



King Solomon Shrugged: Family Businesses Under Stress

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Phil Eagan couldn't believe it. He stared at the legal papers in front of him. How could his wife, Sara, be filing for divorce now, of all times? Sure, they had discussed it, but they had agreed that until he got the business turned around and the bank off his back, they would keep their mutual decision to separate under wraps and keep up appearances.

How could she do this? She knew how the bank would react—he had told her so many times. Because she was still a shareholder in the business he had taken over from her father, any potential clouding of ownership issues that created a need for valuations or appraisals, involved lawyers and potential lawsuits, or required buying her out would just make things more difficult. He had worked so long and so hard and felt that things were finally turning around. He wondered, what should he do now? *What could he do?*

One thing was certain: he needed help. There was no way he could thread his way through this conundrum on his own. His wife's lawyer had a reputation for taking a "scorched earth" approach to divorce, especially when there were business interests in the marital estate.

Phil had already secretly consulted his own divorce lawyer, who did little more than describe how messy it

would be if Phil's wife decided to press for the sale or liquidation of the business now. What kind of valuation would they get? It would be low, of that he was sure! And who would even buy the company in this economy? Probably a "strategic buyer," one of his vulture competitors who would be only too happy to grab Phil's sales force and customer base and unload everyone else.

Phil thought for a moment. At his last meeting with the workout loan officer, the bank had suggested that he hire a turnaround professional. Phil had resisted, thinking the person would just be a spy for the bank and an unnecessary expense.

But his divorce lawyer had introduced Phil to his partner who did debtor-creditor legal work. The partner had recognized some of the names the banker had given Phil and told him that they were reputable turnaround firms that he had worked with successfully in the past. They had helped companies like his.

In fact, the lawyer had said, some of these firms were headed by "CTPs" who had gone through a rigorous certification process sponsored by a national professional group, the Turnaround Management Association. They subscribed

to a code of ethics that required independence and confidentiality. Phil decided, what did he have to lose? He reached for the phone...

The Family Factor

Turnaround professionals regularly encounter client organizations in which management positions are occupied by members of the family that owns the company. There are endless combinations of family relationships in management father/son, aunt/nephew, and mother/son in-law, to name a few,—and many variations of how ownership might be distributed. Past generations might still be involved through stock ownership in trusts. People who have ceased to be relatives because of divorce or other changes in their status may still play management roles or retain ownership interests in the family business.

Like rocks on the bottom of a pond that become visible during a drought, managerial weaknesses in a business frequently become more apparent and problematical when a company encounters difficulties. Whenever addressing managerial weaknesses in a turnaround involves the “family factor,” the complexity of the situation increases geometrically.

As if family business issues were not complex enough under “normal” conditions, situations can become incredibly tangled when life-changing events occur. The death of the founder, a family member’s serious illness, the press for succession by the upcoming generation, the marriage or divorce of a family stake holder—any of these events can change the landscape virtually overnight and bring great stress on a business, especially one that is already in turnaround mode. How can family business owners and their turnaround professionals deal with these usually unplanned-for, yet common, occurrences?

It’s a good idea to start with some basics. Corporations are *persona ficta*, fictitious persons, created under state law. They have many of the rights and obligations of natural persons: they conduct business, enter into contracts, own property, sue and are sued, pay taxes, and are required to obey laws or face legal consequences for failing to do so.

Every state’s corporation laws include a provision that “the business of the corporation shall be managed by a board of directors, which shall appoint officers.” Furthermore, the duty of a corporate director is that of a fiduciary—someone who must place the interests of the shareholders above his or her own. In the case of an insolvent corporation, which is the situation encountered in many turnaround situations, the directors are fiduciaries for the creditors.

The board of directors is at the heart of corporate governance, but this fact seems to be overlooked frequently in family businesses. Who holds the title of chairman is often less important than who sits at the head of the dinner table and carves the Thanksgiving turkey.

Yet, when serious family life events hamper a business’ ability to make and implement decisions, returning to the principles of corporate governance can help clarify such a situation. Because most turnaround engagement agreements provide that the turnaround advisor or manager reports to the client’s board of directors, it is appropriate for the turnaround professional to turn to the board and serve as an agent of change, helping board members recognize their duty to break away from any family squabbles or hide bound positions.

Of course, the board of a family owned business probably resembles the Christmas portrait on the mantelpiece. So how can the turnaround professional deal with the relationships of family members who are also in business together? What happens to that family dynamic when a complacency-shattering event such as a divorce occurs?

Marital Paths

Turnaround professionals can sometimes feel as though they are functioning simultaneously as financial advisors, marriage counselors, and confessors. Can behavioral science provide a conceptual framework to help explain the human factor in such situations?

While it is difficult enough to manage a turnaround from a business standpoint, the process can become even more daunting and perilous when the tumult and emotional dynamics of families under stress are added to the equation.

If Phil and Sara’s marriage was like many others, the split, fragmentation, and dislocation had been developing for some time, and their divorce may have been brewing for a decade or more.

The two probably had long occupied two different camps: Phil was the logical problem-solver, task-focused and dedicated to running the business, while Sara found herself being the emotional caretaker of the family, eating dinner alone with the children and suffering the frequent war stories of Phil’s day-to-day life. Ultimately, the two of them drifted into separate worlds, their “emotional bank accounts,” those elusive depositories of good will and mutual caring, severely overdrawn.

The “laws” of marital success are different from those governing business success. The critical laws of marriage focus on marital vision, emotional well-being, intimate com-

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munication, work-family balance, and consistent contributions' to the emotional bank account. The laws of business, on the other hand, usually focus on strategic planning; logic; problem solving; cross-functional communications in sales, marketing, finance, and operations; and fulfilling a market need. Bank accounts in the business world are bottom-line oriented and involve satisfying shareholders, increasing market share, and attaining quarterly targets.

In general, couples travel through life on one of three pathways. Some are “navigators,” envisioning a shared future; creating communications strategies based on mutual understanding, respect, and empathy; taking time to remind themselves and each other why they are married; and working diligently to bring humor, compassion, and caring into their daily exchanges.

Another group is on the “survivor” pathway. Although not particularly happy, they are fiercely committed to “winning” the game of life, even though it might kill off their marriage and each other in the process. These marriages are characterized by power struggles, either overt or covert, that may eventually find their way into the family business, thereby expanding the marital war zone.

Still others are on the “victim” pathway, with one partner appearing more dominant and aggressive and the other submissive and passive. Appeasements, accommodations, and win-lose tactics prevail in these marriages. In the end, both partners lose and fall victim to each other. Worse yet, the battles and misery usually are passed along to the next generation.

So how can a turnaround professional understand his client's marital issues? Here are some guidelines:

- Don't be blindsided by a one-dimensional approach to the turnaround process. Find out if the marriage is healthy and how the power dynamics play out.
- Is there an emotional power struggle underway? Don't become trapped inside the struggle; acknowledge what you see and hear, and try to contain the damage.
- Are there long-term resentments, grievances, and hurts? Get the couple to recognize these painful triggers. Knowledge is power, so perhaps if the couple is forewarned they will allow the business process to proceed.
- Interview the spouse. Make no assumptions.
- Determine whether the marital partners are on the navigation, survival, or victim pathway.
- Separate the emotional breakdowns from the business breakdown.
- Through powerful listening, inquiry, and skillful discussion, uncover the underlying needs, wishes, and hopes of each party. Create a win-win negotiation.
- Remind the couple that their emotional triggers are likely to be pulled as a result of the stress of the turnaround process.

- Remind them that a crisis offers both danger and opportunity. It is their choice... Make them feel united in protecting their children from the combined onslaught of a divorce and business disaster.
- Take care of your own marriage, emotional bank account, and caring relationship. Be a navigator.

A Balanced Approach

The turnaround professional faced with a family crisis among the client ownership must deal with both human and corporate issues. While proceeding along lines that reinforce corporate governance and leadership, he or she must also recognize and deal with the limitations of the human beings on whom the success of the turn around effort may well depend.

When the human issues are marital in nature—which by definition involve at least two people and may draw children, in-laws, and others into the mix—the turn around professional can use a basic understanding of how marriages succeed and fail to at least stabilize the situation and allow the turnaround to proceed.

Of course, a turnaround professional should never play amateur psychologist or provide any services for which he is not properly licensed or trained. But a turn around professional can nonetheless be a positive force in dealing with both business and personal issues. Addressing the former while ignoring the latter can be a recipe for disaster.

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