OWNER-MANAGED COMPANIES IN CRISIS

Challenges and opportunities in deploying a Chief Restructuring Officer

Role of the CRO in family businesses

In family-run companies the role of the CEO is closely tied to the owners' identity. In particular, this applies to firms where ownership and the CEO function are intertwined with the family. Even in family businesses where management is not necessarily part of the family, the influence of the family owners is usually clearly felt – they often act through various bodies, such as the supervisory board of the company as an important control body. Handing control to an external expert in the form of a CRO is difficult for many incumbent CEOs. They feel emotionally connected to the company and are reluctant to allow external interventions by a CRO – no matter how necessary these may be. The problem is further exacerbated by an imminent or already completed generational change. Younger CEO successors often lack crisis experience. To avoid any wrong decisions, many of them therefore tend to cling even more to already established structures instead of developing new solution options.

Despite this special situation in many family businesses, bringing in external expertise during a crisis is an absolute necessity. Especially in economically challenging times, experienced restructurers are essential to permanently secure the operational capability of family businesses. A CRO brings an objective perspective into the company and has sufficient operational experience in crisis situations that some CEOs simply lack. If a family business instead closes its eyes to these sometimes uncomfortable truths, it risks slipping further into crisis. Wrong management decisions – triggered by loyalty to the family or by acute organisational blindness – will accordingly not be avoided.

Integration of the CRO in family businesses

To deploy a CRO profitably for everyone in a family business, the factor of communication is decisive. The fact that a CRO is brought in must not be perceived in the family business as an alleged loss of face. It should rather be made clear that this decision is a forward-looking and responsible measure. Communicatively, this can be presented as a deliberate strategic decision: yes, operational management will be temporarily handed over to the CRO and no, the previous executive management will not lose influence as a result.

Rather, shareholders can, for example, continue to hold their roles on the advisory board, supervisory board or in sales, without thereby losing "face" with employees. A transparent declaration of roles is also important.

Initial situation

The economy in Germany remains under pressure. The challenges of the overall market are manifold and affect almost every company in this country – from the economic situation and weak GDP growth to the consequences of ongoing geopolitical conflicts worldwide and an unpredictable US trade policy, through to increasing international competitive pressure. Energy intensive industries additionally suffer from comparatively high energy prices as a challenging location factor. The persistent weakness in investment across many sectors also results in a significant growth impediment.

Owner managed companies are particularly affected by this multiple crisis scenario. This refers both to family controlled companies – that is, businesses led by individuals that do not necessarily have to be family owned – and to owner managed companies in which management and ownership are united within the family. According to the Foundation for Family Businesses, 90 percent of all private sector firms in Germany are therefore family businesses. They generate more than half of private sector turnover.

Despite their central role in the German economy, family businesses are not immune to the effects of the ongoing crises. On the contrary – the current Country Index for Family Businesses compares the location conditions for family businesses in the most important industrialised countries worldwide; Germany currently ranks a distant 17th out of a total of 21 positions. In part, the mood in family businesses may even be worse at present than the actual market situation would warrant. After all, leading research institutes now assume that Germany will have overcome the prolonged crisis in the coming year. Nevertheless, many family businesses are still far from being able to breathe freely, even though they sometimes find it difficult to take the necessary measures to navigate the crisis safely.

What are the reasons for this? And to what extent does the involvement of a Chief Restructuring Officer – CRO for short – in times of crisis offer particularly large, and in part still untapped, potential for family businesses?

This whitepaper will answer these questions and set out concretely what role a CRO can assume in a family business in the event of a crisis.

The CRO takes the helm during the restructuring; however, he hands the management back to the shareholders afterwards.

At the same time, it is important that a CRO also acts as a sparring partner and not as an opponent. The restructurer is therefore a partner for a limited time who acts in the interest of the owners and, ideally, pulls in the same direction with them. A successful restructuring always rests on mutual trust with stakeholders, clear goals and a coordinated communication strategy. If the owners are deliberately involved in strategic decisions, they will automatically retain their authority in the family business.

Of course, working with a CRO is not always sunshine and roses. Rather, the restructurer is there to lead the company out of the crisis and to pave the way for sustainable growth. This process is only possible with renewal – old structures must be broken up so that new business models and leadership mechanisms can emerge. Shareholders must first be convinced of this. If this succeeds, a win-win-win effect can even occur: the course is set for a future-oriented company, the existing shareholders are strengthened in their decision for a CRO vis-à-vis all stakeholders, and the next family generation gains insight into how leadership can be redesigned.

Consequently, the temporary withdrawal from operational leadership creates space for the strategic development of the family business and provides the necessary know-how for successfully navigating future crises.

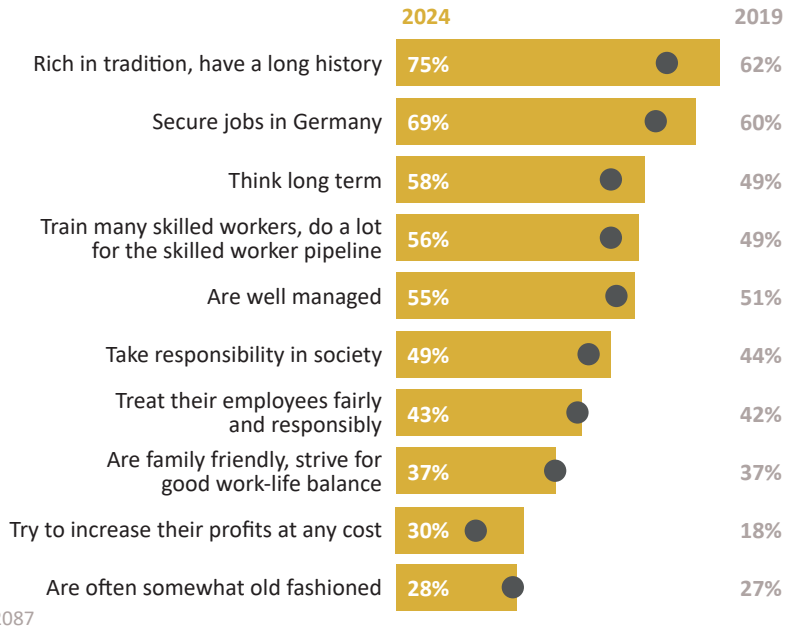
Conclusion and Outlook

In family businesses in particular, the deployment of a CRO in times of crisis holds especially great potential. He possesses the necessary experience and knowledge for stabilising a company in crisis. At the same time, he sets the necessary course to place the business on a solid foundation for the long term and to open up new growth opportunities. For the CRO's mandate to succeed, however, trust, transparency and a clear division of roles with the shareholders are absolutely indispensable. Furthermore, it is crucial to manage the handover professionally and in line with the respective corporate culture – even if it is ultimately only temporary.

Beyond the challenges described at the outset that stem from the overall market situation, the unresolved question of succession represents a separate crisis in many family businesses. A CRO can also provide decisive support in this scenario and profitably accompany the transfer of leadership from one generation to the next. Which concrete hurdles are associated with this and what matters when deploying a CRO in this specific case will be addressed in a separate whitepaper.

The image of German family businesses

„If you think, in general, of family businesses in Germany — that is, companies that are mainly owned by a family or run by members of a family: which of the following, in your opinion, applies to most German family businesses?"



Source: Allensbach Archive, IfD surveys 12008 and 12087

Haselhorst Associates is one of the leading restructuring consultancies in Germany and part of the growing H&Z Group. The team of around 35 internationally experienced consultants and partners develops tailor-made solutions for its clients: from analysis through project planning to implementation. In addition, Haselhorst Associates supports municipalities, utilities, and companies in their strategic positioning as well as operational implementation around urban transformation. A central instrument of this work is the annually prepared Smart City Ranking, which provides a comprehensive and well-founded data basis for the development of the 400 largest cities in Germany.

Sabrina Hirniak –
Partner
s.hirniak@
haselhorst-associates.com

Sabrina Hirniak has been with Haselhorst Associates since 2010. Her work focuses in particular on restructuring and CRO. Over the past years, Ms. Hirniak has successfully advised numerous companies in Germany and Europe on comprehensive reorganizations and restructurings, gaining extensive experience in top management consulting. Before joining Haselhorst Associates, Ms. Hirniak worked for various industrial companies and later for Pricewaterhouse Coopers.

Haselhorst Associates GmbH
Schiffbauerweg 1
82319 Starnberg

+49 8151 65040-0
info@haselhorst-associates.com
www.haselhorst-associates.com