Family business turnarounds: non-financial fixes are the key

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1. Introduction

I sat in a client's conference room when he called his advertising agency to ask that they pull the coming weekend's advertisement for his family's furniture and appliance store. Midway through the call he broke down in tears as he told the account manager to design an ad for the store's "going out of business sale". Having run the company for the last 30 years with his brother, they had just lost too much money. It was the end of the business their father started 48 years before. On another day, I sat around the table with members of the fifth and sixth generation of a 135- year-old manufacturing company when the decision was made to sell what remained of the family business. Decades of decline had taken their toll.

Both companies had enjoyed many years of success and had a significant presence in their respective markets. The appliance store was one of two iconic locally owned retailers in their mid-sized northeastern U.S. city, and the manufacturer was just one of several major producers that served a highly specialized niche of replacement equipment for paper mills. Furthermore, the family members of both companies were recognized as smart, hard-working and good people.

So what went wrong? What if the founders had fully appreciated the depth of training the next generation would need to competently assume control? What if the families had found more effective ways to work together? What if the family members had recognized the need to prepare for major shifts in the nature of their industry? The questions were virtually endless.

Since 1983, about half of the 350 or so underperforming and financially troubled companies I've worked with have been family owned. They've ranged in size from $5 million in annual sales to more than $250 million; they have operated in scores of industries and spanned the United States. The degree of financial difficulty I've addressed has ranged from companies whose profits were declining and debt was increasing, to those facing heavy losses, severe cash flow shortfalls and the likelihood of insolvency.

Regardless of these circumstances, my viewpoint has always been that financial difficulties are symptomatic of much more fundamental issues. Furthermore, I've found that troubled family businesses almost invariably struggle with the same constellation of core non-financial challenges:

- an underperforming chief executive officer (CEO);
- flawed decision-making processes;
- underdeveloped organizational and administrative practices;

- underdeveloped family management practices; and
- family dynamics/dysfunction.

Furthermore, I've seen that the most significant failing of many, if not most, family business turnaround efforts has been that these non-financial issues are often given relatively little, if any, real attention.

This chapter explores these five fundamental non-financial challenges in depth and will present strategies to initiate and foster a successful family business turnaround effort. Together with sufficient progress financially, every family that makes an effort to address these non-financial challenges can significantly enhance the potential for taking their troubled company and restoring its prospects for being a strong multi-generational asset.

2. Background

I grew up in a family business environment where my father and his brother had been partners in a distribution company for 10 years when I was born. While I wanted to join the business when I graduated from college, my father actually discouraged me. He believed the business was in a dying industry – shoe manufacturing in the U.S. – and he told me he didn't want to see his son spending his days in dirty factories working as a salesman like he did. It took me many years to understand his wisdom about my future. It's also very important to note that when my father passed away, I learned that my uncle's family held a deep resentment towards him. I had no idea. The issue was that my father, a Russian immigrant and the youngest of eight children, was the family's first college graduate and he regularly demeaned his brother's ability in helping to manage the business. Looking back, I understand why our families rarely socialized.

Before graduate school, I worked for a large consulting firm that was focused on Fortune 500 and governmental clients, and I thrived on both the challenge and the variety. Then, after completing an MBA, I began my career as a commercial banker with the belief that the experience would be an excellent foundation for my future – and it was! During my six years in the industry, I became a specialist in lending to the weakest companies that still qualified for bank financing. Then, with the experience and contacts I had developed, I left and started a consulting practice that quickly became focused on helping underperforming and troubled companies.

As I developed my consulting skills, I had four formative experiences that shaped my beliefs about why a family business falls into trouble and helped me understand what strategies would be particularly important for a successful family business turnaround. These are as follows and are described further below:

- working extensively on site;
- working with a trained family clinician;
- working with behavioral assessment instruments; and
- developing a CEO database.

2.1 Working extensively on site

My substantial turnaround engagements often require me to spend the majority of

my time on site – sometimes for more than a year. While I generally take on a number of responsibilities, two have been particularly meaningful. First, on many occasions I act as chairman of the 'executive committee', an *ad hoc* group of the senior managers responsible for every major functional area of the business: finance, marketing, sales, production, human resources etc. The CEO is always a member of the committee but typically cedes significant influence to me as chairman. On some occasions, when a defaulted bank insists, I become the chief restructuring officer and have virtually total control of the client. I also become the CEO's coach and mentor – to the degree he/she allows me to.

Coming from a background in commercial lending, where I was really on the outside looking in, this was the first time I had been down in the trenches. It was an enormous learning experience that allowed me to gain an understanding of both the families I worked with and their businesses. From my standpoint, I could not have gained these experiences in any other way. Being with these clients almost daily, I got to know them well and was able to observe their personalities, their professional strengths and weaknesses, their interactions with others and, typically, their family dynamics/dysfunction. My time with family member CEOs, in particular, has been invaluable.

2.2 Working with a trained family clinician

In 1991 I became chairman of one of these specially formed executive committees at a troubled company where the family was crippled by incessant conflict. For the two second-generation brothers and one brother-in-law who ran the business, heated battle was a regular event. The basic dynamic was easy to identify: the CEO and eldest brother always got what he wanted; his younger brother always supported him in the end, even if he outwardly disagreed; and the brother-in-law, who more often than not got it right as I saw it, was always overruled. Despite this, the brother-in-law was a fighter and refused to just give in easily. Needless to say, his persistence only made matters worse. As just one example of the challenges occurring in the business, I can highlight that while I was involved there was a pressing need to close unprofitable distribution centers; nonetheless, I was vehemently overridden by the two brothers despite both my role and the brother-in-law's well-founded objections. Given this dynamic, there was little doubt in my mind that the company was going to fail. As a result, I found myself facing an ethical dilemma. Should I continue to take substantial fees while I believed I had little chance of being successful? Or, should I resign? While discussing the issue with several peers, one suggested that I contact a consulting group he knew that specialized in family business conflict resolution. The firm was one of the first to use a multidisciplinary methodology, and its underlying theory was simple: when working with a client where the family dynamics are highly problematic, two professionals are essential. The first needs to be a clinical professional trained in family dynamics and the second should be a business professional trained in management, financial and operational issues.

Eventually, I was able to bring one of the firm's clinicians into the case. Working together, we were able to help the family to both work together more effectively and stabilize the company financially. Did we fully resolve all of the family dysfunction?

Absolutely not! What we did accomplish, however, was to facilitate enough change in the family dynamics and management processes to allow for more-effective decisions to be made. As a result, the family stayed in business for another 15 years and then sold out successfully.

With the benefit of this experience, the clinician and I have worked together on about a dozen cases subsequently. We always begin by developing an extensive family history. The clinician focuses on developing a family history that examines the personalities, interpersonal relationships and significant events of the prior and current generations – for example, the divorce and remarriage of the founder, a feud between two prior-generation siblings or a debilitating illness of the current-generation's mother will sometimes have great significance with respect to the family's dysfunction. On a parallel track, I focus on:

- how the business was started;
- the personalities, strengths and weaknesses of the founding and successor generations (if any);
- the training of the founding and successor generations (if any);
- the evolution of the company's business activities;
- the evolution, or lack thereof, of the company's organizational, administrative and family management practices; and
- how successor generations (if any) were trained and selected.

This first step is central to working effectively with a family business because the issues that have to be addressed are always rooted in these histories, and the information they provide enables the clinician and me to develop significant insights into the family dynamics and management issues of the current generation. For example, the founder/CEO may have been a dogmatic and domineering personality with little concern about the thoughts or feelings of his siblings in the business. As a result, the successor generation may have had little, if any, exposure to the kind of constructive conversations that family members can have to resolve differences. Similarly, the founder/CEO may have been a driven salesperson with little interest in developing the rigorous administrative or family management practices that could have provided a sound foundation for successor generations to manage effectively.

Overall, my experiences working with a clinician have provided me with two critical business perspectives that are central to my work with financially troubled family businesses. First, I was able to observe that the inadequate organizational, administrative and family management practices of the current generation were typically rooted in the personalities, strengths and weaknesses of the prior and current-generation CEOs. Indeed, I was able to observe that the CEOs of troubled family businesses – most particularly the founders – primarily focus on selling and delivering their business's goods and services, and they pay significantly less attention to how the company is organized and administered. Secondly, I was able to recognize that I didn't have the training to help resolve significant family dysfunction. In saying this, I also need to make very clear my view of the clinician's goal when such a specialist works with me: the clinician's focus has to be helping the active family

members become good business partners (not necessarily best friends). Given this, when I work with a troubled family business without the involvement of a clinician, while being very mindful of the impact of family dysfunction I focus my efforts largely on the critical financial- and management-driven issues that have to be resolved.

2.3 Working with behavioral assessment instruments

A behavioral assessment instrument is a highly sophisticated tool that can be used to develop insights about a prospective or current employee's personality traits and tendencies when working with others. Most typically, they're used for employee hiring and development purposes. Among the areas these tools can evaluate are self-awareness, leadership style, the ability to listen to and learn from others, decision-making processes, the ability to initiate and tolerate change, sales orientation and attention to detail.

Within the family business world, the behavioral assessment can help family members to:

- develop a better understanding of themselves;
- identify areas where additional support and training may help improve their job performance;
- develop a better understanding of one another; and
- develop ways to work together more effectively.

When a family is open to using these types of instruments, the insights I get invariably enhance my ability to be of help. However, even if I'm not using an assessment tool with a particular client, the understanding I gained by working with them always puts me in a better position to coach family members.

Several years ago, I found a particularly helpful assessment instrument that's built around the concept of emotional intelligence (known as 'EQ'). As succinctly described in the book *Emotional Intelligence 2.0*, EQ can be measured by looking at four behavioral characteristics as follows:

- *self-awareness:* the ability to accurately perceive your own emotions in the moment and understand your tendencies across situations;
- *self-management:* the ability to use your awareness of your emotions to stay flexible and direct your behavior positively;
- *social awareness:* the ability to accurately pick up on the emotions in other people and understand what is truly going on with them; and
- *relationship management:* the ability to use the awareness of your own emotions and those of others to manage interactions positively.

The instrument to measure each of the four EQ components can be completed online in no more than 10 minutes, produces results virtually instantaneously and is made available to every purchaser of the book. Furthermore, the book provides strategies for improving weaknesses in each of the areas listed above and, for about $20 in a hard-copy version, the instrument is accessible to all.

While extremely valuable to me when working with every active family member,

I've found the instrument particularly helpful when I'm working with the CEO. In virtually every instance, they're the dominant personality in the business and their behavioral characteristics – both strengths and weaknesses – have great significance with respect to the financial and non-financial issues being addressed. Furthermore, with even modest progress in several if not all of the EQ components, the CEO's effectiveness can be meaningfully improved. Conversely, little or no progress with any of these four components does not bode well.

2.4 Developing a CEO database

In 2009, I decided to compile a database in order to catalogue a large number of facts about 25 of the CEOs of underperforming and financially troubled family businesses I have worked with. I had no intention of developing statistically significant data; rather, my goal was to see whether my visceral observations about these CEOs would be confirmed.

The facts that I compiled for each CEO were as follows:

- their age at the time of their entry into the business;
- their age when they were named CEO;
- their highest level of education;
- if they attended, their major in college;
- the number of years they worked outside the family business prior to joining it;
- the highest level of responsibility they attained in a job prior to joining the family business;
- the average annual sales of the family business for the two years prior to experiencing significant financial difficulty;
- the number of years they worked in the family business before they became CEO;
- the area(s) of expertise they developed while working in the family business;
- the number of years they worked as CEO prior to the family business experiencing financial difficulty;
- the number of hours of outside professional education they participated in during the two years prior to experiencing financial difficulty;
- their participation in industry organizations;
- the generation number of the business they represented;
- the number of siblings they had in the business; and
- the number of family members they had in the business.

The facts detailed above that correlated most closely with experiencing financial difficulties were the number of years the CEO worked outside the business prior to joining, the level of responsibility attained in a job prior to joining the family business, and the number of hours of professional education participated in during the two years prior to experiencing financial difficulty. In other words, the CEOs of underperforming and troubled family businesses tended to lack both vital experience and an interest in improving their skills through professional education.

To that point, when I begin a new engagement, an initial priority is to conduct one-on-one interviews with each family member in the business. In these interviews,

I always ask how much time they have spent in the prior 24 months attending professional education programs. Typically, the answer is none – and my most memorable answer by far was when a second-generation son answered, “I haven’t attended any classes but I have read two business books over the past 25 years.”

3. Core non-financial challenges

Each of the formative experiences discussed above has helped shape my beliefs about why the five core challenges listed in section 1 above are so common in troubled family businesses and why they have such significance. Furthermore, it’s very clear that these core challenges feed on and exacerbate one another.

Set out in the remainder of this section is further discussion of these challenges.

3.1 An underperforming CEO

The CEO database discussed in section 2.4 helped to identify the lack of appropriate experience and training as an indicator of future financial difficulty. How does this lack of experience show itself? The answer is everywhere, although not typically all within the same company. Quite frequently, the lack of experience is reflected in weak administrative and family management practices. On many occasions, however, other areas are impacted just as significantly if not more so.

For example, I recently worked with a third-generation CEO who took direct responsibility for managing the development of his business’s first ‘direct to the consumer’ website. This was a crucial initiative because internet sales had captured more than 50% of the market for their products. After a $4 million investment and four years of work, the site generated less than $550,000 during its first year of operation – far less than was needed. There’s no doubt in my mind that the most significant reason for this failure was the CEO’s total lack of experience or training in website development and marketing. Would $2.5 million in sales during the same period have saved the company, or at least bought it more time? At a 70% contribution margin, the answer is “yes”. Unfortunately, with the CEO’s lack of experience and expertise, the company was simply not in a position to succeed.

Even more than inexperience and a lack of training, the most salient aspect of the underperforming CEOs with whom I’ve worked is their ineffective and sometimes destructive behavioral characteristics. Indeed, in my experience the underperforming CEO, far more often than not, is the single most significant reason that the business gets into financial trouble. In fairness, the current-generation CEO’s performance issues are invariably rooted in experience levels and behavioral characteristics of the preceding generation or generations of CEOs.

And what are these problematic behavioral characteristics? The ones I most typically observe include:

- an inability to understand the impact of their behavior on others;
- an inability to really listen to others;
- inflexibility;
- an aversion to change;
- difficulty establishing constructive relationships with the entire senior management team;
- an inclination towards either rapid or extremely slow decision-making; and
- a lack of financial restraint.

I should also note that these destructive characteristics have been identified on numerous occasions by various behavioral assessment tools I've used.

3.2 Flawed decision-making processes

Ultimately, the direction of every business, family owned or otherwise, is driven in many if not most respects by the major decisions that are made. In financially troubled family companies, the decision-making process is invariably flawed – sometimes catastrophically so.

On an overview basis, there are five reasons:

- Family concerns often override fundamental business factors.
- A dominant CEO simply gets his/her way. Indeed, the more vehement the CEO's position, the worse the decision tends to be.
- Many times, decisions are made without adequate information. More often than not, this is largely because the family has never learned how to investigate issues thoroughly.
- "We've always done it this way" is often the basis for decisions.
- There is what I call 'the non-decision decision' or the 'inertial guidance system'.

For the most part, these issues are a reflection of both family dysfunction and the lack of accountability that most troubled family businesses are plagued by.

3.3 Underdeveloped organizational and administrative practices

'Organizational and administrative practices' are meant to encompass all of the structures, processes and policies that every business needs to effectively manage its activities. In popular parlance, the quality of a company's organizational and administrative practices determines its ability to execute.

With respect to family businesses, underdeveloped administrative practices are typically a direct and very significant reflection of the inadequacies in the CEO's training and experience. Furthermore, I have no doubt that an inability to execute decisions severely diminishes the results of even the best strategies. To that point, there was a fascinating study published several years ago by Professor Peter Boyle of the University of Texas.[1] Professor Boyle conducted research for the purpose of identifying key factors that lead to businesses experiencing financial difficulty. His two key findings were as follows:

- "Business failure correlated with the internal environment of a company more than its external environment."
- "Solutions to internal problems are generally administrative, not strategic."

Clearly, Professor Boyle drew a direct connection between a company's weakness in administrative practices and the eventuality of encountering financial difficulties. My experience is largely consistent with his findings, and the key underdeveloped organizational and administrative practices I regularly observe are as set out under the five headings in the remainder of this section.

1 Peter Boyle, "Turnaround Strategies for Troubled Companies", *Journal of Small Business Management*, July 1995.

(a) Developing and maintaining a clear organization chart

As is generally known, an organization chart is a common-sense document that details the authority structure and reporting relationships between the various functional groups of a business – executive management, sales and marketing, accounting, operations, etc. Without a well-thought-out and clearly communicated organizational structure, the only result is inefficiency and confusion – and particularly so with larger companies.

I will always remember the day that I met with the dozen customer service representatives who worked at a new client. Before I began the engagement, I had been told by Cyrus, the third-generation CEO, that customer service was a major organizational bottleneck. In fact, he told me that the problem was so bad that the company's salespeople didn't want to solicit new customers because they knew customer service would be inadequate.

Getting into the issue, I started by asking the reps a simple question: "Who do you report to?" Various team members named four different people as the supervisor of the department. Imagine the confusion! In particular, team members were given mixed messages about what their work priorities should be. That was their life.

Notably, Cyrus was a graduate of one of the most prestigious graduate business schools in his country and yet, he adamantly refused to prepare an organization chart. His employees believed he wanted to have ultimate control over everything and didn't want anyone else to have too much authority. With respect to customer service problems specifically, Cyrus knew that on average his reps managed about 30% less in sales volume than his competitors' did. Furthermore, he also knew that this was costing him close to $250,000 a year for additional staff. Nonetheless, he would not address the central issue of the confused authority structure and the mixed messages it created.

(b) Developing and maintaining consistent internal communications processes

Referring back to the definition of family dysfunction in the Psychology Dictionary, it is clear that impaired communications are characteristic of a dysfunctional family and, similarly, my experience shows impaired communications are also indicative of distressed family business. In particular, while consistent communication is invaluable at every level of a business, it is crucially important among executive-level family members. What are the primary reasons why poor communications are so common in distressed family businesses? I see three: the entire family's inexperience with effective administrative practices; an underperforming CEO's behavioral characteristics; and general family dysfunction.

Here is an example of how pervasive and destructive poor communication can be. Ralph was the CEO of a family business client of mine that had 15 stores throughout the northeastern United States. Shortly after I was engaged, I asked how often Ralph held meetings with the store managers, and the answer was never. And then, to my amazement, I was told that Ralph had stopped the practice many years prior because he felt that the managers ganged up on him to talk about the problems they were having. Could there be a worse way to address his store managers' issues?

(c) Enforcing accountability throughout the organization

'Accountability' is the simple concept that every executive and lower-level employee is expected to do what they are supposed to do when they are supposed to do it. Being realistic, this can't always be the case; and when it is not, the executive or lower-level employee should report the delay to the appropriate party and commit to a new completion date. When this does not happen consistently and there are no consequences, a business cannot maximize its potential.

Kevin, a family member, was responsible for preparing new product catalogues every several years. These catalogues typically required an investment of $400,000 to $500,000, were prepared in order to present the company's new products and were considered a crucial piece of his company's ongoing success. His performance actually became a family joke – he was always three to four months late and substantially over budget. As a result, the company was continually behind its competition with the fresh offerings that their industry demanded. Nonetheless, Kevin's poor performance was tolerated – and he wasn't even pressured in any meaningful way to do better. The family just wasn't able to call him to task. As a result, over time, they lost millions of desperately needed sales.

(d) Developing and maintaining effective planning systems

There are two key aspects of business planning: short-term, most typically for a year, and longer-term, most typically for two to five years. For internal purposes, a one-year plan should first and foremost be financial in nature. The company may or may not undertake new initiatives during the year, but the cost, timing and capacity to pay for them has to be reduced to numbers.

Typically, these one-year plans have one or more of four basic failings in troubled family businesses:

- the plans simply don't exist in any meaningful way;
- the plans are poorly prepared;
- the plans are over-optimistic; and/or
- the plans are not adhered to.

As for a longer-term plan, the failures are simpler. They generally don't exist in any meaningful way.

(e) Developing and maintaining a strong human resource management system

Most of my troubled family business clients have had, at best, poorly prepared job descriptions and little to no formal review process. Furthermore, measurable goals and objectives for either employees or family members were not typically established. Thirdly, troubled family businesses tend to offer little to no training to help employees, or family members for that matter, improve their skill levels.

Nonetheless, a common complaint I receive from clients is that their employees don't perform satisfactorily. From my standpoint, it's illogical to think that an employee can perform to their full capability if they don't explicitly know what their tasks are, what their perceived weaknesses are and what their goals are – and, finally, when they are not provided with adequate training to develop their skills.

3.4 Underdeveloped family management practices

Countless articles have been written over many decades with titles such as "Why

Family Businesses Fail". Reasons that are typically cited include poor succession planning, inadequate governance practices, insufficient training of successor generations, little accountability for family members working in the business, and different visions occurring between generations.

Given this, it's quite fair to look at underdeveloped family management practices as the root cause of many family business difficulties. Most significantly, from my standpoint these deficiencies often lead to a poor or even disastrous choice of a successor CEO. At the same time, a narrow focus on underdeveloped family management practices, such as poor succession planning or inadequate governance, will not lead to a successful turnaround. In fact, immediate attention must first be given to the other core turnaround challenges discussed above.

3.5 Family dynamics/dysfunction

The *Psychology Dictionary* begins its definition of 'dysfunctional family' as "[a] family showing impaired communications and relationships", and in many respects this is the essence of the issue. And how can significant dysfunction in a family business be distinguished from the normal disagreements and challenges that even the strongest of families will encounter? In my experience, dysfunction becomes significant when it prevents the family from consistently considering, making and implementing business decisions based largely on the business issues at hand. As just two examples, an underperforming child or sibling might not be held accountable for – or even made aware of – how the quality of their work is viewed, or a family member may be paid a salary far in excess of what the job would pay a non-family member.

With the family businesses I've worked with, no more than 15–20% have displayed dysfunction very openly. Rather, what I've more typically observed is a dominant and underperforming CEO (see section 3.2 below) who usually gets his/her way, rendering other family members disempowered and unable to contribute to the extent of their abilities. As a result, these family members hold resentments that fester and grow, and the business loses the potential benefit of their contributions.

(a) An illustrative example

Sandy was a self-made man and serial entrepreneur. His first venture was building a chain of 10 vehicle dealerships, and during that time he also built a substantial investment real-estate portfolio. Then, at the age of 64, he started a specialist vehicle manufacturing business and built it into a $135-million company within 15 years. He ruled with an iron fist and was an unrepentant micromanager whose style I called 'management by butting in'. Given his dominance as the CEO, his son, daughter and two sons-in-law in the business, as well as senior-level non-family members, felt entirely disempowered. Much more often than not, they knew what should be done – or at least that more research and discussion was needed. Over time, however, the successor-generation family members became both afraid to buck Sandy and totally disheartened. The one occasion that they were actually able to act on their own beliefs was when Sandy was out for six months with a life-threatening illness. When he returned, though, he reversed virtually every major decision that had been made by them. In my professional opinion Sandy was wrong every time.

I was brought in by the company's bank to evaluate the business. My manufacturing expert quickly determined that, among other things, massive manufacturing inefficiencies were driving costs 4–5% above where they should have

been. Sandy disputed this vehemently and had no interest in considering our findings. In fact, he accused me of presenting these findings only because I "wanted a five-year contract" to remedy the problem. Furthermore, during my presentation to the bank, I reported that the company's profitability issues could largely be solved by improving efficiencies. Sandy's follow-up comment at the meeting was to tell the bank I was wrong – exactly what they didn't want to hear. Sandy was smart enough to know that but was incapable of accepting someone else's opinion; and to make matters worse, he just couldn't keep his mouth shut.

Shortly thereafter, to my great surprise, Sandy convinced another bank to take over the company's loan. With my encouragement, albeit still amazingly, Sandy's son called the prospective new bank and asked them not to make the loan. He knew that the only chance he had of initiating change was to have the current bank continue to exert pressure. Wanting the business, the new bank wouldn't comply with the son's request. Sandy was also a screamer and regularly abused his family by his words. At a meeting that I attended shortly before the new bank came in, Sandy started to scream at me uncontrollably – and from my standpoint, irrationally. My response was to tell him that while his family might choose to tolerate his outbursts, I wouldn't. I walked out and never looked back. While somewhat extreme, this is a classic example of a highly underperforming and inflexible CEO disempowering the family, to the great detriment of the business.

(b) Another example

My favorite story about the disempowerment of a family member involves the son of a dominant and entirely unethical father. The company was suffering from severe cash-flow shortfalls and the father's complaint was always, "If the vendors just worked with me, everything would be fine." After living with this situation for more than a year yet being unable to do anything about it, the son had had enough. He got up at a meeting and, in response to his father yet again complaining about vendor cooperation, he said: "Dad, your definition of 'vendors working with you' is that they sell you stuff and you don't pay for it." Once he said this, he resigned.

4. Areas not perceived as core turnaround challenges

4.1 Strategy – a special case

Referring again to Professor Boyle's study, he states: "Solutions to internal problems are generally administrative, not strategic." Accordingly, and while it is perhaps counterintuitive, Professor Boyle found that poor strategy does not correlate with business failure as closely as administrative weaknesses do. Put another way, the effective execution of a strategy is generally more important than the strategy itself. My experience is consistent with these findings.

One significant exception to this finding, however, has become crucial since the study was completed in 1995: specifically, when a company's industry is experiencing a major transition. For example, the internet transformed many industries, and the transition of some retail segments to 'big box' stores did the same. In those cases, a company must shift its strategy or risk ultimate failure. It is important to note that such a strategy shift can be either subtle or visibly extreme. For example,

a family-owned hardware store close to where I live in the U.S. has continued to thrive despite the advent of Home Depot. Why? The family that owns the business refocused itself into becoming the area leader in customer service. Outwardly, the store looked the same and no substantial changes were made in its product offerings. The "customer experience", however, was greatly enhanced. Speaking for myself, I go to Home Depot to buy a commodity-like item at a low price; but I will always go to this neighborhood store if I need advice about the best product to solve a particular problem. In effect, the family is now selling both a product and a service; and while the customer pays more, they still see themselves as getting good value.

Conversely, Netflix has totally changed how it delivers movies and other video content. Ten years ago, it shipped DVDs to its customers; today, Netflix delivers through the internet. More importantly, it made the shift proactively and, as a result, continues to be a growing business with a strong outlook.

4.2 The economy

My simple analysis is that even in the worst of times, the failure rate of businesses is still relatively low. It's not as if 50%, or even 10%, of companies fail during a recession – even an extreme one. Furthermore, the owners' responsibility is to position their company with the financial cushion needed to withstand declines. Accordingly, economic cycles should be viewed as a management issue – and a far from insurmountable one.

I should also note that companies become troubled throughout the economic cycle, again pointing to management as a more critical issue.

4.3 Capital

Another study of interest was conducted by Dr. Robert Lussier of Springfield College.[2] Dr. Lussier conducted his research for the purpose of determining whether a model could be developed that could predict business success or failure with an acceptable level of reliability. Interestingly, capital levels proved to be a less reliable predictor than seven other variables, including effective planning, sound record-keeping, sound financial controls and the use of outside professional advisers.

My experience is consistent with Professor Lussier's findings and my viewpoint is that ownership's responsibility is to manage the company in a manner that is consistent with its capital levels.

5. Driving the turnaround process

True turnaround efforts don't occur spontaneously. Rather, there are always one or several factors that create the impetus for major change. And what are these factors? As a practical matter, they are numerous and can develop internally, externally or both. For example, an

2 Robert Lussier, "A Non-financial Business Success versus Failure Prediction Model", *Journal of Small Business Management*, January 1995.

unhappy bank; persistently weak earnings or losses; significant industry changes; or the general dissatisfaction of a few – or even all family members can all motivate action. Regardless**,** every successful family business turnaround effort requires a rock solid commitment by all family members. That's because to be successful, this will eventually require many, if not all, family members to approve and/or accept necessary business decisions that are uncomfortable, undesirable or both.

Set out in the remainder of this section are the steps required to implement a comprehensive turnaround effort. As a practical matter, though, while these steps are presented in a linear fashion that *could* work, generally they occur somewhat simultaneously and from time to time a critical issue requiring immediate attention will surface regardless of any clear order for addressing issues that previously had been established.

5.1 The first phase: Establishing a framework for managing the turnaround process

(a) Step 1: Designating a change agent or change agent group

Going hand in glove with the commitment to change, a steady, insightful and resolute turnaround leader/"change agent" is also an absolute requirement. When a family member, or group of family members take on this role, however, the job is more complex and the likelihood for success is, accordingly, compromised. Most particularly, the role calls for a decisive, direct leader and a family member's effectiveness will often be impacted by non-business considerations. Secondly, a family member's experience with turnarounds will typically be limited, often creating an insurmountable learning curve. In those instances, however, the support of the company's public accountant, or an appropriate independent board member if there is one, may be very helpful.

Given the factors detailed above, the benefit of a turnaround professional is clear. The involvement of a family therapist as a part of a "change agent group" from the outset of a turnaround, however, is not quite as simple. The reasons for this include 1) the cost; 2) the time demands that the pure business issues place on the family members and 3) the resistance family members often have to addressing difficult interpersonal issues. Given these considerations, a family therapist is rarely engaged when a turnaround effort is initiated regardless of whether or not they could make a significant impact.

(b) Step 2: Establishing an effective communications structure

A successful turnaround process requires regular working sessions with all of the key family members and the participation senior level non-family executives is essential as well. That's simply because there are numerous issues that will demand a healthy dialogue about alternatives, methods for implementing change, cost and personnel implications etc. Ideally these meetings should be held at least twice weekly when the process is initiated. Furthermore, to maximize their effectiveness, these meetings must be given virtually 100% precedence over both day-to-day business and personal matters.

(c) Step 3: Establishing ground rules for decision making

To be effective, a family business turnaround must be based on two fundamental ground rules for decision making.

First, all family members have to agree that the preservation of the business is the first priority. This is not to say that individual and family considerations should be disregarded; rather, it means that when difficult business decisions are made that negatively affect family members, every realistic effort will be made to help these members move forward, both financially and professionally.

The second ground rule to establish is how key decisions will be made. On many occasions, this can be the single most difficult issue that the family will deal with. In particular, a minority stockholder or stockholder group may view the majority stockholder or stockholder group to be the underlying problem. At the same time, it's unlikely that the majority stockholder or stockholder group will relinquish control. While a buy-out may be considered in this type of situation, in my experience it is rarely a realistic option. At a minimum, it is vitally important for all parties to agree to make a sincere effort to reach a consensus. As a practical matter, however, particularly when family dysfunction is a significant issue, the development of a true consensus will take considerable effort and may be impossible. The turnaround consultant or consulting team will often play a key role in facilitating a resolution in such instances.

5.2 The second phase: Enhancing the performance of the family member CEO, other family members and senior non-family members

Ultimately the fate of every business, whether family owned or not, is driven by its people. Further, for a family business where the selection of key executives is often limited to family members, the need to maximize their performance is particularly crucial. Given this, in many respects, the enhancement of family member competence is at the heart of the turnaround effort. At the same time, this is often the most difficult turnaround challenge

to address because of the complex family dynamics and individual behavioural characteristics that are involved. It should also be noted that while the performance of an underperforming family CEO has been cited as one of the core non-financial issues in a struggling family business, it's best to address CEO performance in the broader context of examining the competencies of all family members and senior non-family executives. By doing so, the performance issues of all of the major contributors are addressed and the CEO doesn't view themselves as being singled out.

There are a number of approaches to address these issues, the most significant of which are the following:

- Open discussions on both a group and one on one basis.
- The use of various testing and survey instruments including behavioral testing tools; 360 degree surveys; and company surveys.

This is one area where one or several skilled professionals beyond the turnaround consultant can be particularly valuable. These may include a family therapist and an expert in the administration and interpretation of the various testing and survey instruments that may be utilized. Regardless, throughout this process, it's likely that a number of very difficult discussions will occur, along with individual soul searching that will be necessary. Ultimately, one or several family members may have to accept a change in their role and/or title and also may have their compensation reduced in order to maximize the benefit of the turnaround effort. Furthermore, many, if not all, of the family members may have to commit themselves to participate in outside training programs as a part of the process.

This is where the family's commitment to change and the strength and capability of the change agent or change agent group will be truly tested.

5.3 The third phase: addressing financial, organizational and administrative issues

(a) Step 1: Developing a financial plan

Near-term cash flow shortfalls, creditor demands and the implementation of cost-cutting measures, etc. have to be given priority during the early stages of a turnaround. Having gotten beyond these initial challenges, if it is believed that the company is viable on a longer-term basis, the focus should move to restoring both consistently positive cash flow and profitability as quickly as possible.

Typically, the time frame for accomplishing these goals should be 3–24 months, depending on the circumstances. As the foundation for this effort, a detailed monthly plan for the first 12–24 months must be developed. Within the plan, every critical aspect of the business – including staffing levels, locations or divisions, and the financial aspects of new strategies – must be reflected.

(b) Step 2: Developing an execution plan

An execution plan identifies the key elements of how the financial plan will be implemented. Of particular importance, the development of this plan is central to the turnaround effort because it provides the platform for rigorously addressing two of the core non-financial turnaround challenges: the underperforming CEO and the upgrading of organizational and administrative practices.

While these two areas will typically be worked on simultaneously, addressing the underperforming CEO and his/her specific roles, responsibilities, strengths, weaknesses and training needs is the first priority. First and foremost, the CEO must be willing to engage in an open discussion and make every effort to listen to the concerns and suggestions of other family members and advisers. When the CEO is open to using them, tools such as the EQ assessment instrument, discussed previously in section 2.3, can help substantially. Furthermore, in addition to the insights the instrument can provide, it can also take these discussions beyond the realm of simply debating what the CEO does or does not do. Regardless, the goal of this effort should be to re-craft the CEO's job description so

that it focuses on his/her strengths, clarifies responsibilities and provides the CEO with a training agenda designed to help improve performance to the fullest extent possible. On a worst-case basis, it could be decided that it would be best for the CEO to transition into an entirely new position or to exit the company; but this is an exception for obvious reasons.

As discussed previously, the organizational and administrative practices that typically have to be addressed are the following:

- *Developing and maintaining a clear organization chart:* This is perhaps the most challenging task when addressing organizational and administrative practices. That is because the roles and responsibilities of all the family members other than the CEO must be considered. Ultimately, clear job descriptions for key managers at every level of the company have to be detailed as the key part of the effort.

- *Creating sound decision-making processes:* The organization chart will spell out day-to-day authorities. Outside of that, a separate governance process must be developed that details how decisions on particular types of issues get made.

- *Developing and maintaining consistent internal communications processes:* The key component of this process is the meeting structure. Specifically, there should be a clearly articulated process that details when meetings are held, who runs them and who attends them. In addition, the process for maintaining and distributing meeting minutes should be specified.

- *Enforcing accountability throughout the organization:* As discussed previously, 'accountability' is the simple concept that every executive and lower-level employee complies with what is expected of them. 'Enforcement' considers the consequences when employees at all levels of the company fail to do that.

- *Developing and maintaining effective planning systems:* This involves the consistent development of one-year and two-to-five-year plans every year, and the monitoring of results against such plans.

- *Developing and maintaining strong human resource systems:* This entails working with the appropriate manager to maintain accurate job descriptions, individual goals and objectives, compensation systems and training programs company-wide for all levels of the organization, including family members.

5.4 The fourth phase: Focusing on family-related issues

Even if a therapist has been present from the outset, it's virtually certain that significant family-related issues will remain when the business is stabilized and profitability has been restored. Given this, in order to create the best opportunity for long-term success, the family will be well served to focus on remaining family-based issues that have the potential to compromise on-going business success.

a) Step 1: Addressing family dysfunction

As suggested earlier in the chapter, the goal of addressing family dysfunction is to position

family members to both make business decisions based primarily on business considerations and be good business partners. Further, the hope is that with the work needed to complete the first three phases of the turnaround process that at least some progress will be made on family based issues as a by-product. However, that is most typically not the case – and this is where the contribution of a family therapist can make all the difference.

(b) Step 2: Addressing family management practices

All of the key aspects of family management practices must be addressed, including sound succession planning, well-structured governance practices, the training of successor generations, the accountability of family members working in the business, and the development of a shared vision for the future across generations. The hope and expectation should be that, with the successes needed to get to this phase of the process, the family will be well equipped to have broad-ranging and productive discussions in these areas.

6. Conclusion

There are countless reasons why the saying “Rags to rags in three generations” is so commonplace – and so true. Nonetheless, a committed family-business turnaround effort has the potential to create significant, and sometimes, positively life altering results. Will the process be as successful as the family might hope? In many cases, the answer will be no; but that is not the point. The important question here is whether or not sufficient progress is made to achieve sustainability.

In many cases, by communicating more effectively, developing sound plans and executing them well, the family’s business performance will substantially improve. Furthermore, with true progress on the non-financial issues – dealing with an underperforming CEO and other underperformers, family dysfunction, underdeveloped organizational and administrative practices, or underdeveloped family management practices – the opportunity for lasting improvement is even greater. This is extremely hard work; but considering the benefits that could accrue for future generations, it is worth the time and effort.