



Gridlock Can Lead to War or Peace

It can be tough to resolve differing opinions in a family business.

By Stuart Morley



Big Family Manufacturing Inc. had been struggling for some time to find the best direction to take for its mid-market family manufacturing business with close to 100 employees. Sam, the founder, was in poor health and the other two brothers, as fellow shareholders, were struggling with what to do next. Due to differing financial situations between the brothers and the founder, the company was in gridlock.

The family had done all the textbook things: It hired an advisory board, brought in two retired senior executives from large companies in the industry and hired a consultant who recommended Sam retire immediately, given his health issues, and have the younger brother take over the business. Unfortunately, when Sam's wife found out, she presumed the worst and started a family war! They could not break the gridlock.

In the corporate world, the gridlock issue is often more straightforward. Common gridlock situations include: deciding on a direction, new approaches to revenue growth and creative ways to refinance a business. Often, the other shareholders get a valuation for the business and buy out the founder or get the founder to buy them out. In a family-run business, the normal reaction to conflict, especially amongst family shareholders, is to do nothing and avoid the issue.

The family decided to discuss the challenge with some other families who were in business together. As members of an association for families in business, they were able to join a peer group to discuss the issues, in confidence, with families in business from other industries. The group convinced them to hire a strategist who specialized in mid-market family business issues.

The strategist directly distilled the issues at hand in a brief series of interviews with the principals of the company--not an easy task when you consider the business and family issues involved. Then the family was able to use the suggested process to help members of senior management change roles and facilitate a smooth succession in the business. Thankfully, this new strategy worked.

The family took the strategist's advice and used the following steps to remove their gridlock:

- 1. Call each of the participants ahead of time to get their advice and insight.** People will say things in confidence, especially on the phone, that they might not say in an open meeting or even in a face-to-face meeting. Make sure to take careful notes and summarize the comments.
- 2. Figure out the most important issue for each key shareholder.** When reviewing the notes from the interviews, look for comments that give a clue as to an overlap of ideas. In the case of Big Family Manufacturing Inc., Sam wanted to grow the business so he could sell his shares at a price higher than the current value. The middle brother, Bob, really wanted to add more equipment to realize significant cost savings in the business, and the younger brother did not want to grow the business unless it could be done in a way that made the business more profitable. The overlap was that all three brothers would stay if a plan could be developed to grow the business and be more profitable.
- 3. Design a strategy day that starts with a presentation of the common issues.** The strategy day needs careful planning. For the Big Family Manufacturing Inc., it was important to invite the brothers, the advisors and key managers. Another feature was

to get the key issues on the table in a way that was positive so participants did not become defensive. A presentation of the issues works well when they are introduced anonymously.

The participants then can focus on the merits of the issues and resolving them, rather than worrying about who raised the issues, whether they should have been raised, or new issues which should be raised.

4. Be optimistic and upbeat. One of the ways to reduce the impact of negative discussion and make a group feel like it is making progress is to focus on building a plan for the future that can be done quickly (i.e., before the end of the day). Ideally, the plan should be in a format that fits on one page and is action oriented.

5. Finish the day with a take-away for each participant. Many people have difficulty connecting the dots between a great plan for the business and how they should change. Sam really appreciated having some discussion at the end of the day on how he could work half days and how the other managers could take on more responsibilities.

6. Remind the participants that if the gridlock was easy to solve, it would not have required such a strong approach. Even with a great plan, the first three to six months of a multi-year plan can be very stressful, as it takes longer and it is expensive to make changes. Therefore, it is important to close the session with a warning that unwinding gridlock is tough, especially in a family business. Things often seem to get worse before the benefits of the changes show up.

Six months later.

After some time, the strategist followed up with the family to see how they were getting along. They replied, "The best news is the brothers and their families keep coming to the family reunions, and the wives are now at least talking to each other. The business is in good hands and recovering well. However, Sam and the oldest brother both have sons in the business."

About the Author

Stuart Morley MBA is a Master Strategist assisting families in business. Find more information on this website includes video clips, articles and order his recently co-authored book.