Turnaround Management in Small Family Businesses

A qualitative research in the Tourism Industry in Germany

1. Challenges of Turnaround Management in Small Family Businesses

Turnaround Management is asking for a reorganisation plan of a company in reference to a company crisis. It requires a high standard of managerial experience and the ability to make decisions under high pressure while the idea and existence of the company is threatened (Groß 2009, Hagemeier 1988, Beck 2009). Due to the structure of family businesses i.e. management, ownership, financed by the family equity as well as the source of the family income, turnaround management as such requires a multidisciplinary approach (Albach 2002, Klein 2010). Thereby in the approach to design a reorganisation plan one needs to cover 4 areas as for a successful turnaround management (Rüsen 2009, Werner 2007, Schäfer et al 2004) as demonstrated in the following in the following table:

Table 1: Areas of Turnaround Management in Small Family Businesses

Turnaround Area	Key Questions and Content of the reorganisation plan:
Strategic Reorganisation	• Market Opportunities • Defining the competitive edge of the company • Reflecting market change into business
Functional or operative reorganisation	• Taking measures in order to create profits • Introducing changes in the product line, customer relationship management, marketing • Creating back profits
Financial Reorganisation	• Taking measures in order to generate cash or solvency • Introducing controlling and financial monitoring systems • Re-evaluation of company assets
Managerial Reorganisation and Family Organisation	• Reflecting decision making problems • Dealing with succession • Dealing with family conflicts • Reorganisation of managerial power

All areas have an influence on the success of a turnaround management in companies. Thereby in contrast to the existing literature, dealing with family matters are an

additional entity and differ from a turnaround management in more capital orientated companies (Kehrel 2009, Krysteck 2010). This paper aims to analyse the task of turnaround management in small family businesses by analyzing a set of cases. Thereby the objective is to determine the problem areas in dealing with a successful turnaround management in small family businesses.

2. The Methodology and Description of the Cases

The results of this paper rely on a set of consultancy experiences in the tourism industry. The consultancy assignments have been supported by grants of the Kreditanstalt für Wiederaufbau (KFW – the Germany State Bank). All reported 10 cases rely on a turnaround situation in the hotel and catering industry. Thereby the starting points of the cases were always substantial financial and solvency problems. The cases rely on a sample in North Germany and took place in the period of the year 2015. The results of this paper refer to only family owned businesses with less than 20 employees and a turnover between 400 to 800 T€. The approaches in the analysis were based in extracting the reported problem areas, the consultancy process as well as the measures taken for a successful reorganisation.

3. Observations and results of the Analysis of Turnaround Reports

The results of the analysis show in following problem factors and success factors in dealing with the turnaround situation in small family businesses:

a. Adopting Market Trends and Competition

All cases had problems in converting market trends into business actions. Often one could observe a fear to adopt market chances as well as on how to implement these trends into the existing service range. Due to the financial pressure, managers concentrated only on their regular customer base in the sense of a constant source of income. Although also

the turnover of this group is declining, the need of a change has been often ignored due to the fear to lose the last source of solvency.

b. Coping with Succession

In all cases could be observed that succession took place at a very late stage or a high age of the former business owner. This practice was treated as a family tradition (5 cases) or in 4 cases the owner was the founder of the business and was fearing the control of his businesses. If succession took place, the owner were older than 75 years which means that also the follower were in their 50th before gaining a managerial role. As a result, one could observe an age correlation between the age of the customers and its managements. This made always the gap between market trends and the actual service structure higher. On the other hand all former owners held still the majority equity of the company and were excerising financial control as well as had the power to inhibit still major changes to meet market standards. Often it could observed an attitude, that former owners had the objective that their successor should not become successful.

c. Focus on cost cutting exercises

Prior the external assistance, turnaround management was in many cases understood as cost cutting exercises and missed out long term business plans. Cost as such was regarded consequently as negative. Often one found a situation that managers saved the company into a crisis. In particular areas like marketing, where one can not only measure a strict input and output ratio, or investments into marketing by social media were often neglected. The acceptance of accept external assistance did rely on the availability of public grant support. However, it was interesting to note, that in more than 7 cases they continued the assignment in form of a regular coaching.

d. Financial reorganisation

In all cases it could be observed that the balance sheet did not comply with any financial benchmarks of the branch or particular with private companies, the equity capital was

negative. In addition to existing bank loans, the finance was based on the existence of supplier loans which put additional demands on the cash flow. Due to the fact that the banks prior used also prior private securities, there was often no room to finance any changes within the company. One could observe in 6 cases that the bank took all these securities in offering additional finance rather than encouraging the company to seek professional assistance. This made any later reorganisation efforts very difficult due to problems of funding. Due to new investments and a limited profitability in the tourism industry there was no capital to finance necessary changes. As now the whole branch of the tourism industry is known for financial problems, the financial sector turned away from the branch which is fostering the problem.

e. Ignorance of the insolvency law

Although the new insolvency legislation is since 1999 in force with several amendments towards a more debtor friendly legislation, the legislation is still not regarded as a chance for turnover. The stigma of failure weighted heavenly on small family companies as it is still regarded as a failure of the whole family. Even if there exist no real family income, they are afraid of losing control of the business rather than to register for insolvency (see also Imgrund 2009). This situation is often accompanied by a negative image of trustees in Germany (Meyer 2012).

f. Family Matters

In all cases one could observe that the key factor in a successful turnaround management was to incorporate family matters or moreover dealing with family conflict in order to create a basis for a business turnaround (Klein 2010). Due to a declining family income through the business and demands on savings, a lot of conflicts accompanied the turnaround situation. One reason has to be found also in the succession problem (Haak 2009). These conflicts always inhibit to implement changes as any activities are evaluated in the light of the former position of the family members. In all cases one could

observe that they look more to find an answer how has to take the responsibility rather than seeking for new solutions.

g. Focus on Project Management and missing external support.

In all cases there was to notice a strong demand on the turnaround consultant to bring up instant results and to release the financial pressure (Harz 2006). Hence, order to achieve the commitment of the whole family as well as by the creditors it appears to be important that short term results are achieved. Once the pressure has been released, one could observe that long continual chances took place. During that project period it was also interesting to note that the focus often changed towards other external assistance. In particular, the major role of chartered accountants got questioned which normally had a central role in the managerial advice to small family businesses.

4. Conclusions

In all cases it could be observed that two key factors need to be considered in case of a successful turnaround of small family business:

- To resolve family matters in order to allow the focus to the business
- To find public access to the enterprise to open them up for external advice due to their cost cutting focus.

Only these two factors allow a long term turnaround in a small family business are these factors determine primarily the behaviour of family business managers and, hence, the success of the reorganisation plan. Furthermore the availability of public support is of importance is needed as this enhances the willingness to accept external advice as well as it will safeguard capital looses by the trustees of small family businesses.

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