Entrepreneur & Innovation Exchange
Published online at FamilyBusiness.org on September 04 2024
DOI: 10.32617/1116-66d849a39393d

How Do Owners of Family Business Portfolios Restructure Poorly Performing Firms?

Marina Palm (WHU - Otto Beisheim School of Management)
Vanessa Diaz Moriana (Dublin City University)
Nadine Kammerlander (WHU - Otto Beisheim School of Management)

KEYWORDS: Family Business Review, family business advice, Successful family businesses, Family business financial advice.

> Families can get emotionally attached to laggards in their portfolios and avoid taking tough but necessary action, putting the entire enterprise in peril.

When a family business portfolio includes several companies, it can be difficult to get rid of an under-performing asset. On one hand, the foundering asset can be intertwined with the family's social-emotional wealth (SEW) -- the non-financial benefits and satisfying relationships that come when a family enjoys a strong emotional attachment to their business. But on the other hand, waiting too long to divest or restructure can bring stagnation and even financial peril to the entire enterprise.

Restructuring activities promise to improve performance and renew the firm, thus shoring up its long-term survival. In general, restructuring typically takes one of three forms:

1. Asset restructuring (e.g., sales),
2. Organizational restructuring (e.g., organizational set-up and workforce changes), and
3. Portfolio restructuring (e.g., M&A, divestments).

Despite the benefits that can come from these three corrective measures, they are difficult to pull off. Firms generally resist change, largely because managers feel an emotional attachment to the failing assets or don't have enough restructuring experience. They may be afraid to jeopardize their relationships with employees, community members, and other stakeholders, or to signal that they've "failed." Family business owners are especially reluctant to divest their entire firm, which would undermine their SEW on several fronts: the total loss of control, the decoupling of their identity with the firm, the collapse of social ties with employees, and a loss of transgenerational succession opportunities.

To avoid such emotional and reputational losses, family business owners are more often than not willing to "kick the can down the road" and avoid restructuring or jettisoning losing assets, which ultimately can bring sustained periods of poor firm performance. Divesting the entire family firm "is always seen as a failure," (Zellweger et al., 2012, p. 141) rather than an opportunity to renew the firm. Therefore, regardless of the financial considerations, keeping the family firm intact and passing it on to the next generation via family succession is a goal in itself. However, when family firm owners must divest their entire firm (e.g., due to prolonged and unsustainably poor performance), they prefer divestment via merger over liquidation, and liquidation over sale.

What We Studied

In our recent study, published in the Family Business Review journal, we apply ideas relating to socioemotional wealth (SEW) and "escalation of commitment" to understand how owners of family business portfolios restructure poorly performing firms. Escalation of commitment means that families often double down their efforts to rescue a failing venture because they feel attached to it, don't want to fail, or don't want to alienate others who are associated with that venture either directly or indirectly. However, putting off tough measures can prove fruitless, which brings bigger problems down the road.

Copyright © 2024 The Authors. Entrepreneur & Innovation Exchange is published at EIX.org. This is an open access article under the terms of the Creative Commons Attribution-NoDerivs License, which permits use and distribution in any medium, provided the original work is properly cited and no modifications or adaptations are made. View EIX.org Authorship Terms at https://eix.org/terms

FamilyBusiness .ORG

We carried out an in-depth analysis of six poorly performing family business portfolios, based on 39 interviews, 117 pieces of archival data, and observations gathered over two years. The six firms divested a total of 22 businesses, and we studied how the process unfolded.

Our analysis suggests that family firm owners initially put off the tough decisions and refrain from restructuring their poorly performing portfolio firms. Instead, they escalate their commitment to preserve their SEW. They might invest more money, hoping to resuscitate the losing business, or they might reshuffle their assets. But at some point, it becomes apparent that retaining these poorly performing firms threatens the existence of the remaining portfolio and the financial health of the firm. At that point, family firm owners exhibit de-escalating behaviors by divesting. Preferably, they attempt a sale and, when a sale is no longer an option, a liquidation. Specifically, we found that family firm owners preferred to sell portfolio firms as an ongoing concern (i.e., sale) over shutting them down and selling all their individual assets (i.e., liquidation). A sale typically generated greater financial proceeds that the firm could subsequently reinvest in its remaining family firm portfolio.

What We Found

Our findings reveal that such owners first attempt to resist, then preserve their SEW through escalating behaviors, and later through de-escalating behaviors. We developed a model that contributes to a more granular theoretical understanding of the family firm's restructuring behavior, in the context of portfolio entrepreneurship. Thus, family firm owners engage in diverse restructuring behaviors in the following order of preference: refraining (Phase 0: retention), investing and reshuffling (Phase 1: escalation), selling, and, lastly, liquidating (Phase 2: de-escalation).

Takeaways

Our study offers important implications for practice. Family business decision-makers can benefit from our research, which shows how timely portfolio restructuring can ensure family firm portfolio survival and, thereby, preserve the family's SEW.

In particular, the large number of observed forced liquidations in our findings suggests that family firm owners should sell poorly performing portfolio firms sooner rather than later, to free up financial resources for reinvestment in the survival of the remaining firm(s) and avoid their eventual liquidation. Indeed, even though divesting individual firms is a tough emotional decision for family firm owners, our research suggests that sometimes they must let go of individual firms to avoid threatening their entire legacy. As such, divestment of portfolio firms can foster long-term firm survivability rather than "failure."

Our research should also help shape how family firm advisors counsel their clients. Discussions should include addressing family members' socioemotional concerns that might hamper restructuring and divestment.

Explore the Research

Restructuring of Poorly Performing Family-Owned Portfolio Firms: The Role of Socioemotional Wealth (https://journals.sagepub.com/doi/full/10.1177/08944865231210901) , *Family Business Review*, November 2023.

EDITOR'S NOTE: *This article was produced in partnership with Family Business Review, a leading journal in the field of family business, as part of FamilyBusiness.org's mission to bring research-proven insights and practical advice to our readers.*

Copyright © 2024 Marina Palm, Vanessa Diaz Moriana, Nadine Kammerlander, Published by Entrepreneur & Innovation Exchange

FamilyBusiness.org (2024)
DOI: 10.32617/1116-66d849a39393d