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Manager Profile

Profile

Manager CEO Europe Id # : 21214

SUCCESSION AND RESTRUCTURING OF A FAMILY BUSINESS

Introduction

Family Businesses (FB) come in all different sizes, structures and problems. According to the literature and empiric studies FB account for over 80% of businesses in nearly all western economies. There are millions of 1-4 employees FB, run by enthusiastic owners/founders relentlessly putting many hours and endurance into their businesses. A great number of FB are so called midsized companies, which are differently defined by size and run by owners/founders or by other family members, or even by outsiders. Lastly there is a fair number of large FB like, Ford, Bechtel, BMW, Ferragano, Tata and many other successful family owned businesses all over the world.

Some of them realize only at the time of transition from one to the next generation that they are a "family business". The result of early studies by Takeuchi was a concept, which is widely applied also in today's FB analysis, comprising the family, the business and the ownership of the business.

Structures differ in many ways in FB frequently to the advantage of a FB. Decisions are mostly made by the owner, who is also involved in many details of the company. Nepotism must not be a disadvantage, but could be a factor leading to blurred organizational structures. Empirical studies by J.Davis, J.Ward, Astrachan, F.B. Simon, Neubauer identified critical issues especially when the owners/founders try to step down and hand over the baton to the next generation.

In the following case the issue was for the successor, the son, not only taking over the company from the founder, but also to restructure the business. An outside team was hired to take the company to a sustaining profitable future.

The Case

During my over 25 years experience of successfully restructuring FB and Corporations ranging from 40MioEuro to 1,7Billion Euro in revenues I came across a wide range of issues and problems. Reflecting on the FB, I will pick one to describe, which successfully moved from the 1st to the 2nd generation, without making public noise. I will call it introverted transition, compared to an extroverted approach, where the family and the business filled pages of local newspapers. Many times such an approach destroyed at the end the family and the business. Not necessarily might an introverted transition leave FB intact, however the probability is much higher.

I would like to share with you a FB restructuring project, in which the son took over the FB after his father and founder died in his mid seventies. The development, manufacturing and selling of parts for different industries comprised 80% of the FB. The complete plant selling business laid dormant, the smaller parts were selling at a huge loss, the larger parts business was mainly with OEMs and showed some positive contribution margin, but was mainly driven by engineering to find the best solution, considering costs as minor factor. The radius of doing business was approx. 400 km, other markets were served by merchants and traders. Nearly all the employees came from close by to the company, many with no formal business and management training, but had long time experience and were "hand picked" by the owner. It turned out, that they were treated fairly well, depending on the relationship they built with the founder. However,

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Sophia-Antipolis . Köln . London . Paris . Trieste . Budapest . Prague . Boston . Hong Kong

Tel. : +33 (0) 147 701 998

Email : info@ceo-europe.com



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the sudden death of the owner left nearly all with anxiety, hope and a longing for "the good old times" to continue and to prevail. The son, who was selected by his father, when still being alive, to run the business continued his father's course. As it however turned out, he reluctantly acted and was not really leading the FB after taking it over. He was more an administrator than a leader, or builder of the business he inherited. This approach finally got the FB into troubles after a couple of years.

I came on board and found a dire financial situation, resulting from poor operations in manufacturing, sales and service and above all from a lack of strategic direction.

Together with an outside and in-house team we formulated a new strategy. We integrated the owner/successor in the process from the beginning and he bought into formulating a new direction for the FB.

Surprisingly to all participants, the successor did however not agree to implement the strategic approach. The reasons were mainly based on the existing business model, which must not be changed. However nearly all the fundamental business assumptions and structures had to be set aside in order to survive. The core business, once founded by the owner, was loosing lots of money. The outcry of the successor – my management team is destroying my father's business – could only be countered by moving the whole high cost, loosing business to another continent, to the Far East; we moved it out of his sight. Process costs and reinvesting in a new production line would have dried up capital for other more profitable businesses. A proactive worldwide marketing and sales effort gave birth to a very profitable segment serving customers direct from key locations in Asia and in the US. Adding complimentary product lines allowed us to sell a package available within 24 hours, new in the industry at that time. It was exciting to see how our teams were performing the unthinkable. We woke up a dormant business, i.e. designing, producing, selling and servicing complete production plants into countries, where we were not able to get a foothold into the market short term. This tactic increased our financial strength, spread our brand name into the market and slashed prices for the consumer, since imported parts became unaffordable through high customs duties. We brought some technology to developing countries and above all we built jobs for the skilled and unskilled labour force. After five years revenues had tripled in various segments, the FB occupied important marketplaces and was financially sound.

The successor found his company revamped, restructured and financially in excellent shape. His relationship with employees seemed very distant, he was not able to win the hearts of his people. Too strong had his father been in terms of leadership, authority and social competence. Soon he handed over the owner's reign to a "close friend of the family" and chose to run for president of a business association.

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Lessons learned

Succession in FB seems to follow an individual path and pace most of the time. If combined with a restructuring effort, the complexity increases potentially, since the successor, the family and its members, the question of ownership and the dimension of time are not adding up but multiplying factors. Two major areas of potential conflicts were identified in our case:

1. A reluctant successor/owner to change direction
2. Implementing a new strategy with a successor, who finds it difficult to step up to the table and be the new leader

AD 1)

My turnaround experience with FB and empirical studies of struggling FB show, the a.m. phenomenon cannot be considered as a common reality. In many cases, successors rather want to change the direction of the company, or see the necessity at least. In this case the family and its so different members played a very important role during the transition period, since there was a daughter and two other sons, who wanted to lead the company. The father however, made his choice, without informing the family, when he was still alive. The husband of the daughter ran at that time another division of the FB very successful. The founders choice must have been quite surprising to the whole family.

During the course of the project it appeared that the son had high admiration for his father emotionally. The omnipresence of the father in the company, pictures of the founder were almost in all the offices, made it nearly impossible not "to be seen" by the founder. When I started the project, one of the first statements of the successor was "my father set the sails, the direction, for the next 20 years. Nothing has to be done – just follow the order of my father". That was exactly what I questioned and reset the company for a new successful beginning.

AD 2)

Changing direction required excellent communication skills, interpersonal relationship of my team and understanding the family, the business, the ownership and the time constraints in all variations. Implementing the required changes was synonymous to "Sisyphus". We rolled up the stone – the successor, supported by family members, pushed it back down to "the old grounds", as he called it. Arguments like "we are destroying the work of the founder", were common. Even with the back up of financing institutions, the team was confronted with extremely emotional reactions by the successor and the family. First successes of operational projects, i.e. getting down to the real performance numbers, acquiring new customers and above all – making money again – improved the situation – emotions calmed down. We pushed our action plan through the whole business system of the company and were supported by most of the employees. Leadership, however, from the successor was lacking. He distrusted our actions and anything that happened around him. During the third phase of our implementation program – the synthesis of actions – he finally bought into the project and showed some kind of relief, since the FB and the family was back into less turbulent waters.

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He finally found some other challenges in leading an economic association outside of the FB. Lately I heard that his son is preparing himself externally to probably taking over the leadership role in a couple of years from now.

Summary

It seems to be quite difficult for a successor to take the lead in a family business, in which the founder father was considered to have such a strong personality, authority and power, which in turn overshadow sometimes major issues in FB. Turnaround managers must not only be expert in what they are doing, but more importantly must be excellent communicators in "all directions", to all stakeholders, must have great social competences in dealing and handling complex family structures, in order to get the FB back on track successfully.

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