



# Pathway Advisors LLC

Management & Financial Counsel

## Management & Financial Insights for Business Professionals

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*Dear Gerry,*

*My father co-founded a family business, and I have worked with well over one hundred family-owned enterprises over the years as well. These experiences have been fascinating, frustrating and sometimes painfully tragic. I certainly cannot say I've seen it all. In fact, I continue to see situations that amaze me. Nonetheless, I know I've seen more than enough to share some important insights.*

*Let's start with two fundamentals. First, all businesses face substantial risks. Second, for family businesses, the risks are more complex by definition – and potentially far more lethal. Today I'll be sharing four tips that I strongly believe can help reduce a family business's risk of a true tragedy.*

*As always, I welcome your comments and suggestions.*

*Best Regards, Gerry*

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## FAMILY BUSINESS TRAGEDIES: Lowering The Risk



## Four Tips

### **1. The more family members understand one another, the more effective they can be together.**

Family members have known each other for most, if not all, of their lives. What I'm suggesting, however, is that a much more informed understanding can make a real difference.

I've been a proponent of behavioral assessment tools for decades. Of particular relevance here, when these tools are implemented rigorously, family members can gain numerous valuable insights about both themselves and other family members including:

- Their ability to work as a team member as opposed to being more focused on their own thoughts and agendas.
- Their ability to fully consider and potentially, fully embrace the input of others.
- Their strengths and weaknesses in handling disagreements.
- Their learning and communications style.
- Their emotional "hot buttons."
- Individualized strategies for working with one another.

All and all, when the results of these instruments are openly shared, the process can help family members better accept each other, and be far more effective together. I also want to note that the benefits of this approach can only be maximized when it's professionally facilitated. This expense can be one of the best investments a family can make.

### **2. On-going professional education is crucial for sustainability.**

When I start a new case with a family business experiencing significant financial or interpersonal issues, I ask a series of questions that have I've standardized over the years. Among them, I always ask each family member how many hours they have spent in the prior two years attending seminars or taking more formal, more extensive courses. Almost

100 percent of the time, the answer is zero. A striking correlation!

Stepping back for just a minute, this answer makes real sense for a company that's fallen into distress. We live in a rapidly changing and increasingly competitive world. Why would anyone think that learning wasn't an important contributor to on-going success? And for family businesses, which tend to be insular, new knowledge and varied points of view can be particularly impactful.

And this is a company-wide, cultural issue as well. The term "learning environment" exists for a reason. And it's just common sense to recognize that when family members emphasize on-going education, it can permeate the entire organization.

### **3. Harmony is always the goal, but a family's collective capability is the threshold issue.**

I fully learned this lesson several decades ago when I worked with a financially troubled company that was wracked by bitter issues between two brothers and a brother-in-law. Each controlled a third of the business. The problem was that the brother-in-law was always outvoted – even though he was right in most controversies (in my view.)

During my engagement, I was fortunate enough to be introduced to a well-known family business psychologist and brought him into the case. In the end, the brother-in-law never became a real friend of the two brothers. Nonetheless, over time they did become a much more effective management team. As a result, they survived the crisis and sold the company very successfully 15 years later.

### **4. A "Family Business Contract" pulls it all together.**

A "Family Business Contract" is a document designed to proactively address a wide variety of typical family business issues that have the potential for leading to substantial differences. The essential elements of these contracts include:

- A succession plan.
- A formalized decision-making process.
- Conflict resolution protocols.
- Compensation and advancement policies.
- Stock ownership and stock sale plans.
- Entry requirements.
- Processes designed to assure family member accountability.
- Formalized family meeting schedules.
- Causes for firing (yes).

Of course - the ownership structure of a family-owned company will have a substantial impact. In the event that one person or one strong voting block is in control, it's incumbent on this person or group to help structure a contract that can be embraced by the entire family.

## FINAL COMMENT

The saying “rags to rags” in three generations is commonplace for good reasons. At the same time, it is misleading. A core determinant for sustainability is whether or not the family has taken steps which can lower the risk of a tragedy – be it financial, familial or both. I can assure you that the four tips detailed here can be real difference makers.

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***Pathway Advisors LLC is a specialized business advisory firm focused on helping our clients effectively resolve the most significant of profitability, cash flow, banking, operational, and organizational challenges. We pride ourselves on the ability to analyze issues quickly, develop plans to solve them efficiently, and leverage our deep relationships in the financial and business communities to do so. Pathways has helped over 450 companies throughout the eastern half of the US.***

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