recognize that they simply may not understand what the underlying problems are.
7. **Reach Out for Additional Expertise.** In those situations where the family dysfunction is so great that the likelihood of a successful result is put in serious jeopardy, the turnaround professional should consider the retention of an additional professional or firm. Specifically, a clinically trained family business professional or family business consulting firm that has the expertise to more fully analyze and resolve fundamental issues can substantially increase the chances for a successful turnaround. The field of family business, as a specific area of expertise, is growing and there are a small number of highly skilled professionals that often make a critical difference.

The turnaround professional assisting a troubled family business brings an objective, balanced perspective to the problems at

hand. The power of the family system, however, often limits or even eliminates the opportunity to be effective. Every turnaround professional will be well served to respect this power and take steps that will improve their likelihood for a successful engagement.

Editor's note: In 1991, Gerry Sherman brought a clinically trained family business psychologist into a family business turnaround assignment. This approach proved to be successful and since that time, Mr. Sherman has worked extensively with that psychologist and his firm, Genus Resources, Inc. (see article by Richard L. Narva, Esq., in this issue), in more than 30 assignments.

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