

When Bad Things Happen To Good Family Businesses

FAMILIES IN BUSINESS

COPING WITH THE STRESS OF A TROUBLED COMPANY WITHIN THE FAMILY

By James V. McTevia

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The small company that Grandpa started 50 years ago is thriving. Never before has the business been so profitable. Over the last ten years, as Grandpa slowly withdrew from the day to day operation, the children took over, along with their children, as the company continued to provide a standard of living for Grandpa's children and grandchildren that he never would have imagined.

Above average wages, huge bonuses, juicy fringe benefits such as company cars, country clubs, vacation homes and travel perks are enjoyed by all. Is there any end in sight as the company enables all of the family members to live the good life.

Let me assure you there is an end in sight for many companies and their owners, and that the end has already begun. The stress of problem solving in a business can wreak havoc on the lives of not only the employees, but also their families. This is even more so for those closely held businesses where family members are both owners and inherently involved in operating and earning a living from the business.

When a company is in trouble, options are usually available early on as problems surface and courses of action need to be set. Most often, the initial steps in dealing with problem solving in the troubled business are cost cutting and downsizing. These initial steps are normally tied to reductions in the work force (including some areas of management) consolidating locations, discontinuing segments of the business and/or a combination of any of the above.

One of the sons is in charge of the Ohio plant and, after a stressful family relocation, has lived in Ohio with his family for several years. One of the daughters and two of his sons oversee segments of the Ohio division that is continuing to lose money at a rapid pace and it appears the Ohio plant must eventually close.

Several years ago, another son relocated his family to Germany to establish a foreign operation to take advantage of a close proximity of its major customer, who is no longer generating the volume of business sales that existed a couple of years ago. This operation is also losing money as it struggles to keep key people and replace the lost business from new customers.

Several family members, including grandchildren of the founder, are working for the company at its main office. They, along with a number of non-family employees, are desperately attempting to curb losses while furiously quoting for new business during not only a down turn in the overall economy but also, and even more importantly, in the industry the company serves. Some non-family employees appear to be more important to the company's survival than several family employees and the choices as to who to retain become difficult, if not impossible, for management who are obviously family members.

This scenario exists today in many businesses and in the past it has existed within a number of our clients' businesses that we have guided through troubled times. The problem that requires the most attention and the one that needs to be dealt with the most objectively is how will the basic family unit survive the company's crisis? How can the family objectively deal with the problem solving process when in many instances, some members of the family are a part of the problem? How does the family resolve issues such as forced relocations and loss of jobs of people who are not only employees, but are also major shareholders of the company? What process should families follow if the family unit is to have any chance to survive, even if the company fails?

The first step is to establish a process of communication within the family. Teleconferences, letters, individual group meetings are not the methods to use. Rather, a meeting should be held of all family members, including family shareholders who may not be working within the company. This is a family meeting of all shareholders and those family members who are working for the company who may not be shareholders because as heirs, they will eventually become shareholders. The process must begin at this level and the family must learn to function at this level as the first step in the business problem solving process.

The family unit needs to meet together at a quiet location off site from any of the company's facilities. A neutral location rather than one of the family member's homes has proven in the past to be the most effective. Current summary financial information needs to be circulated and discussed. Note that I suggested "summary" financial information. A one-page summary of the last five years of financial results and a one-page summary of the most current month and year to date results should be made available. After a thorough review and discussion, and after all in attendance have input and understand where the company stands, a one-page summary of a best effort "conservative" projection prepared by management then needs to be discussed.

The second step is to reach a decision as to whether or not to continue the business. There is no greater need at this time than to focus on the best interests of all shareholders and not just those shareholders who may also be employees or officers.

I recommend that early on, the family engage the services of an outside advisor to guide them through an objective analysis of the practicality of continuing the business, the alternatives available and corresponding risks associated with each alternative. It is probably a good idea for the advisor to construct a liquidation analysis of the business to demonstrate the probable results of an orderly

liquidation of the business and project dividends to shareholders that may be available, if any, if the company is liquidated.

If shareholders decide, after an analysis of all information and an open, honest discussion among family members, that the business should continue, parameters must then be set by shareholders that management must be willing to support. A limit to continuing losses must be set and a clear directive communicated to management.

When shareholders rightfully reach the ultimate decision on the future of the Company, the greatest objectivity is accomplished. There is a natural tendency for self preservation in the business decisions made by management, particularly within the sphere of a family owned company.

As the company is restructured for survival, certain operations may be discontinued resulting in either a temporary or permanent elimination of segments of the work force. Management falls into a different structure as the organization chart is recast, forcing some executives to assume more responsibility and possibly take less pay.

In the family owned and operated business, the focus is, or should be, to orchestrate a "safe landing," if at all possible, for those family members whose jobs may be eliminated. Choices should be offered wherever practical to provide some level of income, albeit perhaps not what may have formerly been received. Once again, an outside independent advisor can assist in the restructuring process with a mandate from shareholders to strive for what is ultimately best for the Company and not individual family members.

While raising the decision making process as to the future of the Company to the shareholder level may be difficult for those family members who are both shareholders and employees, it is truly the only method which assures that the best interests of the company are receiving priority. If this occurs, than effectively the best interest of shareholders is also being equitably served.

There have been several instances over the years where our firm has initially accepted an engagement to guide a company through tough times and the engagement suddenly took the course more of guiding the family through tough times. We begin this process by first spending quality time in confidential meetings with the major shareholder/shareholders. Often times, the major shareholders concerns surfaces and are not quite the concerns of minority shareholders, management and heirs.

It becomes a delicate task to approach the problem solving process in these circumstances without causing grief and severed relationships within the family unit. Nevertheless, the process must evolve as I described above if the pain of problem solving for the company and family members is to be minimized, experienced and family members are to continue to function in life as a family unit.

James V. McTevia is widely regarded as a pioneer in the highly specialized field of crisis management and business problem solving. With nearly 40 years of experience, his engagements today primarily

focus on business restructuring, refinancing, management reorganization and transition, and mergers and acquisitions. He is the Chairman of McTevia & Associates, Inc., management and financial consultants, in Eastpointe. For more information on this subject, contact James V. McTevia at (810) 774-5580, or via e-mail at mctevia@mctevia.com or at www.mctevia.com.