PRACTICAL GUIDE

CRISIS MANAGEMENT AND CRISIS RESILIENCE IN FAMILY BUSINESSES

ON THE SPECIAL DYNAMICS AND CHALLENGES OF HANDLING EXISTENTIAL THREATS

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Where this practical guide includes references to persons in the masculine, these apply equally to persons of any gender.

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PREFACE

Entrepreneurs are optimists and, for this reason, it is counter to their nature to prepare for the worst: an existential crisis. Emotionally too, it is difficult to face the possibility of a potential threat to one's life's work, the foundations of the business family's very existence.

How can we help family businesses to prepare for crises and take entrepreneurial action to proactively avoid them? At the Witten Institute for Family Business (WIFU) and Struktur Management Partner (SMP), we have explored this question in depth.

The causes of crises are often rooted in family decisions and/or internal family management, and their growth is fed by a combination of the factors involved here: the juxtaposition of ownership, managerial decision-making capacity and kin relationships. The so-called 'family factor' often resists external influence or advice for as long as humanly possible (and beyond the point tolerated by the business). External influence is viewed as a challenge to the sovereignty of the family.

The acute COVID-19 pandemic gripping the world at the time of writing this WIFU practical guide is aggravating potentially problematic developments in family businesses (and non-family businesses) with alarming speed. Such developments could, under better circumstances, perhaps have been ignored for some time, but the pandemic permits no further delay. This change in the general economic situation demands new approaches in thinking. The current situation has finally obliged members of the ownership and supervisory boards and the top management of family businesses to run through crisis scenarios and reflect on their consequences for the business, employees and members of the controlling family itself. It must be added that the coronavirus crisis hit soon after a widespread downturn had been discerned. For profitable family businesses and – still more urgently – those which entered the crisis period in a weak starting position (such as the textiles and automotive industries or retail), realigning their future course of action to take account of their special characteristics as a family business is now a matter of survival.

The COVID-19 pandemic, with all the social and economic consequences it has brought, has created a sudden and catastrophic situation for family businesses, one that was never foreseen in this form – and was perhaps, indeed, unforeseeable – and has reached a level of severity never before experienced by the current generation, in terms, for example, of the closures lasting weeks on end. Most of those involved cannot, therefore, have sufficient crisis experience to manage it.

The crises considered in this practical guide threaten the very foundations of businesses, change their fabric and endanger the assets and influence of the business family.[1]

Below, readers will find insights into the typical processes that form part of the dynamics of crisis handling and the measures most often adopted in crisis management. The typical modes of action and behaviours of the stakeholders involved are also sketched out. Looking beyond the current crisis of 2020/2021, the scenarios portrayed and measures to be taken are drawn from practice and will prove themselves via their real-world application. This guide aims to offer support to (potentially) crisis-hit family businesses. It should help them prepare for a crisis, give it appropriate consideration and find suitable methods to resolve it.

Family businesses would be well-advised to take on an experienced adviser today. Using this adviser as an external consultant or sparring partner to provide a credible assessment of the business family and the management, unclouded by partiality, will help them to find the blind spots that may present risks in the future or may be the cause of current crises. The words attributed to Thomas Mann come to mind here: 'A painful truth is better than a lie.'

Witten, October 2024

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[1] See Rüsen (2017) for greater detail.

1 | INTRODUCTION

Family businesses are unique. They represent the oldest form of entrepreneurial organisation and help shape the constantly changing face of entrepreneurship, industrial progress and society. To this day, in many regions across Germany, they are the most important employers and frequently surprise us with ground-breaking innovations. They are the much-vaunted backbone of the economy and make the largest contribution to the gross national product by employing the majority of the workforce and providing the largest proportion of tax revenues.

This model of success is now exposed to dangers not caused by the COVID-19 pandemic but probably aggravated by it. The economic outlook was already clouding over before the pandemic; the *Economist* wrote of a new age of 'Slowbalisation'.[2] Economic institutes had lowered their growth forecasts; the first effects of worldwide insecurity and the restructuring of the global economy were emerging, and their ripples were reaching Germany.

Family businesses had profited massively in the preceding years from globalisation and open markets but now even those family businesses that had previously achieved marked success were threatened. However, the crisis did not strike with equal severity. In many cases, business profits came under pressure but this was largely mitigated by the availability of cheap cash, meaning that urgent adjustments to the business model – such as digitalisation – could (or so it was believed) be postponed or left incomplete. Moreover, the necessary structural changes were not implemented with the required stringency (for example, the divestment of loss-making business departments, relocations, the dismantling and conversion of overhead areas that lacked agility or flexibility).

Profitable businesses – and even more so those that entered the crisis in a position of weakness, such as those in the automotive, textiles and retail sectors – must now direct their decisions and actions according to (but not to the exclusion of all else) their specific situation as a family business.

Family businesses are largely thought to be stable because they are established with cross-generational objectives. However, their stability rests rather on the fact that ownership, decision-making and cross-generational responsibility are united as one. Even this special arrangement of the management and ownership of a business cannot prevent an existential crisis. Surprisingly, perhaps, only ten per cent of all family businesses continue their success into the fourth generation. In most cases, internal family conflict or crises lead to the downfall or sale of the business before this point.[3] Dealing with a crisis often also means changing the controlling family's ability to influence the business and, if necessary, adjusting its 'mental model'.[4] After weathering a crisis, only 65 per cent of businesses appoint the chair of the board from within the family,[5] compared to 85 per cent of businesses overall.

Crises happen – they are part of daily business life. However, coming into the crisis fully armed offers a greater likelihood of retaining control of entrepreneurial decision-making and, ultimately, the business as a whole.

This practical guide is directed, on the one hand, at members of business families. The process models and concepts presented here in depth, regarding crises, typical dynamics and their particular characteristics within family businesses, give an overview of what to expect when a crisis hits. On the other hand, this guide is also directed at external stakeholders in crisis management teams. They are important sources of support in a crisis and could learn, from this focused study of the 'family factor', always to give particular attention to the business ownership and its unique characteristics.

2 In the edition of 24 January 2019.
3 See Rüsen (2017).
4 See Rüsen (2016).
5 See Wittig (2017) in this regard for a conceptual and empirical investigation of factors for a successful restructuring in collaboration with 22 German banks.

2 | HOW CRISES ARISE, OR 'THE BLIND SPOT'

2.1 | GENERAL CAUSES FOR BUSINESS CRISES

Economists and business administration researchers have been engaged for almost 100 years in attempts to analyse the causes of business crises. Numerous approaches and concepts have been developed to describe endogenous and exogenous factors and their interplay within the framework of crisis development. The concept developed by Hauschildt[6] differentiates four dimensions in the causes of crises in businesses:

a) causes arising from the person who is the entrepreneur/dominant manager
b) causes arising from the institution or business makeup
c) causes related to commercial viability
d) causes related to financial viability.

Each of these dimensions contains aspects that may have a destructive effect on the development of a business or an existing business crisis. Figure 1 shows Hauschildt's systematisation of the endogenous causes of crises. In addition, exogenous factors – those arising from outside the sphere of the business – are highly relevant at the onset of a crisis. These include, among others:

- Catastrophes (e. g. earthquakes, floods, storms, pandemics)
- Technological shocks (e. g. the invention of new technologies, materials, applications, products)
- Quality of cooperation / behaviour of business partners (e. g. payment patterns of customers, suppliers' adherence to deadlines, provision of agreed services such as IT, temporary staff).

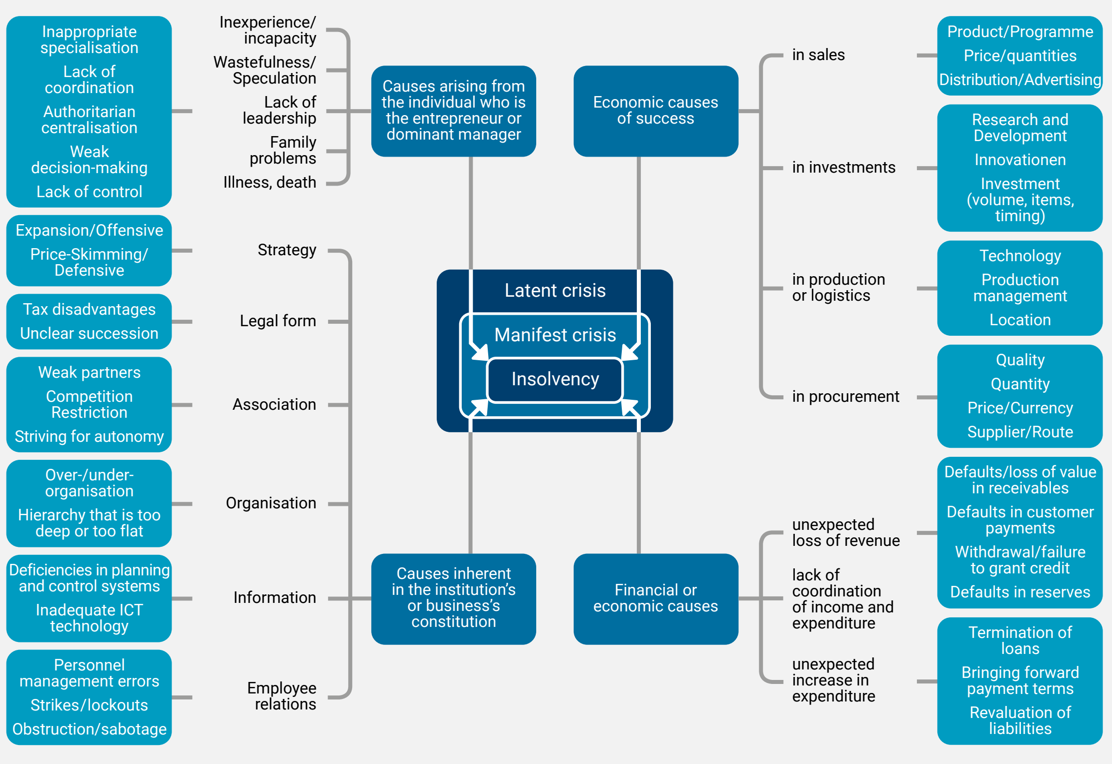

Figure 1: Crisis cause concept, after Hauschildt[7]

[6] See Hauschildt (2000), p. 5.
[7] Source: Hauschildt (2000), p. 6.

2.2 | SPECIAL FEATURES OF CRISIS DEVELOPMENT IN FAMILY BUSINESSES

Due to the unique underlying structure of this type of business – in which ownership and decision-making capacity are in the same hands – the members of a business family involved in the family business (hereafter called 'family entrepreneurs') think and work self-referentially, that is, within their own self-referential communication system. They stabilise each other and themselves through experience, success and independence, consciously distancing themselves from external influences. They focus selectively on relevant areas, such as customer perspectives – producing a corresponding bent towards optimising customer benefit – or the outlook of the next generation, its abilities and needs. In this way, they gain the resilience they need and create a special corporate culture, establishing their own individual organisational principles and generating a somewhat blinkered view of the business environment, one significantly shaped by the opinions of active family members. In addition, the patterns of interaction within the business are coloured by the kin relationships between decision-makers. If members of the business family are not directly involved in the day-to-day business, family influence on the business is exerted via supervisory boards.

Changes to the system are often based on internal adjustments and developments, such as a change of generation, and often follow familial patterns in their implementation. The self-referential and familial decision-making structure of a family business promotes the formation of so-called 'blind spots', which are often a breeding ground for later business crises.

Examples of blind spots could include traditional attitudes, perspectives or policies that state, to give one example, that no employees should ever be laid off and especially not at the business headquarters. They could also include inherited family values or principles regarding finance, for example; specific markets, technologies and production methods; forms of cooperation with market competitors, or approaches to digitalisation processes in the sector. Such attitudes are often communicated from older to younger generations as lived experience and are often both absorbed and communicated without critical reflection.

Long-term success can also create blind spots: the combination of rapid growth and solid capital resources reduces the importance of concentrating on profitability and ensuring the core business is future-proof.

If there is no urgent need to address visible undesirable developments, structural changes to the market/competition or alterations to the business model, any lack of inclination to use critical dynamics constructively is consolidated. Thus, failing to address a high (or very low) turnover of staff at management level may be one indicator of insufficient reflexivity in those in charge. However, just as easily, a failure to expand, the neglect of clients or the lack of necessary investment in products, design, quality and digital offerings can together severely endanger the family business's future continued existence. A clear indicator of targeted reflection on the business's own position, on the other hand, is the presence of an advisory board and controlling committee that include individuals from outside the family.[8]

[8] See also the WIFU practical guides on the task and function of an advisory board in family businesses by Kirchdörfer (2018) and on the special characteristics of family entrepreneurs as members of an advisory council by Obermaier (2020).

BLIND SPOT OR CRISIS SIGNAL?

While not exhaustive, the following list indicates typical blind spots in family businesses, which can be seen as crisis indicators:

- Business development (in the last two years) below the sector average in terms of turnover, orders, gross profit ratios, investment, R&D expenditure, level of digitalisation
- Rating less than investment-grade (excessive net financial debt, excessive leverage, exhausted debt capacity)
- Cash flow unable to cover both investments and debt servicing at once or to provide dividends/pay-outs to the family
- Start-up losses, leading to an accumulation of payables and obligations or loans to investment holdings or subsidiaries overseas
- Extreme growth phases coupled with flatlining or decreasing returns
- High staff turnover in top management and/or increased loss of top performers at the second level
- Positions not filled; younger staff no longer brought on board
- Deferral of interest on shareholder loans to protect liquidity
- Financing now only provided against securities to the full amount; securities extended to private assets (personal guarantees, real collaterals)
- Changes to payment patterns: suppliers paid later in contrast to long-standing practice; discounts no longer given.
- Digitalisation:
  - Stringent calls for action and results without a long-term, comprehensive strategy
  - Gaps in competence: responsibility assigned to long-serving, trusted veterans, not explicitly qualified 'thought innovators'.

3 | HOW THE CRISIS PLAYS OUT

The saying goes that every unhappy family is unhappy in its own way[9] and this applies also to family businesses in crisis, seen from the family's perspective. On the family level, in fact, specific combinations of constructive and destructive influences are always present. On the business level, on the other hand, certain characteristics, criteria, processes and scenarios come together to create a typical crisis event. The following definition summarises the nature of a crisis:

DEFINITION:
GENERAL BUSINESS CRISIS[10]

A general business crisis is a state of being in which a business' further existence and ability to survive are in doubt, characterised by unplanned, unintended, endogenous and exogenous processes of limited duration and controllability, as well as by an ambivalent outcome. It can be considered to have occurred when important business goals (essentially, success potential, earnings and liquidity) are endangered and the failure to meet these goals engenders a long-term existential threat or raises the potential of the loss of the business as an independent unit taking part actively in the economic process with the same goals and purposes as it previously possessed.

3.1 | ESCALATION IN THE BUSINESS: FROM STAKEHOLDER CRISIS TO INSOLVENCY

Economic and business research has described a large number of approaches to defining sequences of events. Depending on the model, crises are divided into two to six phases, with phases classified according to varying criteria. The severity of the crisis is determined by the extent of the threat to the existential goals of the business. Without effective countermeasures, a business crisis will progress through all the phases successively and with increasing rapidity, leading eventually to the downfall of the business.

Crisis dynamics are distinguished by the typical characteristics described below. The situation is exacerbated by the fact that, as time progresses, the pressure to act to resolve the crisis increases, while the options available decrease.

The determination of crisis stages usually begins with the **stakeholders**, including, in particular, business management, shareholders (and shareholder families), employees and creditors (e. g. banks), as well as suppliers and customers. Crises frequently have their origin in conflicts between these groups or their members,[11, 12] causing blockages and polarisation and affecting corporate culture and performance.

If a business is at the stage of a **strategic crisis**, it is threatened by a worsening market and competitive position, for example, because of high levels of uncertainty or a lack of clear concepts. At this point, the business is still achieving positive results but is losing market share and customers or facing a decrease in revenue from established customers.

[9] 'All happy families are alike, but every unhappy family is unhappy in its own way.' From: Leo Tolstoy, Anna Karenina (1877).
[10] Rüsen (2017), p. 43, with reference to Maus (1999), Krystek (1987) & Müller (1986).
[11] See also: IDW-Standard p. 6, 'Requirements of restructuring concepts', published 28 November 2018.
[12] Pape & Opp (2017), p. 181, RZ 699.

Since the profit situation is still positive, management often perceives there is no great pressure to act; as a result, the business's resources continue to be deployed within day-to-day operations and the wide range of potential alternatives for action (e. g. developing new markets or business segments, intense acceleration of product or service innovation) remains unused.

As a consequence, a **product and sales crisis** may develop. Here, sales of the main revenue-generators or key money-makers are noticeably reduced, and not just temporarily.[13] The causes for this vary, ranging from quality issues to poor sales department performance. Of grave consequence and frequently seen are weaknesses in the product range as a result of reduced effort on product development, leading to a decline in the performance of the product range and culminating in a fall in price. This forces the business to take counteractive measures and make adjustments.

Persisting with the same course of action in such a situation leads unavoidably, as time goes on, to a **business-result crisis**. This is marked by the fundamental failure of the business to meet its goals in terms of returns and profitability, or by profitability lying markedly below the average set by comparable competitors in the market or sector. The negative effects of poor strategic positioning are often overlaid by additional inadequacies (sometimes in the form of the product itself) on the performance-related side of the business's economic position (e.g. insufficient exploitation of existing capacity, inadequate turnover and cost structures). Any countermeasures still available at this point, which are usually drastic but necessary (e.g. site closures, reduction to the product palette) are frequently implemented weakly, not to the full breadth and depth required. Up to the end of this crisis phase, which is characterised by markedly reduced earnings, the pressure to act increases enormously, while the range of options falls equally rapidly.

The drastic collapse of earnings, as a rule, leads to the final crisis phase before insolvency: a **liquidity crisis**. It is at this point that the pressure to manage the crisis – understood as fending off the threat of insolvency – is at its highest. At the same time, the business has only minimal room to manoeuvre and achieve this within its own resources.

A liquidity crisis coming to a head can cause the start of insolvency proceedings due to the inability to pay or access debt. Once **insolvency** comes into effect,[14] it can only be overcome if suitable and rapidly achievable measures are put into place once again to create the conditions for a positive prognosis regarding the business's long-term future.[15]

Figure 2 summarises the inverse relationship between the pressure to act and the range of options in the course of a crisis. Management processes to fend off and manage crisis dynamics thus have more options at the start of the process than further along its course.

[13] Pape & Opp (2017), p. 181, RZ 701.

[14] The German law states that businesses must always be able to pay 90 % of their obligations out of liquid assets. Tough measures and the injection of fresh liquidity are required to restore a positive prognosis when this is not the case (see Pape & Opp (2017), p. 182, RZ 704 f.).

[15] Pape & Opp (2017), RZ 704.

STAGES OF THE CRISIS (AS DEFINED BY IDW STANDARD S6)

Figure 2: Pressure to act and the extent of options during the course of a crisis[16]

[16] Pape & Opp (2017), p. 180, margin no. 694.

3.2 | ANALYSIS: THE CRISIS STAGE REACHED AND ITS POTENTIAL CAUSES

If a crisis has occurred, careful analysis is essential. This should include, alongside an assessment of the situation, an analysis of the special-characteristics of the crisis stage already reached and the causes underlying the crisis.

Both the literature and practice differentiate between the different stages of business crises shown above: the typical course of a crisis is understood as a chronological process. In reality, however, business crises result from multi-stage, partially self-reinforcing, cause-and-effect chains. Crisis stages do not necessarily develop in the order shown in Figure 3 but may arise in parallel, in isolation or in overlapping sequences.

From a business management perspective, key measures can be determined which, if not met, signal a crisis. More simply, we can say that a crisis has begun when the business is unable to refinance itself independently on the capital markets. This indicates that the key business measures (returns, equity, debt capacity, ability to cover debts and cash flow) are poor, either singly or as a whole. A business can then no longer gain the additional financial resources it needs to resolve the crisis on the open capital markets.

If a business is making a loss, its bank will be prohibited from offering additional finance without further measures being taken, as any credit provided at this time can be vulnerable under 'lender liability'. In this regard, the Federal Financial Supervisory Authority (BaFin) has imposed significant obligations on financial institutions in its 'Minimum requirements for risk management'.[17]

In contrast to a general business crisis, in this case, the crisis comes to a head because an external stakeholder (a 'financial backer') makes or is obliged to make its support dependent on certain conditions (e.g. a turnaround plan or restructuring assessment).[18] The business is thus no longer in a position to resolve the crisis within its own resources.

[17] Pape & Opp (2017), RZ 34.
[18] Pape & Opp (2017), RZ 40.

STAKEHOLDER CRISIS

- **Important decisions affecting the business are not taken or are delayed by shareholders because of a deadlock or internal quarrels.**
- **Employees make their contributions or concessions dependent on contributions from the family ('We will only do something when they have contributed').**
- **Financial backers demand additional securities, including private assets.**

STRATEGIC CRISIS

- **Returns are below the sector average (EBIT < 5 % over the long-term[19]).**
- **Equity capital sinks below 30 %, giving little scope for decision-making.**
- **A lack of long-term direction leaves the business model subject to drastic change.**

PRODUCT AND SALES CRISIS

- **Sales collapse by > 5 %.**
- **Newly launched products flop (ROI > 2 years).**
- **Important top customers are lost or substitutions made in the main product range.**

RESULTS CRISIS

- **Margins are reduced (gross profit margin falls by > 5 %).**
- **Loss of profits and first losses occur.**
- **Net liabilities[20] > 3,5.**

LIQUIDITY CRISIS

- **Increasing numbers of creditor payments become due; the business needs fresh cash.**
- **Free liquidity does not offer a buffer against risk.**
- **Agreed dividends cannot be paid to the family.**

Figure 3: Indicators of the presence of a business crisis[21]

[19] This value applies to manufacturing businesses. It should be understood as a target value, varying depending on the business type (trade, manufacturing, services or projects).
[20] The net debt indicates the ratio of net debt (interest-bearing capital – liquid funds) to the EBITDA.
[21] Source: own figure, SMP.

3.3 | SPECIFIC CRISIS DYNAMICS IN FAMILY BUSINESSES

For family entrepreneurs, a further question must not be neglected – What are the special aspects characterising crises in family businesses?

The overall characteristics of family businesses, as opposed to non-family businesses, can be described as “results from the family structure shaping and influencing organisational development”. This formative element must be defined still more precisely in order to evaluate the crisis dynamics and classify the separate influences on the crisis more clearly. To this end, the following descriptions introduce the concept of the *‘family factor’* in family businesses in crisis. This concept encompasses both the specific constitution of this form of organisation, as described by Wimmer et al., resulting from the co-evolution of the family and the business,[22] and the concept of *‘familyness’* defined by Habbershon and Williams.[23]

The *family factor* in a family business in crisis (Figure 4) therefore includes all the peculiarities and specifics of family businesses – as opposed to other types of businesses in crisis – whose origins can ultimately be traced back to the determining influence of the business family.[24]

The *family factor* in a family business, accordingly, is the central aspect differentiating a family business in general, and particularly in the context of a crisis. Here, the function of ownership in combination with the collective will of the family members to hand the business down over generations must be ascribed a special role. We are dealing here with an additional and highly powerful ‘catalyst’ in the crisis dynamic. The exertion of influence or formative control over the family business and the crisis process by individual members of the business family, or the family as a whole, thus takes on considerable significance. Even if key decisions can be taken or prevented through the ownership function and the relevant business shares or voting rights, insofar as they deviate from ‘rational’ or capital-market oriented decision-making principles they can still only be ultimately understood as the result or outcome of internal family interactions in the entrepreneurial context manifesting corporate law.

In order to consider family businesses in crisis, a systematic analysis of the specific *family factor* is thus of decisive importance. This may also include, alongside structural elements of the business and family, specific behaviours of individual family members that may influence the crisis dynamics of the family business. For this reason, the overarching concept of the family factor is understood to include both those elements which already existed or arose before the acute phase of the crisis and those which can be ascribed to the specific crisis dynamics of this type of organisation. In order to gain a better understanding of a specific (or one’s own) *family factor* as part of a process of (self-) reflection, it is worth considering the typical components and characteristics involved.

[22] See Wimmer et al. (2005).

[23] See Habbershon & Williams (1999) and Habbershon et al. (2003).

[24] Conversely, all peculiarities and specifics of business families (as opposed to families not ‘coupled’ to a business) that can be traced back to an influence from the business, can be termed the *‘business factor’* of this family. In the context of crisis analysis, business-related communications and decisions are understood as a component of the business factor of a business family. Examples of this include how to deal with non-active family members’ expectations of dividends and payouts, the necessity of further capital injections to stabilise the equity base, rules of conduct in public, etc. See Rüsen (2017) for greater detail.

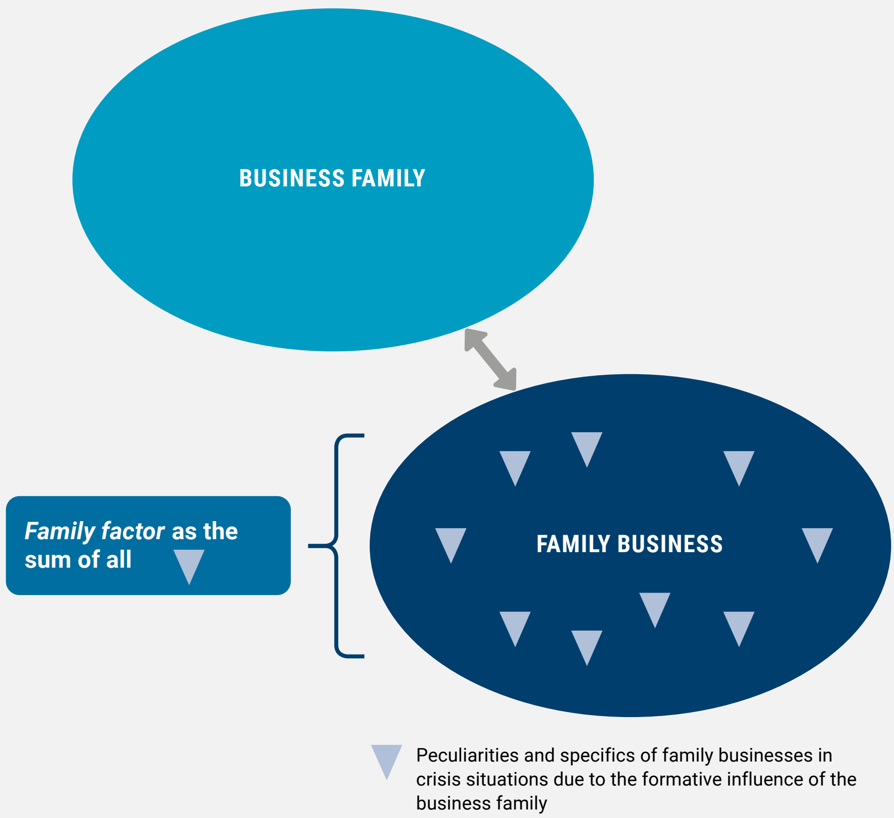

Figure 4: The family factor of a family business in crisis situations[25]

3.4 | TYPICAL FACTORS INFLUENCING THE COURSE OF THE CRISIS

The influencing factors listed below are also to be considered as boundary conditions, process drivers and the results of a crisis dynamic. They may be present to varying degrees, depending on the combination of factors present. Even if, following this analysis model, factors can be identified which would be expected in family businesses and business families, it is nevertheless impossible to formulate any model of the dynamics of the course of crises in family businesses that can be forecast 1:1.

Following the limitations of this guide, it is only possible to give an overview of the factors influencing the course of a crisis (see Figure 5).[26]

[25] Source: Rüsen (2017), p. 126.
[26] A detailed analysis of the specific influencing factors can be found in Rüsen (2017).

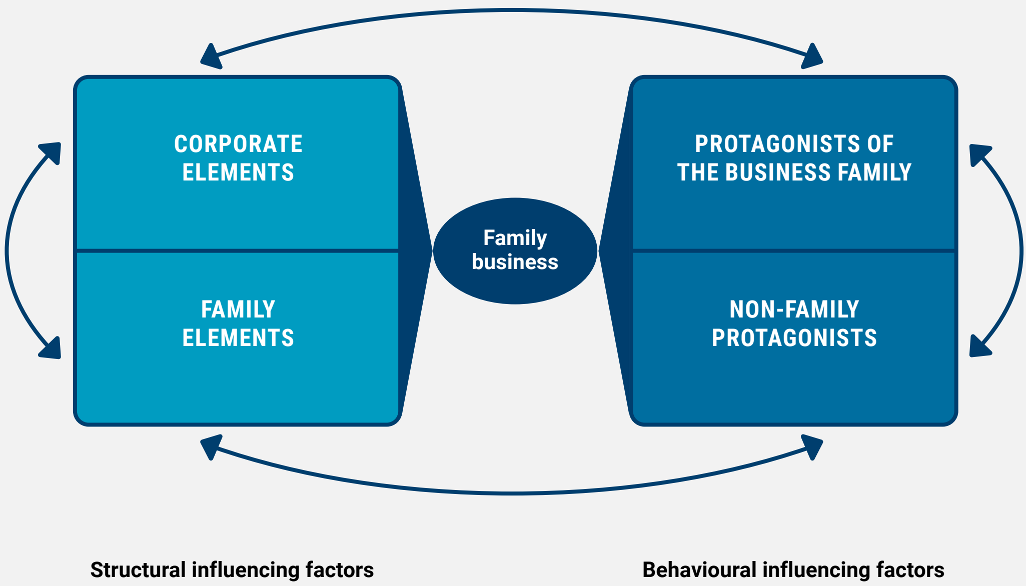

Figure 5: Model of specific factors influencing crisis dynamics in family businesses[27]

The model is to be used creatively, with caution recommended, as an assessment grid to evaluate crises and to make the analytical decisions required focused on the individual case.

The differentiating characteristics of crisis processes in family businesses and the importance of the business family can be described in the form of two types of influencing factors. On the one hand, research results and practical experience indicate the special *structural characteristics* of this type of business and the influence they exert on the business crisis. On the other, typical *courses of action and behaviour* from those involved (in particular, members of the business family with active roles in the business) can be identified and defined and are distinct determiners that influence the course of the process. In order better to describe and evaluate the conditions and mechanisms of these differentiating characteristics, these elements are sorted into two basic categories: *structural influencing factors and action, or behaviour-related influencing factors*.[28]

Both types of influence share certain characteristics:

1 Each category contains various (sub-)elements that mutually influence, shape and condition one another. In the category of structural influencing factors, the sub-categories include *business-related* and *family-related* elements. Behavioural influences comprise the specific actions *of those in the business family* and *those external* to it. The individual (sub-)elements in turn incorporate a wide range of individual factors.

[27] Source: Rüsen (2017), p. 141.
[28] For the sake of simplicity, the following descriptions will speak of behavioural influences or influencing factors.

2 All categories and sub-categories potentially exert a mutual, formative influence on one another: structural effects thus result from behaviour manifested, while various modes of behaviour are oriented to the structures that have been handed down. Thus, familial structures influence business ones and vice versa; the behaviour of those outside the family and members of the business family also exert a reciprocal influence on each other, and so on. For example, a behavioural influence (e. g. a certain reaction to criticism, ways of treating or communicating with employees, business partners family members, or the forceful enactment of personal convictions) can generate structural factors in the family business (e.g. relationship networks, established levels of competence, share apportionment structures) that, in turn, affect the behaviour of individuals or produce new courses of behaviour.

3 The effect that an individual influencing factor exerts on the course of a crisis can be either positive or negative. The constructive or destructive effect of an influencing factor depends, here, on the specific expression it takes in general, *and* its precise, situational valuation by relevant figures in the crisis process (e. g. representatives of the credit institutions, members of the business family or the external crisis management). Correspondingly, an influencing factor can have a positive or negative effect on the crisis depending on the situation and the specific point in time. Thus, a unified front from the relevant family members, with no sign of internal strife, can have a positive effect on crisis management. However, the poles can be reversed and the opposite effect achieved if this unity leads to a disconnection from the demands of the other parties responsible for crisis management – say, the banks or an external chief restructuring officer. This also includes, for example, the business family's marked readiness to invest large portions of their private wealth in the business. This attempt to counteract crisis development – positive in itself – could turn into a destructive influence if it correlates with the avoidance of necessary, radical structural change, representing only a temporary alleviation of crisis symptoms and wasting money in the sustained combat of the crisis to no effect.

4 The influence exerted on the crisis process by individual factors can have *sufficient momentum to trigger a crisis* or to *promote the continuation of crisis processes*. In analysing structural or behavioural influencing factors at the peak of a crisis, it is thus important to consider that many of their elements originated in the past. Individual factors of a negative nature that have a destructive effect on the dynamic of the crisis (e. g. established family communication patterns, patterns of behaviour among family members, inherited taboos, succession plans, management of the family assets) can thus be enough to precipitate an acute crisis or, before this point is reached, be instrumental in the development of the crisis. It is vital, therefore, to recognise such influences.

4 | SPECIFIC DEMANDS ON CRISIS MANAGEMENT IN FAMILY BUSINESSES

4.1 | CLASSIC ELEMENTS OF CRISIS MANAGEMENT SYSTEMS IN BUSINESSES

In general, crisis management in businesses encompasses leadership (planning, management and controls) aimed at foreseeing, preventing and resolving critical existential processes.[29] Classic elements of crisis management include

- Securing liquidity by implementing a specific liquidity management system.
- Identifying and developing measures to be implemented (a turnaround strategy).
- Installing an effective implementation management system.
- Ensuring intensive, situation-appropriate stakeholder management.

The intensity and content of all elements depend on the crisis stage currently experienced. The earlier a crisis stage is recognised and countermeasures defined, the greater the scope to manoeuvre, act and shape responses, and the greater the likelihood of success. The more advanced the crisis, the more other stakeholders exert their influence.

The basis of successful crisis management is **securing liquidity**. Here, we are talking initially of short-term liquidity, necessary as a stopgap until the completion of an effective turnaround strategy. For this, management should establish, as a minimum, a 13-week comprehensive liquidity forecast (see Figure 6). It should be conservatively planned and allow suitable leeway.

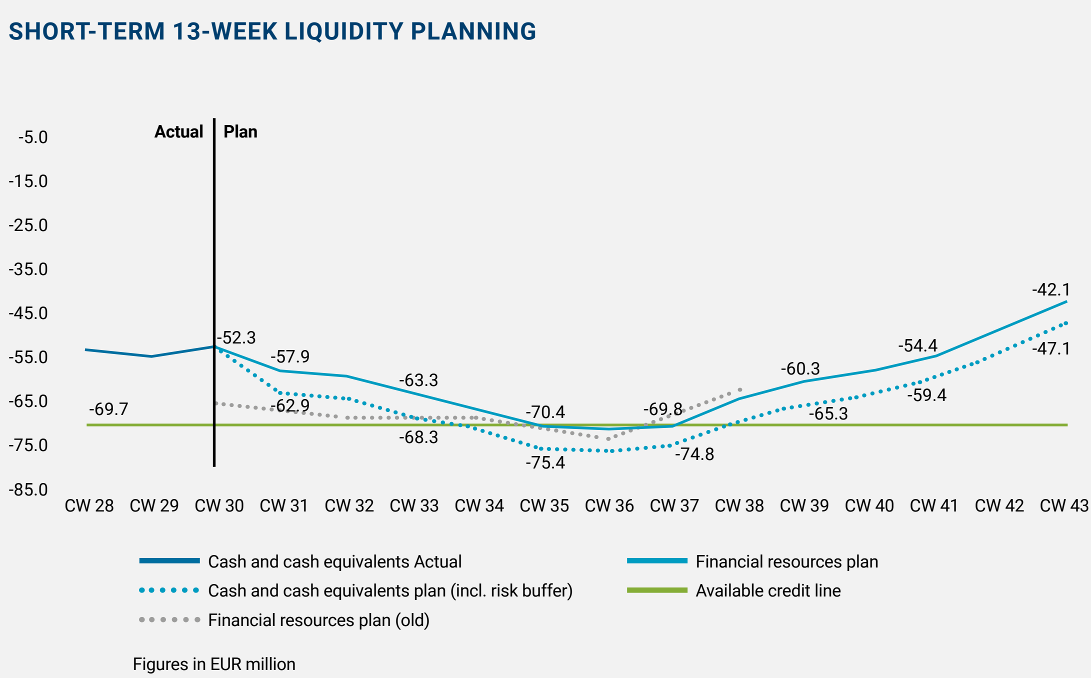

Figure 6: Example liquidity planning

[29] Source: Based on Rüsen (2017), p. 247, and the literature referred to here.

To be acceptable to all involved, a robust plan contained within a comprehensive **turnaround strategy** is an essential element of crisis management. Starting from the vision of the goal (target return and strategic model) the plan should transparently present all measures necessary to prepare the way to achieving that strategic model. Such measures may relate to tidying up the product portfolio, optimising locations, improving vital internal business processes, adjusting capacity and, of course, making necessary changes in management. The factor all have in common is that each makes a contribution to eliminating the respective stage of the crisis. Depending on the complexity of the business, the measures are either assessed from top-down by those in charge, or else worked out from the bottom up in collaboration with those affected, who will bear ultimate responsibility for them. The latter approach expects a high level of commitment from those affected, increasing the likelihood of implementation.

An important element of effective crisis management is the installation of a competent **implementation management system**. Measures frequently fail not at the concept stage but during implementation. With effective performance management, businesses can ensure they reach their goals. To this end, they have access to a wide range of tried-and-tested project management tools, as well as modern, agile methods like Scrum.[30] The central elements of an implementation management system include organisational design and performance measurement, but it is the people who really must not be forgotten! They implement the measures and, as affected parties, have particular importance to the management of the implementation.

The fourth element of successful crisis management, finally, is **stakeholder management**. This ensures transparency regarding the content, goals and status of the crisis management process, and is essential in order to balance individual interests that can often conflict. Power relationships may also shift: a need for liquidity that could, earlier, have been met by a simple telephone call to a bank with which the business had built up a loyal relationship over decades, can now become a massive challenge. The essential factors of a stakeholder management system are:

- identifying the goals of each stakeholder group,
- correctly interpreting and reflecting their interests and dependencies, and
- considering all interests.

[30] Methods of project management derived from software development.

SUCCESSFUL STAKEHOLDER MANAGEMENT

A business crisis affects not only the management, the business family and its financial backers, but also various interest groups or stakeholders.[31] At various stages of the crisis, these groups attempt to assert their interests or demand that they be recognised. If external stakeholders – such as customers, suppliers, trade credit insurers or unions – become widely involved, the business's room to manoeuvre could be seriously endangered. On the other hand, if these stakeholders are cleverly involved and their partially countervailing interests moderated, they can make essential contributions to a successful turnaround.

WHICH STAKEHOLDERS PLAY A ROLE?	WHO MAKES WHAT KIND OF CONTRIBUTION TO CRISIS MANAGEMENT?
Works council/union	Are to be proactively involved depending on the situation and the size of the business. Their cooperation is essential for crisis management.
Employees	Usually detect a crisis earlier than expected. Their ability and readiness to make a contribution are often very strongly expressed. The requirement for this is a coherent strategy and trustworthy management. Employees rarely follow an individual they perceive to have brought the business into crisis but their high level of loyalty to the family often makes overcoming a difficult situation easier..
Suppliers	They are often the first to recognise the crisis because of changes to payment patterns. Suppliers, particularly key suppliers, are often ready to make constructive contributions e.g. by allowing deferred terms of payment. But take care – if trade credit insurers are involved, there are strict reporting obligations.
Trade credit insurers	Important stakeholders who know the market and the competition. They require particular levels of transparency because they are not in a direct contractual relationship with the business. For this reason, they must always be involved in financing meetings..
Customers	Not infrequently, customers trigger the crisis but are, nevertheless, often vital to the continuation of the business. One-off contributions of their own based on loyalty to the family are possible. This is, however, a last resort, demanding full transparency and trustworthiness. As a general rule, put customer relationships to the test, and question previously accepted dogmas.
Banks	External stakeholders may intervene on their own account if they detect a worsening business situation. This can occur very late in the process if transparency is lacking, and may involve a considerable loss of trust. Their willingness to contribute is usually high, for the sake of their own interests. At the same time, a wide range of extensive interventions may result, affecting the family's level of influence and ownership.
The public and press	Not directly involved. The way they are informed and handled must be laid out in a communications strategy.

Table 1: Stakeholders and their specific abilities and contributions

[31] The list and explanation of stakeholder groups follows the IDW S6 Standard, which forms the basis for the preparation of restructuring assessments.

4.2 | CENTRAL ELEMENTS OF A MODIFIED CRISIS MANAGEMENT SYSTEM

A closer inspection of the special typology that is the family business makes clear that important and necessary *rational* analysis is not sufficient in and of itself to ensure the rehabilitation of this kind of business. Restructuring experts are thus called upon to engage with the *family factor* in the business in general, estimate the influence it exerts on the crisis and develop adequate modes of action to deal with it. In cases where the restructuring of the family business can only take place in collaboration with relevant figures within the business family, *additional* approaches and methods are advisable if the business is to be restructured as a family business.

Even if both complexes (the business and the family) are to be considered in the restructuring approach proposed here, the core issue remains – as before – coping with the crisis at the business. Here, however, we can speak of *parallel* crisis management processes within both the family and the business. This approach differs in methodology from the classic approaches by the fact that certain elements of psychology and family therapy have to be integrated into the family side, alongside the legal and economic restructuring. Figure 7 shows a schematic overview of a crisis management approach in a family business.

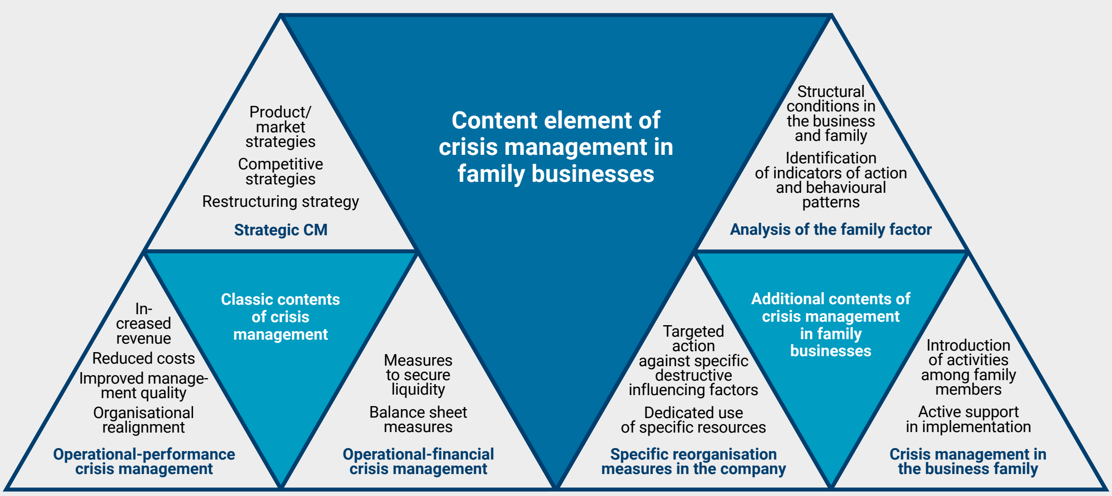

Figure 7: Elements of crisis management in family businesses[32]

[32] Source: Rüsen (2017), p. 291.

The following three elements are to be viewed as central components of a modified crisis management approach:

- The identification of specific strengths and weaknesses in the family business through analysis of the individual *family factor*;
- Building on these analytical results, the conception and implementation of special restructuring measures in the business in order to deal with destructive elements (e. g. targeted action to counter detrimental influences from the business family), and to make purposeful use of specific resources (e.g. existing relationship networks in the family business);
- The initiation of a specific crisis management process on the part of the business family.

4.3 | ANALYSING THE *FAMILY FACTOR*

From the start of external crisis management, extra work has to be completed on top of the classic economic analyses of the causes of the crisis and the starting position of the business (e. g. liquidity, cost and revenue structures, market and competition). Thus, as part of creating a restructuring strategy, the type and character of the *family factor* involved needs to be identified (Figure 8).

This additional information can be gained, on the one hand, as part of the standard analyses carried out in order to create the turnaround strategy (including those regarding the organisation structure, processes, customer and supplier portfolio and

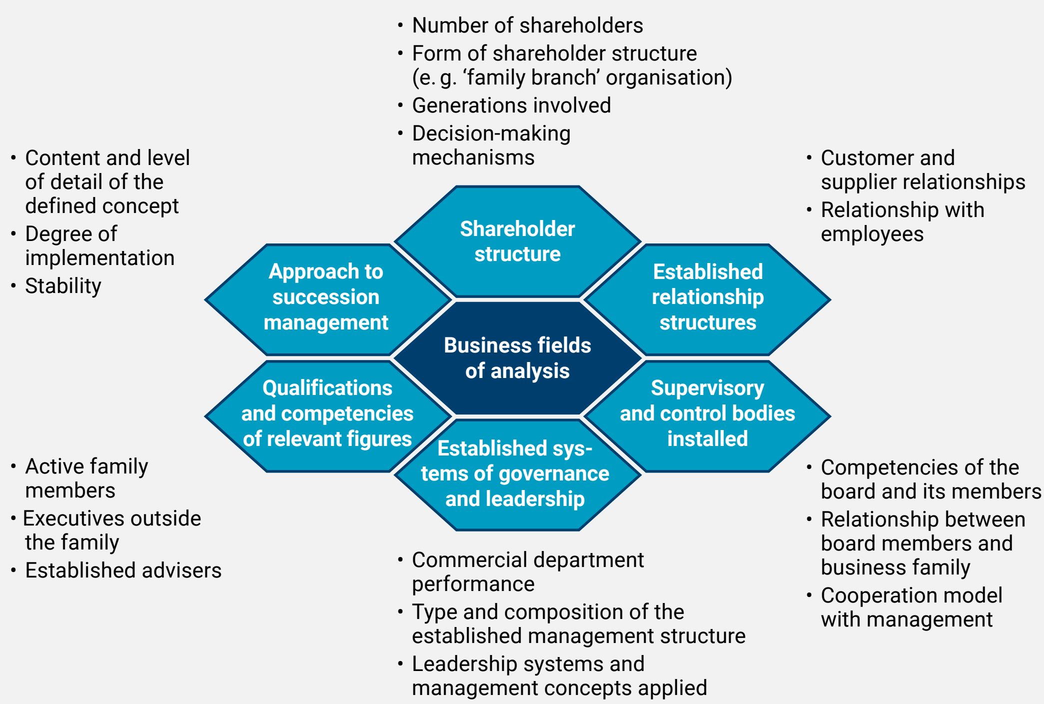

Figure 8: Analytical fields to identify the family factor in a family business[33]

[33] Source: Rüsen (2017), p. 278.

personnel structure). It can also be gleaned from interviews with people from the business, its advisory and controlling boards or the business family or through workshops at family or shareholder events. Data collection specifically focused on the special characteristics of the business and the business family serves to identify indicators of:

- Current or potential future influences.
- The family perspective.
- The *status quo* of any potential family crises taking place in parallel.

In individual or group meetings, the type and character of any existing family conflicts can be made the subject of discussion, and indicators at least of these detected through the careful observation of interactions between family members. Based on this information, particular fields of action in the business and the family can be identified, and initial predictions made of potential modes of action and behaviour in the further development of the crisis. Identification of the specific *family factor* in crisis-hit family businesses should then take place on two levels:

- The typical family-business-related characteristics of particular structural elements of the business should be recorded;
- Relevant structures and dynamics within the business family should be identified with reference to their ability to influence business development.

It is useful to start with the central figures within the family, among shareholders and in the business and assign them to their differing, often multiple roles. This will give an initial overview of the existing links between those involved and the (potential) paradoxical decision-making situations in which they may be involved.

DETECTING AND UNDERSTANDING: THE QUICK CHECK

The goal of a quick check is to estimate the business family's ability to adopt restructuring measures, and which of the necessary measures they will support or implement. Here, it is advantageous to recognise certain mental dispositions. These include:

- Anxieties – perhaps relating to uncertainty and/or loss of reputation – about admitting that there is a crisis, the errors they have made, losing ownership and influence; shame at having 'gambled away' the family inheritance; existential angst in connection with the loss of income sources; loss of trust with certain other members of the family; deteriorating emotional links with long-term employees, business partners and customers,
- The will to change,
- Conflict-readiness,
- Personal dependence on or independence from the family business,
- In extreme cases, the willingness and ability to cut loose from the firm.

The relevant topics to be considered of primary importance in a quick check are, in particular, the following:

- The existence, character and level of escalation of family conflicts;
- The acceptance and stability of any succession plans already put into effect;
- Experience of dealing with recognised – or already communicated – weaknesses in dominant family members;
- The handling within the family of external demands.[34]

[34] For an 'overview of specific analyses to identify the family factor in a crisis-hit family business' see Rüsen (2017), p. 283, Fig. 7.4.

Finally, it is helpful to align the quick check to the following concrete elements:

- Data collection (family tree, structural influence factors in the business, structural influence factors in the family);
- Interviews, shareholder workshops, etc. (to identify present or future sources of influence and the status quo of parallel family processes, to predict modes of action and behaviour as the crisis develops);
- An assessment of internal family perspectives on the established mental model.[35]

The quick check in the sense presented here can only be carried out by those who have comprehensive experience in dealing with business families and who possess the necessary integrity. As a rule, the more complex the *family factor* becomes, the more important the involvement of independent, neutral experts. A restructuring advisor will bring the support they need; they will seldom have sufficient explicit competence of their own, usually because they are not neutral enough on account of their activity within the business. However, they have the important role of initiating the appropriate processes as necessary.

4.4 | FAMILY-SPECIFIC ELEMENTS IN THE BUSINESS

This analysis attempts to identify the level to which structures in the family business have been shaped by the *family factor*. Here, specific factors established by the family's influence must be considered and evaluated, based on their effects on the preceding course of the crisis as well as future crisis dynamics. At the end of the analysis, an overview of the policies, processes and structures that have been identified as constructive or destructive influencing factors with regard to the desired crisis management will be available, alongside a catalogue of measures relating to the targeted use of resources or the management of handicaps.

4.4.1 | SPECIFIC STRUCTURES AND DYNAMICS IN THE BUSINESS FAMILY

This analysis concentrates on relevant structures and dynamics within the business family and the identification of familial influencing factors on the crisis process of the business (see right-hand boxes, Figure 9).

Based on this second analysis, the existing and potential influences of the business family on the crisis process can be identified and the abovementioned disruptive factors or additional resources for restructuring worked out systematically and proactively.

As a result of a quick check of the *family factor*, which covers both analyses, the external crisis manager will have gained initial indications of the structure, composition and dynamics of the *family-specific* influencing factors in the crisis-hit family business.

[35] For detail, see Rüsen, Schlippe & Groth (2020).

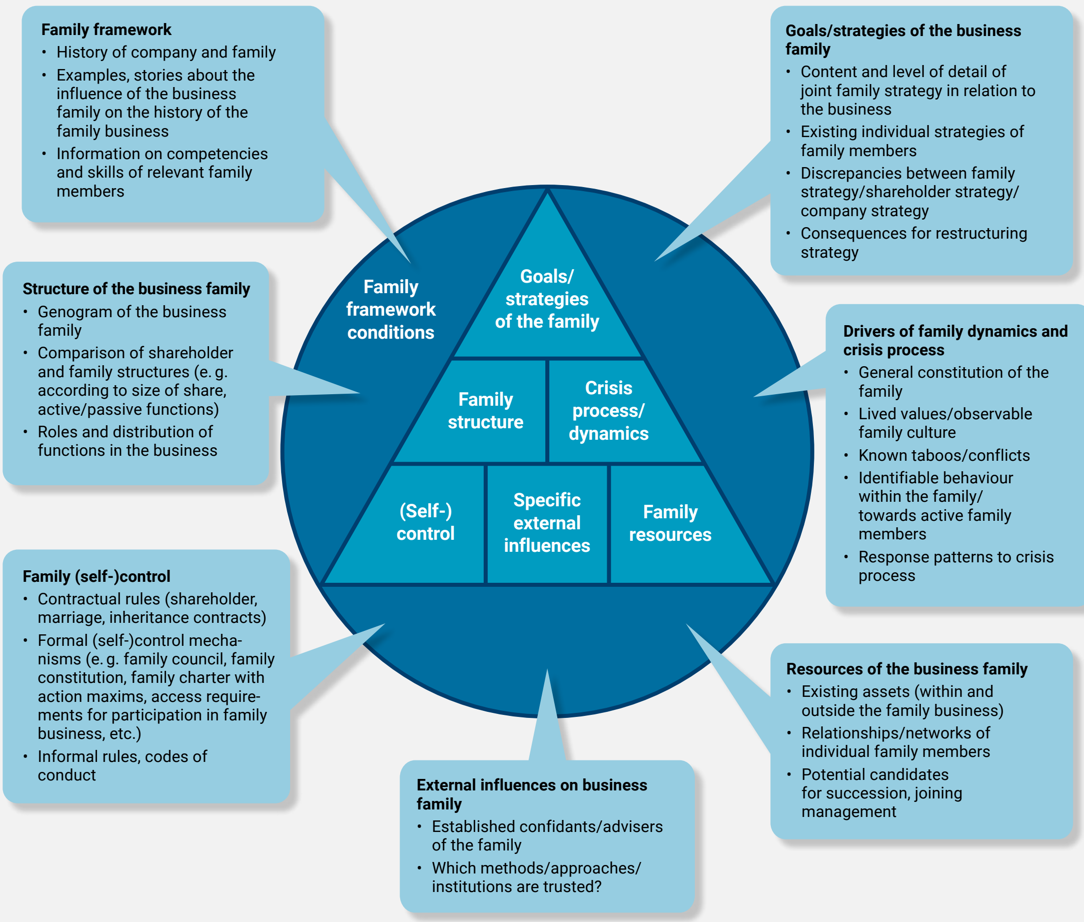

Figure 9: Analysis fields for structures and dynamics within the business family as relevant to the crisis process.[36]

[36] Source: Rüsen (2017), p. 279.

4.4.2 | SPECIFIC RESTRUCTURING MEASURES IN THE BUSINESS

4.4.2.1 Approaches for external crisis management

By using the quick check to assess the opportunities and dangers of the specific *family factor* and specific framework conditions in the business family, initial information may be gained regarding the extent of options available for the turnaround strategy – should the quick check not have detected that immediate measures must be taken? In this way, special restructuring measures can be defined, either to inhibit destructive influences emanating from the business family and the crisis associated with these, or to make targeted use of specific determined resources (e. g. the recruitment of a retired minority shareholder with strong contacts to top clients).

To use the positive elements identified in the *family factor* purposefully for crisis management, the following approaches and procedures for external crisis management – among others – are recommended:

- Inclusion of family members with good relationship structures in negotiations with customers, suppliers and, particularly, with employee representatives regarding contributions to restructuring;
- Communication of actions taken by the family to send a signal, such as changes in the family's behaviour, agreements to give up certain things or restructuring contributions;
- Use of existing portions of the assets of the extended family to provide 'fresh money' to the business;
- Integration of various family members in crisis and restructuring communications, e. g. in staff meetings or press conferences;
- Integration in the crisis management process of family members who previously had no crucial role in the business, but who have the necessary abilities and the trust of other family members and external creditors. These can, under certain conditions, take over the roles of family members who need to be replaced.

WORKING CONSTRUCTIVELY WITH THE STAKEHOLDER BANK

As the crisis progresses, banks become some of the most powerful stakeholders. Based on their own assessment of risks, they will make their interests clearly felt. Here, intensive communication is required to retain dominant status.

WHAT COULD BANKS POTENTIALLY DEMAND OF THE FAMILY?	HOW CAN FAMILIES REACT?
Takeover/departure from management	In both these cases, the financial backers will attempt to adjust the influence of the family on the business to their own benefit: if they trust the family, they will attempt to involve them in roles of responsibility; if not, the opposite holds. If financial backers demand external management, families can assert their influence by conducting a structured, transparent selection process.
Shareholder contributions/ securities	If the business needs additional liquidity, the financial backers will want to see the family take responsibility. They will ask for cash contributions or securities. Banks will usually assume that the family has sufficient wealth of its own. For the family, this means mixing private and business wealth. For many family members, however, this is a red line, especially where their private assets form part of their pension. It is a question of trust on both sides: 'throwing good money after bad' or 'who has the greater confidence in the coming turnaround and what could be considered a well-balanced assignment of risks?' To resolve this difference of interests, the family needs a sophisticated plan to protect it. From experience, working with a trusted specialist or respected lawyer is useful.
Capital generation/ sale process	If the differing interests cannot be reconciled, or the planned equity ratio is still too low at the end of the restructuring period, the final invasion of influence and ownership will loom: due to the high level of external debt, the banks gain economic control of the business. As a consequence, the family is forced to generate capital, selling corporate shares to do so. For families, this is a worst-case scenario, but they have to face up to these demands and try at least to retain control of the course and substance of the process. This starts by selecting an M&A adviser. Based on experience, it is helpful at this point if the family can call on a notable legal specialist. This person will ensure legally binding consideration of the interests of the family. This begins with the most important question, namely, what happens after every measure has been taken, such as the initiation of a capital generation programme or its safeguarding under a trusteeship arrangement (keyword: 'narrow declaration of intent'). The purpose and goal of such measures and the roles of those involved must be unambiguously defined.

Table 2: Potential bank demands for which families should prepare.

4.4.2.2 Measures to break the pattern

Destructive influences directly or indirectly exerted by members of the family on the business, which can be attributed to specific structures established within the business or family, or which result from interactions in crisis processes, must be counteracted by crisis management with appropriate attempts to break the pattern. The measures required differ widely, depending on the influences to be addressed, and may relate, for example, to organisational or procedural issues in the business (e. g. the introduction of a flexible, capable decision-making body such as a shareholders' committee to represent their interests, the appointment of an interim manager to set up a capable commercial department, or the definition of the succession process). Alternatively, they may address the factors within the business family that are having a destructive effect on the crisis dynamic, perhaps through the following measures:

- Targeted addressing of continuing family conflicts or the involvement of professional mediators/conflict managers in escalating disputes;
- Permanent and professional support for the family during the crisis management period;
- The implementation of crisis coaching for those members of the family involved in the business, perhaps by members of the external restructuring team;
- The setting out of binding behavioural codes for all family members during the crisis.

If the actions and behaviour of members of the business family significantly endanger the continuing existence of the business and cannot be eliminated through supporting activities on the part of the crisis management team, more radical pattern-breaking measures must be taken to achieve a temporary – or even long-term – de-coupling of family and business. These would consist of, for example:

- The long-term extension and strengthening of the existing top management team with external managers;
- The establishment of a powerful and independent control and advisory committee, independent of family influence;
- The forced departure of family members from the business;
- In extreme cases, the introduction of trusteeship models or the initiation of the sale of the business.

If such drastic restructuring measures are needed to slow down a crisis dynamic in a business, the external crisis management must simultaneously take action to allow the family to engage in a structured way with the necessary changes. Care must always be taken to use targeted processes and coordinated measures to avoid the kind of conflict escalation observed so frequently in such situations: the family members affected must be able to save face and receive a specific set of incentives (financial and/or non-material); a process of resolving the situation within the family should be initiated and supported, with options for return granted if the circumstances allow. In this way, individual 'tantrums' or the escalation of internal conflicts can be limited or channelled.

In this type of business, therefore, any responsible crisis management team must be prepared for this kind of heated situation and the potentially self-destructive action that may follow on the part of family members, and to prevent it by using the measures listed here or to tame its negative effects.

4.5 | CRISIS MANAGEMENT IN THE BUSINESS FAMILY

4.5.1 | EXTERNAL APPROACHES

The results of the analysis of the specific *family factor* provide the basis for defining the measures to be adopted in terms of crisis management in the business family. The ideas presented here represent an additional range of tasks for the external crisis manager and are to be initiated by this role.

The special characteristics of the approach proposed here result from the fact that it involves reactive measures in the context of a crisis process that is already far advanced; most of the approaches suggested here must take place in the context of pressure exerted from outside the family. Suitable measures are to be initiated, at least, by external crisis management and in certain conditions may even be supported or carried out by team members. For this part of specific crisis management, the issue revolves around measures – in contrast to the previous components described – to *restructure the business family* as a central means to restructuring the business.

At their core, these measures involve working with structure-forming and behaviour-controlling elements within the business family.[37] Thus, for example, existing resources (such as marked mutual trust or special conflict-resolving or communicative abilities) can be specifically discussed and used to prevent destructive developments in internal crisis processes within the family. In this regard, systematic engagement with topics such as the business identity, continuity of tradition, willingness to make sacrifices or shareholder or family strategy can take place. Likewise, proposals, ideas and approaches emanating from the family, measures relating to potential savings, personal sacrifice, handling demands for resignation and generating the necessary capital can be discussed and decided on within the family. At the same time, the destructive elements and handicaps which are a constant threat (such as certain public actions, existing conflicts, old accusations and disputes, particular forms of behaviour from individual family members) can be carefully worked through, and temporary (lasting the duration of the crisis) or long-term solutions developed.

The external crisis manager initially takes on the role of initiating the necessary meetings, talks and fora within the business family. Depending on the level of ability and competence shown by those involved, the problems to be addressed, the boundary conditions in the business and relationships of trust within the family, the necessary activities may, after initial prompting by a consultant, be carried out independently by the business family.

The challenge for an external crisis manager who is active within the business is to ensure that those to whom a central role in the preceding crisis dynamics is attributed are not the same people as those who control or support the crisis management in the business family. Otherwise, there is potential here for negative influence on the crisis handling process: the family is in danger of being exposed to or overburdened by biased assessments with the corresponding relativisation of responsibilities and stabilisation of informational asymmetries.

Should the existing conditions or circumstances demand more active support, management or involvement by third parties, however, the task of the crisis manager is to provide moderating, mediating and coaching services.

It is questionable how far these activities can be carried out by the same members of the crisis management team that are already involved in the restructuring of the business. If this task is assumed by a single crisis manager active in this sphere, the principle danger that arises is that, because of their position, their success may be blocked by being caught in conflicts of interest or loyalty.

[37] These can be understood as a specific form of family strategy development under crisis conditions. For the general procedure in developing a family strategy, see Rüsen, Schlippe & Groth (2022).

For this reason, it can make sense to engage a separate team for this part of the crisis management process. While this team will not initially have a reputation for success in operational restructuring, it will not be burdened with negative associations brought about by past strategies or the implementations of tough, painful restructuring measures. In addition, a team specifically responsible for this task can engage without prejudice with family perspectives, as it is not directly affected by the decision-making and time pressures within the business. It can adapt itself to the time frames of the family in the decision-making process, which may differ from those of the business, and provide the necessary temporal framework for these processes.

Such a team must always keep its eye on the goal of restructuring the business and does not let itself become engrossed in the family dynamics. Here, special consideration should be given to the typical problem for consultants at a family business – that they are not drawn into the family system. In the concept proposed here, the active consultant/crisis manager continues to work not for the family, but for the business, even if their consultation services are largely directed at the former.

4.5.2 | INTERNAL APPROACHES

The processing of specific issues or crisis dynamics by the business family can be accomplished from various starting points: thus, for example, the formation and establishment of an internal crisis council within the family could be encouraged as a regular platform for communication.[38] On top of this, naming a family member as the internal crisis manager for the family can form a communicative link between the business, the family and external crisis management. A member accepted by the entire family to take on this function could contribute as a trusted internal contact in the consolidation and structured handling of the questions, concerns and anxieties arising within the family, or as part of mediation between various groupings within the family or between the family and shareholders or the business.

Other starting points for the formation of a crisis management strategy within the business family – usually demanding more extensive involvement of professional, external support – relate to the development of a restructuring strategy for the business family. As part of this, an agreement should be formulated to be upheld by all members with regard to the business and the means of handling the crisis. The development of a suitable internal family restructuring strategy may include, inter alia, an agreement on actions to be taken and behavioural guidelines for the family (or families), the development of boundaries in conflicts with active family members (e. g. in the case of third-party demands for dismissal, or financial emergencies) or in connection with appearances in public. In addition, the framework of this agreement should consider methods, processes, institutional or personal assistance for individual family members suffering from psychological stress, and measures in the case of escalating family conflicts.

A systematic handling of this topic will aim for agreement regarding the rapid deployability of special methods of conflict or crisis resolution within the family. If needed – and potentially in parallel with strategy definition – individual or family coaching sessions can then be held to address problems arising from the crisis. In addition, the involvement of professional conflict managers, mediators or the prior determination of arbitration methods can prevent escalation. The core of the matter is to prepare and take suitable measures that 'restructure' the business family and negate its destructive potential. The goal of these measures is to allow the business family to speak, making its members as capable of handling the crisis as their business.

[38] What is under consideration here is a family management system to be introduced for the duration of the crisis as per topic block 10 of the Witten Model of Family Strategy Development. See Rüsen, Schlippe & Groth (2022) and Schlippe et al. (2021) for more detail.

HOW CONSTRUCTIVE ELEMENTS OF THE *FAMILY FACTOR* SUPPORT CRISIS MANAGEMENT

Often, business families have not only the responsibility but also the opportunity to make essential contributions to successful crisis management. Such constructive aspects of the *family factor* should be identified at the earliest possible opportunity: they are very effective in supporting the handling of the crisis. For this reason, crisis managers are well-advised to achieve clarity early on regarding the potential and effect of constructive contributions. Conversely, the family should clearly identify – to protect their ownership and influence – which members can support crisis management, and in what form. Such contributions could include a resolution on a turnaround strategy, supporting the turnaround management, creating trust by having a prominent family member take a position and 'nail their colours to the mast', stakeholder management and communication, or shareholder contributions such as providing funds or offering securities. In the final account, the family bears the responsibility for ensuring that crisis management works to their benefit.

4.6 | COMPREHENSIVE TURNAROUND STRATEGIES THAT CORRECTLY INCORPORATE THE *FAMILY FACTOR*

The goal of a successful turnaround is that the business regains competitiveness over the long-term, generates profits and achieves results according to or exceeding the plan. The liquidity development of the business must ensure solvency at all times and restore the ability to cover debts. In this way, the business is set up to be able to refinance itself without a problem in the capital markets. For the creditors that support the recovery operation, this final goal, in particular, is essential. To this end, the business will, sometimes together with external consultants, first analyse all the causes of the crisis, provide clarity regarding the current position vis-à-vis the market and competition, and determine the existing value-creators and destroyers in the portfolio. It is from this work that the initial turnaround measures are determined that will later be incorporated into a comprehensive turnaround programme.

The general requirements for a comprehensive turnaround strategy, in this sense, are:

- A full-scale, comprehensive approach, focused by a preparatory input and hypothesis phase;
- Evaluation of the resources and processes of the business;
- Identification of value-creators and value-destroyers;
- Definition of the healthy core;
- Evaluation and further development of the business model;
- Development of growth perspectives, at least for individual departments;
- Measures, assessed as to their degree of implementation and monetary effects, with corresponding implementation profiles;
- Integrated medium-term business planning (income statement, balance, cash flow, at least for the period of the restructuring) that clearly and logically demonstrates the planned success of the measures and the premises supporting these;
- Commitment of all involved stakeholders, in particular the family and any other potential organs.

Turnaround strategies form an important working basis for all involved and, thus, generate the commitment needed and the binding foundations of the often very complex and difficult process of crisis management. In any case, where a financial decision is needed, the requirements are aligned to the banks' regulations. In order to make a positive credit decision in a business crisis, banks have to demand turnaround plans and restructuring measures that comply with the judgements of the highest courts relating to relevant requirements. These demands are communicated to the business in writing and are part of a turnaround consultant's toolbox. Financial backers are usually satisfied with plans that fulfil the IDW S6 standard and, in particular, the requirements of the Federal Court of Justice (BGH) regarding the preparation of restructuring assessments.

4.6.1 | INCLUSION OF THE SPECIFIC *FAMILY FACTOR*

Turnaround plans offer a central point of contact to assess the *family factor*: each plan has to engage with the crisis stages, including the stakeholder crisis. The IDW sees stakeholders as a relevant interest group, in the same way as shareholders and supervising entities. The essential criteria to be considered when involving the specific *family factor* are listed above under the ‘Quick Check’. From experience of consulting in family businesses, the following success factors can be identified:

- The ability to support the process of crisis management through resolutions (family governance);
- The future orientation/strategy of the family;
- The ability and will to support the process through personal involvement and/or financial or other contributions;
- The willingness to implement measures (credible crisis management from the family);
- Conflict regulation mechanisms.

For the family, it is key to steer and guide the process to its benefit. When all is said and done, the family is responsible for the success that affects its assets and influence. Families are thus well-advised to set the right course early on. This includes:

- A realistic self-assessment of whether a member of the family can lead the process within the business and give credible support;
- An honest estimation of whether the active management has sufficient expertise to manage the crisis, guide the process properly and, in so doing, act as a broker between the potentially conflicting interests of the family, the business and external stakeholders;
- Evaluation of structures (corporate governance) with regard to the sufficiency of controls on those outside the family (management, external consultants);
- The difficult question of whether, over the short-term or, perhaps, an interim period, external specialists should be brought in, either at the management level or through the involvement of consultants with proven expertise in family businesses.

For families, these assessments are often very difficult; because of the underlying structure of family businesses, they are used to working ‘self-referentially’ within their internal communication system. Obtaining independent, external opinions is not their strength. In a crisis, however, everything is at stake, because even family businesses previously considered stable on account of their transgenerational nature can be subject to existentially threatening effects in such situations. Gathering external advice and receiving feedback on one’s situation can thus be essential to survival. External advice is only helpful, however, if it is independent and not controlled by other interests.

4.6.2 | TURNAROUND FINANCING AND SHAREHOLDER CONTRIBUTIONS

As soon as the initial liquidity crisis has been resolved, the business needs to determine an effective turnaround financing programme for the entire period of restructuring (as a rule, 1.5 to 3 years). If additional external capital is needed for the turnaround, negotiations must be carried out with banks regarding both the prolongation of existing lines of credit as well as so-called ‘restructuring loans’. Here, the continued financing of the business is the focus, in order to ensure liquidity during the turnaround timeframe necessary to overcome the crisis.

At this point, families make the painful discovery that they must turn away from the fundamental principles of which they were previously so proud, which allowed them to shape their financing options independently, even when drawing in external capital.

HOW THE FINANCING SITUATION CHANGES

In the crisis, the financing banks define a new financing strategy of their own. The starting point is the business needs ('fresh money'), but the strategy is increasingly oriented by the interests of the banks. These range from ensuring the business's stable, projectable economic development, through to securing their own stakes and balancing the risks, or to exiting from the business relationship altogether. Instead of the confidence they were previously familiar with, families and their businesses now often find themselves confronted by mistrust. The financial building blocks, of which the families were previously so proud, have changed.

WHAT DEFINES FINANCING FOR FAMILY BUSINESSES?	WHAT CHANGES IN A CRISIS?
High equity stake	The family pride: we did without profits to support the business. In a crisis, however, only liquidity counts (and is sufficient alone for the legally required survival prognosis). Banks will of course consider the substance of the business, but decisive importance is given to a sound turnaround plan and any free collateral remaining.
Clear concept for principal bank	In selecting banks to provide financing, families often concentrate on one or two principal banks. They have a particularly trusting relationship with these. Not infrequently, they also have private accounts with the same banks. Further banks are brought in for special financing or because of certain conditions. In a crisis, all banks join forces. The bank at which private accounts are kept has full transparency regarding private asset situations – potentially an important factor for it when demanding shareholder contributions.
Bilateral agreements with several financial backers, perhaps supplemented by leasing and/or factoring; closer relationship with a leading principal bank	In crises, it is normal for financial backers to express uncertainty. For this reason, they need to be treated equally. This does not just cover the security of their credit, in terms of which the obligation of equal treatment is usually already contractually laid out. To administer any new securities to be endorsed, the financial backers will usually form a pool. It may be that they also want to bundle their total engagement in a bank pool. This is often very difficult for families to control although, on the other hand, the number of potential negotiating partners decreases.
The business assets are an essential element of private pensions	If insufficient pension arrangements have been made outside the business, the business crisis will place the family under extreme pressure: their life's work is at stake and they have nothing to counter the demands of the banks. In this situation, the pressure is enormous.
High shareholder loans and/or accounts	These are defined as own equity during the crisis and for legal reasons cannot be easily retrieved; banks, therefore, do not consider their retention (and/or subordination) as a shareholder contribution.

Table 3: Changes to financing.

4.6.3 | COMMUNICATION AND STAKEHOLDER MANAGEMENT

Communication and stakeholder management present particular challenges to the family. Suddenly, it is required to communicate with the outside world, or discuss with third parties, matters previously kept within the family.

Crisis communication in family businesses presents a special challenge because personal, result-related, structural, procedural and business matters collide with each other and are virtually impossible to deal with separately. Successful communication will always contribute to crisis management, whereas failed communication can threaten the business. For this reason, the family needs a comprehensive communication strategy which aims, above all, to restore the credibility of the family and the business.

- In the business, it is important to create transparency and offer employees orientation. To this end, management round tables, departmental meetings, works meetings or employee magazines can be used. Credible members of the family can take on an important role in this regard, offering trust and security.
- The person in charge of this should also consider how they will communicate externally. Only in exceptional cases can the release of targeted information to the outside world (customers, suppliers, financial backers, the public) be avoided. As a rule, local or regional media report on family businesses, or rumours escape via social networks. In a crisis, it is key to consider the reputation of the family and business. If certain individuals within the business are seen as responsible for the crisis, pressure in reporting increases markedly. Today, transparency is important, even for the most discreet family businesses. To this end, and despite personal involvement, external communication should be set up strategically. Silence or non-communication is usually not the answer.
- Uncertainty regarding the reasons for and progress of the crisis leads to an increased need for information and communication in the family as well. Depending on the size of the family, its number of branches and members, communication can become very complex, requiring a thorough understanding on the part of those involved in communication processes and expectations. One reason why communication with internal family shareholders plays a huge role in family businesses is that these people do not act directly but have the right to take part in decision-making.

5 | CRISIS RESILIENCE: PREVENTIVE MEASURES TO AVOID CRISES

5.1 | FAMILY GOVERNANCE AS A MEANS OF CRISIS PREVENTION FOR BUSINESS FAMILIES

If the identity-forming coupling of family and business is the source of a whole range of strengths in family businesses, this same connection can also be a serious danger, because it can cause the burden of conflicts between family members to be borne by the business. Seldom are stable mechanisms in place to ensure that family conflicts remain within the family. In cases of conflict, managing partners may reduce communication with one other to a minimum, with private contact also reduced ever further until, ultimately, there may scarcely be a shared basis of communication left. A situation that might still be acceptable at the management level (after all, personal distance and conflicts are also frequently observed in non-family businesses) can lead to an acute existential threat if the conflict also affects communication and decisions at the next level of governance, the supervisory and controlling bodies. The business is then paralysed to its core, with no further ability to act or take decisions. Important basic resolutions fail and necessary adjustments to the business are not made. In contrast to other forms of organisation, family businesses offer few protected areas in which conflicts can be settled without their effects automatically radiating and spilling over into the environment.

Particularly dangerous is the potential to build up a burden of older conflicts and transfer them down the generations in multi-generational family businesses. If this latent conflict potential provides a permanent background against which all decisions are evaluated, conversations guided and disputes managed, the traditional strengths of the family business are quickly transformed into its weaknesses. Suddenly, the notion of cohesion and the shared goal of facing the future no longer define how action is taken. Rather, injustices and destructive experiences take centre stage, some of them with origins years or decades before. Demands may be formulated that arise from childhood conflict between family members. Such smouldering conflicts often need only the smallest, most insignificant spark to burst into life again. Depending on the level of escalation reached and what caused the conflict, there are many options available to counteract it. Latent conflict potential, such as a lack of clarity about succession,[39] requires approaches that are wholly different than for highly escalated conflicts which have the parties firmly in their grip.

A family strategy offers starting points for both approaches.[40] Similar to a national constitution, it offers a general framework for action and orientation for members of a business family. To ensure that a growing family remains a reliable business partner in a changing environment and down the generations, it is necessary to be very explicit about shared expectations, values and goals. Based on this shared attitude, rules can be laid down which serve as a framework of action for members of the business family. Of decisive importance for the successful functioning of such an instrument, however, is not the finished document itself, but the path taken towards gaining a shared understanding. For this to be successful, it is necessary to find out, reflect on and discuss existing positions in a protected, and usually moderated, space. Based on this reflexive process, the formulation of a family constitution (also known as a family charter, codex or statute) can document the attitudes of the members of the shareholder family as a verifiable 'will of the family'. In an ideal situation, a business family will create a charter of values and behavioural rules that may not be legally binding but exerts a strong moral force on the members who sign it.[41] A family strategy can, thus, foster identity and common meaning within the business family and establish structures for order and action. It can also form the basis, for example, of contractual interactions between various levels of governance (family and corporate) in the family business.

[39] This topic is covered in detail by the WIFU practical guide 'Securing succession within businesses over the long term' (Groth, Rüsen & Schlippe (2020)).

[40] For more detail in this regard, see Schlippe et al. (2021) and Rüsen, Schlippe & Groth (2022).

[41] Rüsen, Schlippe, Richter & Hueck (2019) and Neumueller (2020).

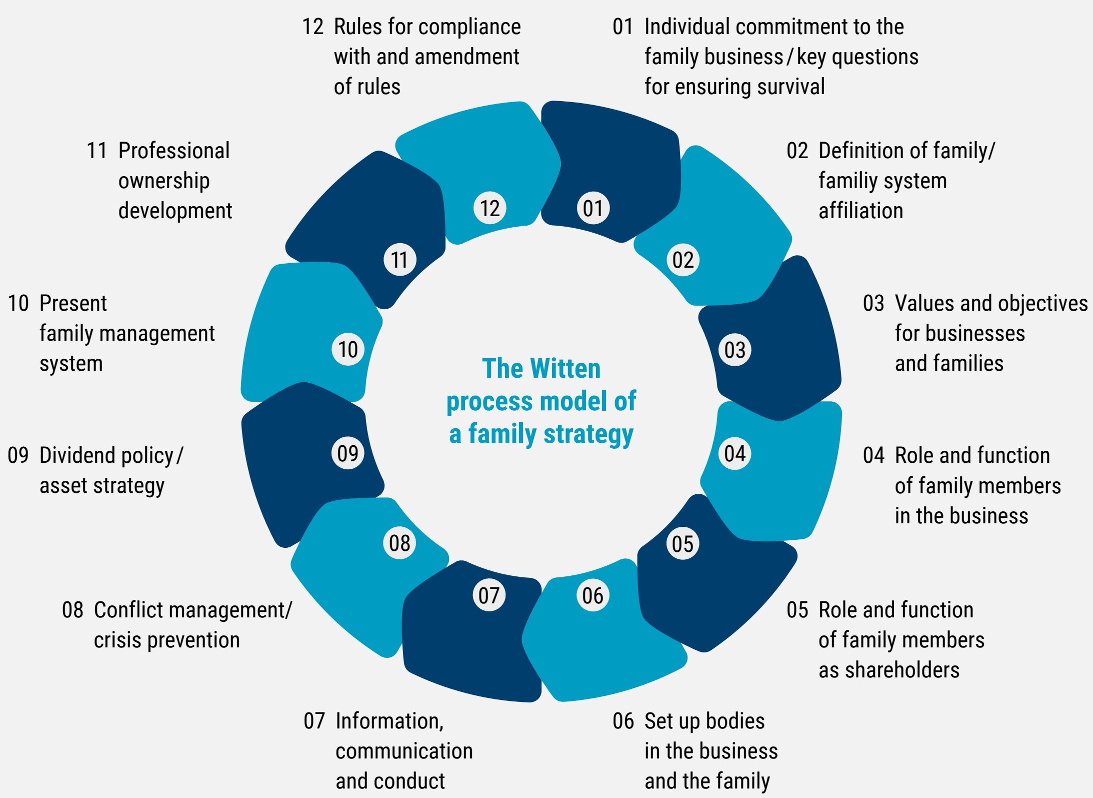

Figure 10: The Witten process model of family strategy development

The twelve-step process model for the creation of family strategies developed at the Witten Institute for Family Businesses offers a clear framework for business families to orient themselves.[42] The twelve steps, building on each other, mirror the core existential questions of family businesses, which members of business families have to face again and again. The themes they represent not only consider primary familial relationships but also expressly cover the relationship between family and business.

[42] See Rüsen et al. (2022) and Rüsen & Schlippe (2020).

5.2 | BALANCING CRISIS FACTORS FOR THE BUSINESS AND FAMILY

A first stage in avoiding a crisis is reflecting on shared experiences in any other crises that have already been overcome. Family businesses have a long memory, storing up all the experience they have gained, which can be referred back to at any time. For this reason, it is important to evaluate the experiences made during a crisis in a way that personal wounds are not reopened and do not become new blind spots (see Chapter 2), a source of further potential conflicts. Conflict is unavoidable, but after a crisis is overcome the family culture should be felt as a source of confidence and a guarantor of the future viability of the business.

The greatest challenge for family businesses is to permanently monitor crisis factors, not just in the business but also in the family. For the **business constitution**,[43] the determining factors are easy to define:

1	Clear corporate governance.
2	Operationalised business strategy.
3	Mechanisms for rapid adaptation.
4	Clear leadership structures and elements.
5	A financing structure with a high proportion of family equity
6	The financial independence of the family.
7	Returns at least at the standard rate for the sector.
8	Transparent controlling and early crisis detection.

Intensive discussions with families, their consultants and advisers make it clear that these criteria are reflected in the family constitution.[44] The relevant criteria for the family **constitution** are:[45]

1	Ability to make resolutions (clear family governance).
2	Future orientation/strategy.
3	Conflict regulation mechanisms.
4	Leadership/competence/succession.
5	Potential for (financial) contributions by the family.
6	Separation of family and business assets.
7	Willingness and ability to implement measures (credible crisis management from the family).
8	Controlling/monitoring (early crisis detection).

[43] This includes the composition of the business family (branches, generations ...), the division of roles (active, shareholder, etc.), the asset situation and the question of entrepreneurial and managerial training.
[44] SMP online stress test: a survey of the relevant criteria for realistic self-assessment, based on 130 test results; access directly via the neighbouring QR code.
[45] The essential elements of a family management system are explained in the WIFU practical guide 'Family strategy development in business families', Rüsen, Schlippe & Groth (2022).

Reflection on these eight criteria shows that families should ask and examine these questions at regular intervals, both internally and in the business. To this end, a self-test is advised to protect participants against over-confidence and self-deception. When assessing any constitution, a world of contradictions opens up. For example, it may be asserted with certainty that the family possesses strategic ability, conflict-resolving mechanisms and resolution-taking competence but, at the same time, it becomes clear that the business has only fragmentary strategies and corporate governance rules, if that.[46]

Furthermore, many families believe that they are completely capable of making decisions and passing resolutions. The reverse is often true because many businesses lack unambiguous practices and decision-making parameters regulating the influence of the family and connected processes.

The effect of failing to separate family and business assets can be dramatic, resulting in a lack of inherent means to support the business in a crisis. If, in addition, family members are dependent privately on direct revenue streams from the business, the ability of the business – and the family – to act in a crisis will be markedly reduced.

[46] According to the results of the SMP Online Stress Test based on 130 participants.

WRAP-UP: SIX KEY QUESTIONS FOR ESTIMATING THE CRISIS RESILIENCE OF A FAMILY BUSINESS

With the help of the following questions, you can assess the key factors, giving an initial prediction of the crisis resilience of a family business. These questions should be posed and answered at regular intervals. They can help, in particular, those members of the family who are not active in management – as well as advisers and consultants – to understand information from the business in terms of its importance to crisis resilience.

Based on experience, the crisis resilience of a business requires an equilibrium between these key factors; hence, they can help in the preparation and implementation of regular meetings (shareholders' meetings, committees or advisory councils). They also support dialogue with those with responsibility for operations within the business. This dialogue could otherwise solely comprise facts and figures, potentially excluding non-operational responsible parties from discussing the issues on an equal footing.

1 Anticipating structural change:

In the last twelve months, has the business initiated a concrete programme of measures to address the challenges linked to digitalisation?

2 A strategy suited to a family business:

In the last twelve months, has the business set out a strategic approach for the next five years based on a contemporary interpretation of family tradition?

3 Value-oriented business model:

Is the business' position in the market sufficiently differentiated and can it monetise this?

4 Long-term debt coverage:

Does the business not only achieve above-average annual returns, but also make enough on its own account to cover its investments, service its debts, issue reasonable dividends and build up a cash reserve?

5 A financing structure independent of the family:

Is the business's current financing dissociated from the family, both today and – as far as can be seen – in the future? Does the family hold a pension fund and cash reserves outside the business?

6 Management oriented towards family values:

In the last three years, has the management at least fulfilled the business plans, while remaining in harmony with the family values?

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The non-profit WIFU Foundation, founded in 2009, is committed to promoting not only research and teaching, but in particular practice transfer in the field of family entrepreneurship. Our most important supporters include around 80 family businesses from German-speaking countries. The focus of our activities is the acquisition, communication and dissemination of high-quality and current issue-related knowledge on family businesses and business families. Our funds are primarily used to establish and maintain chairs, to support research projects and to award scholarships to young scientists. One focus of our funding is to support the work of the Witten Institute for Family Business (WIFU), based at Witten/Herdecke University, with its three research and teaching areas of business administration, law and psychology/sociology. The WIFU has been making a significant contribution to the cross-generational sustainability of family businesses in the field of research and teaching for more than 25 years. Another focus of our work is the organisation and execution of congresses and other events on family entrepreneurship-related topics. Practice-oriented knowledge and skills to promote succession in the management of family businesses within the business family are conveyed in working groups, training courses and other formats. Our events are characterised by a protected framework which provides room for an intimate and open exchange. A comprehensive and active public relations work for research results in the field of family entrepreneurship completes the range of tasks of the WIFU Foundation

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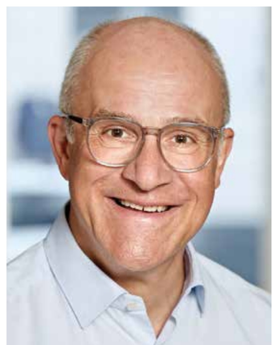

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