

Professional Intervention in The Family-owned Business

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Family Business Expert Suggests
Approaching as part of a process rather than as an event

Running a successful family business is substantially more difficult than running a non-family business. There are many contributing factors.

Conflict between generations as to the strategic requirements of the business - what are the goals and how do we get there.

Financial information is rarely disseminated to even the top managers (family and non family members) thereby thwarting those managers who, in fact, may be skilled in strategic planning, budgeting, costing, pricing, etc.

A family business will generally have more severe problems in recruiting and retaining non family professional managers since upward mobility and advancement are restricted.

The dynamics for successfully managing a family business are blurred and often difficult to ascertain - is it a Family First Business or a Business First Family?

Because a family business tends to be more paternalistic in management style than a non family business, performance standards tend to be poorly described or non-existent for most segments of the business.

Because hard operations management information is scarce or not existent, outside advisors such as attorneys, financial planners, CPA's and other professional counselors rely on perceptions of reality steeped more in "how it has always been" rather than "how much better should it be". This is a crucial deficiency because it disengages the professional resources from serving both the business and the family as well as they could if they were dealing with timely, accurate and factual operating information about the business.

The management dynamics of a family business are often more consensual than action or performance orientated. Thus, a family business is generally not able to react to problems and take the required remedial action as quickly as a non family business.

The ego of an entrepreneur is such that they feel capable of doing everything themselves. Because

they feel they can do "better" than anyone else, it is difficult for them to let go - either to delegate to subordinates or asking for professional help even when they know that help is needed.

Professional fees are often difficult to cost justify or value. The major contributing factor, however, is that a family business tends to procrastinate on bringing in professional resources until the "ox is gored and already in the ditch". The analogy of the Fram oil filter commercial "you can pay me now or pay me later" is aptly applied to a family business situation except the consequences can be substantially more expensive when the survival of the business is at stake.

The family business is less objective about profitability and other types of performance standards - more forgiving or tolerant of people and the work management systems of their business. With a family business being orientated to consensus, harmony and friendship (we are all part of the family here at XYZ Corporation), CHANGE is a difficult process. Attitudinal platitudes such as "why fix it if it ain't broke" prevail over the difficulties perceived with change. This is evident not only in the internal management systems of a family business but also to professional resources. Just as members of the management team are impacted by "the Peter Principle" as the business grows, that same growth problem impacts on the professional resources such as banking, legal and accounting. Unfortunately these changes follow generational succession rather than the more immediate needs of the business.

Approach as part of a process rather than as an event

Our experience in dealing with the very unique problems confronting a family business suggests that professional intervention should be approached as part of a PROCESS rather than as an EVENT. This maximizes the benefit and minimizes the trauma of change. Furthermore, because the problems of a family business are generally multi-dimensional, professional intervention should best be introduced into the situation by taking a multi disciplined approach to avoid fragmentation and the waste of time and effort that generally occurs when a single dimensional approach is employed.

The first phase of the intervention process we normally recommend would include an OPERATIONAL ASSESSMENT of the business.

What opportunities are available in terms of profit optimization, cost containment or cost reduction?

What are operating parameters of the business and what changes in operational procedures or operational protocol might increase the ROI of the business?

What options are available for improving the health of the business, both internally as well as in the marketplace?

This OPERATIONAL ASSESSMENT provides the family business the facts and objectivity that are often obscured by the owner /managers being too close to the problems.

The second phase would include the involvement of a psychologist or family therapist who is skilled in both business and family dynamics. These professionals are focused on opening up and developing all the possible channels of communication. These professionals should be able to facilitate a strategic plan for the business and a strategic plan for the family as well.

Addressing one system and ignoring others is wrought with problems that can cause a family business to self-destruct - especially when dealing with generational issues.

The third phase of the multi discipline approach focuses primarily on the tax consequences of succession. Without proper planning, succession (planned or unplanned) can become a financial catastrophe for both the business as well as for the family.

More often than not, some financial planning has taken place. Unfortunately, most of these efforts are focused only on one individual - the owner/ entrepreneur. As a result, the planning generally is incomplete or only sequential solutions are engaged.

The financial planning for succession should be approached from the perspective of minimizing the total tax consequences of succession. This concept allows for the development of a connected and well integrated approach, an approach that considers the goals and objectives of the family as well as the future needs of the business.

The "on-going" processes for maintaining a healthy family business would include strategies such as conducting annual or semi-annual FAMILY MEETINGS and establishing an outside BOARD OF ADVISORS.

It should be noted that one of the major benefits of this multi-disciplined team approach is the ability to involve "outside" professional intervention to the family business in a purposeful yet expedient manner. Although the segments of the process have been cited to help illuminate the process, the multi-disciplined team approach allows for each segment to be addressed simultaneously.

If this approach makes sense, give us a call so we can discuss the particulars of your situation and help you to formulate a plan of action and a timetable for beginning the succession planning process. The most difficult hurdle to overcome is procrastination hoping the problems will go away or will solve themselves. As Tom Watson, former head of IBM, reflected, lying dead in the water and doing nothing is comfortable because it is without risk, but it is an absolutely fatal way to manage a business".

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