Turnaround Strategies in Established Small Family Firms
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This study employs a case-study approach to identify unique characteristics of established small family firms that affect their ability to initiate turnaround strategies when encountering an organizational crisis. In our case studies, we found evidence for family firms employing the standard strategies of top-management changes, infusion of external management expertise, and retrenchment that have been proposed in the general turnaround literature. The implementation of these strategies was, however, moderated by eight characteristics generally associated with family firms, including strong ties to the family firm, internal orientation, altruistic motives, and long-term goal orientation. The introduced framework contributes to a more fine-grained understanding of the turnaround challenges of established family firms and how they can be addressed. This is a topic of substantial practitioner interest considering the high failure rates of family firms.

Introduction

Family firms share many aspects common to all firms (Sharma, 2004), but the embeddedness of business relationships in family relationships (Chua, Chrisman, & Steier, 2003) creates some unique organizational characteristics. The management literature has generally recognized these characteristics but has only started to explore their implications. In our study, we investigate how the unique characteristics of established small family firms affect their ability to implement turnaround strategies when facing an organizational crisis. The topic of turnaround strategies is of substantial interest not only for our conceptual understanding but also for the management of family firms. Empirical studies have long documented that family firms frequently encounter organizational crises and display a high rate of firm failure (Ibrahim, Soufani, & Lam, 2001; Lansberg, 1988; Shanker & Astrachan, 1996). A deeper understanding of turnaround strategies in family firms promises improved organizational abilities to successfully implement such strategies.

Our study contributes to the emergent research that argues against the simple application of standard turnaround strategies to small family businesses (Boyle & Desai, 1991; Chowdhury & Lang, 1993; Miller & LeBreton-Miller, 2005). Given the limited prior research that directly connects family firm characteristics with the implementation of turnaround strategies, we investigated actual turnaround behavior in two established family firms that had recently faced an organizational crisis. Based on an iterative approach of data interpretation and further data collection, we developed specific propositions concerning how family-firm characteristics affect the firms’ ability to initiate top-management change, to draw on external expertise, and to endure retrenchment. The propositions outlined in this study contribute...
to the development of more fine-grained models of strategic turnaround in family firms.

In the following sections, we will first introduce the study’s main theoretical constructs: organizational crisis and turnaround strategies. We then outline our data collection and analyses approach. After a brief description of the two case-study companies, we delineate specific propositions derived from our case analysis and link them to the findings in other research studies. Finally, we outline the broader implications of our conceptual model in the discussion section.

**Theoretical Framework**

**Organizational Crisis**

Compared to research focused on successful organizations and the quest to identify success factors, organizational decline has received far less attention in the management literature. Organizational decline represents substantial resource losses over time (Cameron, Whetten, & Kim, 1987) and can be either a gradual process or a sudden, unexpected disruption (Tushman & Anderson, 1986). Substantial organizational decline leads to a crisis where the survival of the firm is threatened. Managers tend to attribute performance decline and any resulting organizational crises to external factors beyond their control, such as competition. Empirical studies, however, show that very few business failures are the result of outside factors only (Boyle & Desai, 1991). Instead, organizational failure is frequently linked to internal problems like failures to update products, invest in core competencies, and control cost (Baum, 1989; Hedberg, Nystrom, & Starbuck, 1976; Starbuck, Greve, & Hedberg, 1978).

Only a few empirical studies have investigated organizational decline and crises in family businesses. Miller and LeBreton-Miller (2005) in their case studies of 40 successful large U.S. and European family businesses did report how several of them stumbled. They identified overconfidence and straying from a successful business formula as the main causes for organizational decline. Similar arguments of success-based overconfidence and the risks of altering fundamental organizational change as causes for organizational decline have also been made in the general management literature (Cyert & March, 1963; Levinthal & March, 1993). In spite of these research efforts, we still know very little concerning whether and how specific characteristics of family firms affect their decline and their ability to recover.

**Turnaround Strategies**

Most managers and management researchers view organizational decline as reversible (Chowdhury & Lang, 1993; Porter, 1985). Specific turnaround strategies have been proposed to enhance a firm’s chances of persevering through an existence-threatening performance decline, ending the threat, and achieving sustainable performance recovery (Chowdhury, 2002). We define turnaround strategies as a set of consequential, directive, long-term decisions and actions targeted at the reversal of a perceived crisis that threatens the firm’s survival.

Turnaround strategies have received systematic research attention in the management literature (e.g., Barker & Duhaime, 1997; Hofer, 1980; Lohrke & Bedeian, 1998; Schendel, Patton, & Riggs, 1976); however, the accumulated empirical and conceptual studies have resulted in a rather fragmented understanding and in some important areas the empirical findings have remained ambiguous—especially with regard to firm recovery (Nystrom & Starbuck, 1984; Pearce & Robbins, 1993). Under some conditions, turnaround may not be feasible. In other settings, the organization may lack the capabilities or resources to implement an appropriate turnaround strategy correctly. Even if implemented correctly, in a feasible setting, organizational outcomes of a turnaround strategy still depend on emergent factors (e.g., competitor actions), which can prevent or delay any turnaround. Finally, turnaround attempts often face additional challenges in the form of severe time pressures, extremely limited slack resources, and diminishing stakeholder support (Arogaswamy, Barker, & Yasai-Ardekani, 1995).
In our study, we do not investigate the impact of turnaround strategies on desired recovery outcomes. Instead, we investigate unique challenges family firms face when implementing turnaround strategies. The resulting more fine-grained understanding of these turnaround challenges promises to enhance the ability of family firms to determine when and how to implement turnaround strategies in response to crisis situations.

In our study, we adopted a broad definition of the family firm as an organization in which a family controls ownership and management and intends to pass these elements to the next generation (Astrachan & Shanker, 2003). In the absence of a generally accepted operationalization of the family firm construct (Astrachan, 2003), we included detailed descriptions of the top managers and owners and their family relationships in the two firms we investigated. This information indicates that both firms meet our broad definition.

One common thread across different conceptualizations of the family firm is a focus on the social embeddedness of business relationships. A family firm combines three overlapping subsystems: business, ownership, and family (Gersick, Davis, Hampton, & Lansberg, 1997). Family members often simultaneously serve in three roles: They are managers, owners, and relatives. Consequently, family firms represent hybrid organizations that embed business relationships in family relationships and try to serve both family and business needs (Bork, Jaffe, Lane, Dashew, & Heisler, 1996; Chua et al., 2003). The hybrid nature of family firms may create some unique challenges and opportunities for the implementation of turnaround strategies not found in other organizational forms.

General research on social embeddedness in business settings has supported both positive and negative effects for firm performance (Adler & Kwon, 2002; Burt, 1982, 1997; Granovetter, 1973, 1985). Empirical studies have linked social embeddedness of business ties with the development of trust (Uzzi, 1996), knowledge transfer (Hansen, 1999), and protection against opportunistic behavior (Greif, 1989). These features of social embeddedness promise benefits for the initiation and implementation of organizational change, which is often a key element of turnaround strategies. The majority of the social embeddedness research, however, has either focused on relationships among tight ethnic communities (e.g., Jewish apparel producers in New York) (Uzzi, 1996) or between co-workers (e.g., Hansen, 1999). In contrast, family relationships represent far more direct and stronger ties (e.g., parent-child or brother-sister). Consequently, family ties have a potentially stronger impact on business relationships and deserve focused research attention—including investigations of their effect on organizational turnarounds.

The turnaround literature has embraced stage-based models that differentiate between Stage 1 strategies focused on organizational stabilization and Stage 2 strategies focused on implementing substantial organizational changes. The objective of our study is to explore whether and how family firms implement Stage 1 turnaround strategies. Thus, we follow advice from Chrisman, Chua, and Sharma (2005) that family firm research is best advanced by applying and adapting established mainstream management theories to family businesses. Next, we outline the three Stage 1 strategies that have been well established in the general turnaround literature: (1) top-management change, (2) external management expertise, and (3) organizational retrenchment.

**Top-management changes.** According to the turnaround literature, top management develops and implements turnaround strategies that address an imminent organizational crisis. Top managers become the change agents to reverse organizational decline. Hofer (1980) claims that there is an almost universal need to change the current top management in a turnaround situation. Research finds that incumbent managers are less motivated to engage in turnaround strategies (Ford, 1985; Ford & Baucus, 1987)—especially if they are strongly committed to the firm’s current strategy or attribute decline to external causes only (Barker & Barr, 2002; D’Aveni & MacMillan, 1990). In addition, changes of the top-management
team can provide important signals to outside stakeholders (e.g., lenders and creditors) that the firm is separating itself from past failed strategies. Such signals can increase the willingness of outside stakeholders to support the struggling organization (Bernabeo, 2002). Thus, the turnaround literature supports top-management change for organizational turnaround—in spite of potential disadvantages associated with organizational knowledge loss and transition frictions (Arogaswamy et al., 1995; Barker & Mone, 1994; Lohrke, Bedeian, & Palmer, 2004).

Some related empirical studies have supported the success of outside appointments (O’Neill, 1986), but others have indicated that internal replacements are more effective in directing a firm’s recovery efforts (Zimmerman, 1989). One explanation for these conflicting results may be a lack of understanding of the moderating effects of organizational context factors. Our investigation of how characteristics of family firms affected the implementation of top-management changes may contribute to reconciling some of these conflicting findings.

**External management expertise.** The turnaround literature has also supported the role of external management expertise as an important factor in successful Stage 1 turnaround strategies. Frequently, struggling firms discover that they lack the expertise to address some of their problems. Although firms tend to be very knowledgeable about their current operations, they often lack the required broader knowledge and capabilities to initiate and guide organizational changes (Finklin, 1985). One way to gain quick access to needed expertise is by drawing on external sources, such as external appointments or management consultants (Astrachan & Astrachan, 1996; Levinson, 1996). These external sources of expertise may either provide needed know-how directly or support organizational learning processes (Hargadon & Sutton, 1997).

**Retrenchment.** Finally, organizational turnaround often involves substantial retrenchment (Pearce & Robbins, 1994b; Robbins & Pearce, 1992). Retrenchment is a process in which a firm consolidates its current strategic and financial position in order to buy time for organizational change efforts. Retrenchment implies a reduction to the essential elements of a company that have the best chance of producing a profitable operation (Hofer & Schendel, 1978; Robbins & Pearce, 1992). It stretches the firm’s remaining resources to their limits and tends to place substantial strains on organizational members.

In summary, the existing research on Stage 1 turnaround strategies has focused nearly exclusively on large, publicly owned corporations (Barker & Duhaime, 1997; Hambrick & Schecter, 1983; Robbins & Pearce, 1992; Starbuck et al., 1978). Only in the past two decades have scholars begun to investigate turnaround in smaller firms (Boyle & Desai, 1991; Chowdhury & Lang, 1993) and family businesses (Miller & LeBreton-Miller, 2005). When combined with our emerging understanding of how the characteristics of family firms influence their behavior in unique ways, these studies raise the question to what degree the characteristics of family firms affect the implementation of turnaround strategies. Turnaround professionals have reported that the introduction of turnaround strategies in family firms often involves unique challenges (Blum, 2003; Brownstein & Jackson, 2002). Given the high failure rate of small family firms and their economic significance (Shanker & Astrachan, 1996), a better understanding and improvement of their turnaround efforts presents an important research issue.

**Methodology**

**Case Selection**

We employed a case-study approach (Handler, 1989; Strauss & Corbin, 1998; Yin, 1994) to identify key contingency factors that affect the implementation of standard turnaround strategies in established family businesses. In selecting cases, Eisenhardt (1989) asserts that randomization is
not necessary; rather, the goal is to choose cases that are likely to replicate or extend the theory. Therefore, qualitative samples should be purposeful rather than random.

In the organizational decline literature, multiple approaches have been used to identify failing organizations (Lohrke, Bedeian, & Palmer, 2004), including declining profitability (Robbins & Pearce, 1992), proximity to bankruptcy (Barker & Duhaime, 1997), lack of slack resources (Lohrke, 1996), expert opinion (Bruton, Oviatt, & White, 1993), and stakeholder opinion (Furman & McGahan, 2002). Approaches based only on financial measures are often limited due to “creative” accounting practices, orientation on the past, and inaccurate accounting information (Argenti, 1976). In our study, we depended on stakeholder opinion about the organization’s proximity to bankruptcy. This evaluation has the advantage of drawing on both financial and nonfinancial information about the business available to organizational insiders.

We contacted 20 prospective firms to ascertain if the company met the requirements of family involvement, age of the company, turnaround experience, and willingness to participate in the study. Following the long tradition of case studies in family business research (Handler, 1989; Sharma & Irving, 2005), we chose to examine two exemplary firms that promised to provide rich and detailed descriptions of events from multiple respondents. These firms are both survivors of a turnaround process. Both principal investigators have extensive family business backgrounds, but only one investigator had firsthand turnaround experience. This combination promised sufficient levels of expertise and objectivity during data collection and data interpretation (Handler, 1989). Our data collection was part of a broader research project investigating successors in the family firm and their leadership qualities (Cater, 2006).

Data Collection

One of the authors visited the two companies on site regularly during the 2-month data-collection period, frequently touring the facilities either alone or with one of the respondents. The primary method of data collection was semi-structured, tape-recorded interviews with the entire top-management team at both organizations. A total of 10 respondents were formally interviewed separately on site. The interviews varied in time from 30 minutes to 2 hours and used a set of open-ended questions concerning the leadership in the firm, the organizational crisis, and turnaround activities. We addressed potential problems of retrospective biases of the primary data collected (Golden, 1992; Schwenk, 1985) by critically comparing responses from the multiple respondents and by directing respondents to describe actual behavior and actions. Responses indicated that the salience of the crisis supported vivid detailed memory of related events.

In addition to our interview data, we collected available company documents, newspaper articles, magazine articles, company catalogs, family information, and other available secondary information pertinent to the firms and their organizational crisis. Field notes about observations during the interviews, site visits, and informal conversations complemented collected data. In summary, our research followed established data-collection practices and contributes to the long tradition in family business research to advance theory building based on case studies.

Data Analysis

We utilized MAX.Qualitative Data Analysis software (Kuckartz, 2001) to content analyze the interview transcripts to discover patterns, core consistencies, and meanings related to turnaround activities. The analyses yielded a set of themes and clusters of thoughts and phrases that had been mentioned by several of the respondents, not just by one or two individuals. We developed this set of themes further over a period of several months into the model of turnaround strategy introduced in this article. Finally, we shared our results with the top-management teams of both firms and incorporated their feedback.
Case Description

We examine the cases of Quality Dairy and Fine Furniture, Inc.—both family businesses in a metropolitan city. The firms operate in different industries—wholesale milk processing and retail furniture—but share the status of long life as they are in their fourth and fifth generation of family ownership and management.

Case 1: Quality Dairy

Company history. Samuel Hoffman and his son, Lee Hoffman, founded Quality Dairy in 1913 in response to the local demand of area dairy farmers for a “creamery” or milk-processing operation. For many years, the Hoffman family had been respected dairy farmers. For dairy farmers, the ability to have their raw milk processed immediately is of the utmost concern and requires a trustworthy partner. After the death of his father in 1929, Lee Hoffman continued the creamery operation. Lee and his wife Mary had 11 children. Lee divided business responsibilities among his children. Lee, Jr. became president, Thomas was in charge of the farm, Vincent was the corporation secretary, Michael was the plant manager, Bill was in charge of sales and delivery, and Betty served as bookkeeper, following in her mother’s footsteps. This sibling partnership operated the creamery from the late 1940s until 1987.

Organizational crisis and turnaround. After Lee died in 1984, Bill Hoffman decided to buy out his brothers’ interest in Quality Dairy. He succeeded in 1987—paying his brothers with proceeds from a bank loan that exposed the firm to a higher financial risk. This action solved awkward leadership problems, but the departure of Bill’s brothers created a management-expertise vacuum. Although Bill Hoffman was an excellent salesperson, he lacked the knowledge necessary to operate the production side of the business. To fill this void, Bill’s youngest son, Greg Hoffman, left his own contracting business to join Quality Dairy. In his first year and a half with the company, Greg reported continuing operational problems in spite of his personal effort of working as much as 85 hours per week. When Quality Dairy had to repay the bank for the buyout of Bill’s brothers, it pushed the firm close to bankruptcy. This crisis situation led to the recognition that the firm lacked management expertise, as expressed by the following statement.

After a year and a half, I said, “Dad, we need to get someone in here to organize this thing a little bit better.” I didn’t have the experience with 115 people. I could work a crew of 5 all day and keep them busy, but I was having trouble organizing this thing and I needed some help . . . I had been trying to do it for a year and a half with some success, but it was mind-boggling. (Greg Hoffman, VP Operations, Quality Diary)

Bill appointed Tom Podesta, from outside of the family, as general manager in 1989. Tom’s assignment consisted of turning around the operation of the business by implementing better production and control systems and by training the next generation of Hoffmans to manage the firm. Podesta and the Hoffmans initiated an operational turnaround by tightly controlling payroll and human resource expenses and stopping all new investment in delivery trucks and processing equipment. Cash-flow problems were evident as the company struggled to repay the bank loan. After a decline in sales during the organizational crisis, Quality Dairy was able to turn this trend around. Sales increased from $12 million in 1989 to $24 million in 2004. The company improved profitability and regained competitive strength. Since Bill’s retirement, Tom Podesta serves as president, while Greg remains vice-president of operations and his sister, Cindy, is the secretary-treasurer. Greg and Cindy hold the voting stock, while the other siblings hold nonvoting stock. In essence, this leaves the ownership of the recovered firm in the hands of family members who are poised to again take full control of the management of the business.

Case 2: Fine Furniture

Company history. In 1880, German immigrant Jacob Weiss (1824–1892) opened the first retail
furniture store in Capital City. In 1892, one of Jacob's three daughters, Mathilda, married a salesman-handymen—Julius Schmidt (1863–1943)—and a few years later, Jacob turned over the daily operation of the business to them. In time, they passed the business on to their two sons: William (1896–1981) and Ben (1898–1972). William and Ben married sisters, lived in adjoining houses, raised large families, and managed the furniture business together. This sibling partnership guided the business into the 1960s.

William and Ben limited the number of children they allowed into the furniture business to two from each family. During the 1950s, William’s sons—Marty and George—and Ben’s sons—Paul and Ben, Jr.—entered the business and by the mid 1960s they assumed leadership of the firm. In 1966, Fine Furniture opened the present store location with 60,000 square feet of space. The Schmidts closed the original store in 1982, moved the entire operation to the new site, and added a 37,000-square-foot warehouse and distribution center. In 1983, the showroom was completely remodeled.

Organizational crisis and turnaround. The business operated smoothly and profitably into the 1980s. During the middle of this decade, the entire home state suffered an economic recession brought on by a crisis in the regional petroleum industry. Additionally, the federal government changed the investment tax rules, adversely affecting many of Fine Furniture’s customers. As an upper-middle-end store, Fine Furniture faced difficult times as its customer base eroded and many customers defaulted on their account payments, resulting in unprecedented writeoffs of $1.5 million. This placed the company at risk of bankruptcy.

At this point, the Schmidts brought in a furniture industry consulting firm, Target, for advice. Target urged the company to sell lower-priced furniture to recapture the middle market. Although this improved sales in the short term, Fine Furniture’s core customers disliked the lower-quality merchandise. In retrospect, George Schmidt (CEO, Fine Furniture) recalled:

We went through some grueling times. It was touch and go. The bank had cut us off. Paul reached 65 and decided to retire. So, we decided to let Target choose who should take over. We were all interviewed by Target. They said I was the one who should take over. In 1989, the Board elected me president.

This concluded nearly two years of controversy surrounding the retirement of Paul, Marty, and Ben, Jr., which reduced the firm’s top-heavy management salaries. George Schmidt’s son-in-law and operations manager, John Porter, commented as follows.

That was rough. Fine Furniture lost money several years in a row. Paul stepped out and George stepped in and cut spending and balanced the budget. He drill sergeant’ed it back to profitability and micro-managed it back.

On advice from Target, the Schmidts sought to enhance systematic and professional management by appointing Susan Martin, a local department store manager from outside the family. George Schmidt has come to appreciate her dedication and leadership. She has since risen to the top of Fine Furniture’s management team. The firm has recovered as sales increased from $4 million in 1989 to $11 million in 2004 and profits enabled the payment of dividends again. George Schmidt is still president and CEO of Fine Furniture.

Turnaround Strategies in Established Small Family Firms

The objective of our case studies was to develop a more fine-grained understanding of how unique characteristics of family firms affect their implementation of standard turnaround strategies. We drew on a very general turnaround model (Robbins & Pearce, 1992) and focused on three Stage 1 turnaround strategies: top-management changes, external support by experts, and organizational retrenchment. A first key finding of our empirical investigation was that the two family firms indeed employed all three turnaround strategies. Both firms replaced or added top managers during the turnaround. They drew on external expertise by employing a consulting firm and...
hiring employees with specific turnaround-relevant expertise. Finally, both firms battled to reduce costs and to streamline their operations to address their immediate liquidity problems in the face of stagnant or declining revenues. Fine Furniture, after initially expanding its product line to lower-end products, later refocused on its core product lines during the turnaround. Beyond reducing operational expenses, Quality Dairy discontinued any replacement or improvement investments in their production and transportation operations.

We bought no new trucks for four or five years. We utilized the resources that we had. We held off on risky growth areas and curtailed risky investments. We maintained our equipment without having to purchase anything new. (Greg Hoffman, VP, Quality Dairy)

In summary, our empirical investigation revealed that both family firms applied the same turnaround strategies as nonfamily firms—a finding that is consistent with prior research (Chowdhury & Lang, 1993). This finding set the stage for our deeper research agenda of examining how the “familiness” of the firms moderated the implementation of standard turnaround strategies. To foreshadow our results, the case data provided evidence that the following characteristics of the two family firms served as contingency factors: strong ties to the family firm, small pool of replacement candidates, consensus orientation, informal management systems, internal orientation, integration of nonfamily employees, altruistic motives, and long-term goal orientation. These factors and their respective moderating effects on the implementation of Stage 1 turnaround strategies are introduced in the following sections.

Propositions

Top-Management Change

Our case studies revealed how the embeddedness of business relationships in family relationships can create specific and unique challenges with regard to change of the top-management team. During the crisis, both firms recognized a need for a top-management change—including replacement of current top managers. Both firms, however, reported severe difficulties moving family top managers into secondary business roles, or separating them from the business altogether. Some of these difficulties were directly related to the fact that the top managers were family members. This was especially apparent during Fine Furniture’s efforts to reduce its top-heavy management team.

There was a plan for my brother, Marty, to retire when he reached 65—that was a very hard process because he did not want to retire. There were ill-feelings in the family for a while, but we worked through it. Then we had to ease Ben, Jr. out three or four years after that. (George Schmidt, CEO, Fine Furniture)

Marty and Ben, Jr. were pretty much forced to retire for the survival of the company. It was pretty sticky for a while. There was a lot of [family] in-fighting. (Tim Schmidt, Facility Manager, Fine Furniture)

Eventually, the Schmidts brought in a consulting firm, to resolve the deadlock. The consulting firm interviewed all the family candidates for the CEO position and recommended to the family-dominated board of directors that George Schmidt become the CEO. The board of directors eventually followed this recommendation.

Similarly, top managers at Quality Dairy reported substantial challenges to restructure the firm’s top management. Bill Hoffman’s decision to buy out his brothers created additional debt and led to a more severe loss of management expertise than anticipated. In both our cases, the evidence suggests that strong ties between family members and the family business make top-management changes arrive slowly, reluctantly, and loaded with intense conflict—conflict that affected both business and family relationships. However, both firms eventually found ways to initiate what they considered necessary top-management changes.

Strong ties to family business. Our observation of difficulties for initiating top-management changes because of strong ties of top family
managers both to the family business and to other family members is consistent with findings in the literature on succession in family businesses. The succession research has documented the general reluctance of incumbent generations to cede control to the next generation (Bjuggren & Sund, 2001; Dyer, 1986; Handler, 1994; Kramer, 2003) and their effectiveness in preventing or at least delaying related top-management changes (Howorth & Ali, 2001; Lansberg, 1988; Morris, Williams, Allen, & Avila, 1997). Thus, the findings in the family firm succession literature support our interpretation of the case data in the turnaround context. Thus, our case data led to the following formal proposition.

**Proposition 1.** The strong ties of family top managers to the business reduce an established family firm’s ability to initiate and implement top-management changes in response to an organizational crisis.

**Replacement candidates.** Family firms may face a second relevant constraint for top-management change when facing an organizational crisis. The preference for placing family members in charge limits the pool of potential candidates. This was apparent at Quality Dairy, which had to draw on inexperienced next-generation managers to replace experienced top managers. As a consequence, initial top-management changes at Quality Dairy may have contributed to the organizational crisis instead of ameliorating it. Similarly, in succession situations, when firms find themselves unexpectedly under duress, they lack the lead time that facilitates grooming and preparing a successor. Challenges associated with a more limited pool of potential replacement candidates at small family firms are consistent with findings in the succession literature (Birley, 2002; Chrisman, Chua, & Sharma, 1998). Based on our limited sample, we obviously cannot rule out cases where an organizational crisis may trigger and legitimate a succession that had already been set up but not yet executed. In the Fine Furniture case, the top-management change was certainly overdue, but it had not been addressed or prepared for in any substantive way. Based on the empirical findings in the general succession literature (Morris et al, 1997; Sharma, Chrisman, & Chua, 2003), we speculate, however, that such positive effects of organizational crisis on already set up top-management change is rather the exception and not the norm in family firms.

Thus, we interpret our case data as evidence for additional challenges in family firms to initiate top-management change in response to an organizational crisis. The limited pool of family candidates makes it more difficult for the family firm to replace top managers. Our interpretation of the case data led to the following proposition.

**Proposition 2.** The limited pool of replacement candidates constrains a family firm’s ability to initiate and implement top-management changes in response to an organizational crisis.

**Consensus orientation.** A closer investigation of the actual decision-making behavior that led to the eventual replacement of top managers revealed a third family-firm characteristic that limited the effectiveness and speed with which family firms implemented these changes. We found a strong tendency toward conflict avoidance and management by consensus among the family-related top managers that absorbed substantial management attention and prevented any swift response to the organizational threat. At Fine Furniture, for example, the discussions and negotiations related to the top-management change dragged on for close to 2 years. As mentioned earlier, the family owners eventually brought in an external management consultancy firm to facilitate the top-management change processes and to limit internal conflicts. These observations suggested to us that the higher levels of familiarity and trust between family members did not facilitate the recognition, discussion, and resolution of the controversial issues surrounding top-management change. Instead, the importance of the social ties between family members fostered consensus-oriented and conflict-avoiding behavior.
In contrast to our observations, the top-management team research has supported both positive and negative effects of high-levels of consensus among top managers (Priem, 1990; Dess, 1987). Positive effects were generally found in firms facing stable environments, where consensus increased strategy commitment and incremental change (Amason, 1996). Organizational crises, however, represent dynamic settings that may require swift and disruptive adjustments. For such settings, the top-management team literature has generally supported negative effects for high levels of consensus. In addition to a lack of decision speed, a second causal argument against consensus orientation is that it tends to restrict diversity of thought and the discovery of novel solutions (Hambrick & Chen, 1996; Hoffman & Maier, 1961). In dynamic and change-driven settings, however, considering a broader set of issues and alternatives tends to enhance decision quality (Amason, 1996) and firm performance (Bourgeois, 1985; Simons, Pelled, & Smith, 1999).

In summary, the careful interpretation of our case observations indicated that a tendency toward consensus and conflict-avoiding decision processes at one of our family firms delayed top-management changes. Our subsequent drawing on the related decision-making literature provided collaborative evidence supporting our interpretation. Combined, these arguments support the following proposition.

**Proposition 3.** The family ties among top managers increase consensus orientation and conflict avoidance, which reduces the firm’s ability to initiate and implement top-management changes in response to an organizational crisis.

**Informal management systems.** Our case data concerning top-management change revealed a fourth challenge that may indirectly inhibit a family firm’s ability to benefit from top-management change. Top-management turnover at one of our case firms (Quality Dairy) interfered with its ability to run core business operations. The buyout of family members, who had been long-term members of the top-management team, led to substantial disruptions of its coordination and decision-making systems. Greg Hoffman, the family member who was added to the management team, reported troubles when taking over managing day-to-day operations.

> We didn’t have drug and alcohol tests or safety standards. For example, if you wreck a truck three times, you’re fired. I didn’t have time to even think about these things. I was too busy putting out fires. (Greg Hoffman, Vice President, Quality Dairy)

Greg’s descriptions revealed that this family firm’s day-to-day operations relied to a substantial degree on idiosyncratic and informal decision-making arrangements between organizational members that had developed over time. Upon further probing, we found the firm’s management system was highly centralized, tacit, and lean. The exit of long-term family employees led to more severe disruptions because formal coordination and monitoring systems had not been established.

This observation in the context of organizational turnaround is consistent with evidence in the general research of management systems in small family firms. Morris et al. (1997) found a more centralized decision-making process and less formalized control systems in family firms. Well documented are, for example, the less formal and effective corporate governance structures in family firms. The board of directors typically includes family members with varying business skills who may not be effective in monitoring top managers (MacKenzie, 2002). In contrast, nonfamily firms tend to establish more formal and effective governance structures and processes (Donckels & Frohlick, 1991) that provide more support throughout top-management change.

In summary, our case data pointed to the informal nature of the family firm’s management systems, a characteristic that is consistent with findings in the general family business literature. We also found no evidence that the firm anticipated these disruptive effects of top-management turnover, which may have added to the difficulties...
of implementing this change. The following proposition, therefore, deserves future research attention.

**Proposition 4.** The more informal management systems at established family firms reduce their ability to implement top-management changes in response to an organizational crisis.

**External Advice and Expertise**

The turnaround literature suggests that many firms experiencing severe crises lack the expertise to initiate necessary changes (Cameron et al., 1987; Hofer, 1980). During a crisis, time constraints often limit opportunities for developing needed expertise internally. Instead, firms may quickly gain access to expertise from the outside by either hiring employees or contracting with service providers, such as management consultants. External turnaround specialists, for example, can help struggling firms to reduce costs, liquidate assets, reposition the firm, and change organizational structures and processes. Alternatively, family firms can permanently hire nonfamily employees who possess expertise that the organization is lacking.

Our case data clearly identified that both family firms drew on external expertise as part of their turnaround strategy, although in both cases top executives were initially reluctant to do so. Fine Furniture employed a consulting firm to recommend top-management change and serve as an arbitrator among family members. After nearly 2 years of debate, the firm’s executives and board members agreed to abide by the recommendation of their consultant: choose the next CEO and reduce the number of expensive top managers. In addition, both firms added needed expertise by hiring experienced managers. Additionally, at Quality Dairy, Greg Hoffman struggled with an overwhelming schedule of management demands for over a year and a half before hiring outside assistance.

So, we stepped out of the box and hired Susan Martin [external manager]. We had a headhunter find her for us. She did a fantastic job and weathered a rough storm. She was so professional. (George Schmidt, CEO, Fine Furniture)

Susan Martin is now vice-president and the potential interim successor to the CEO.

After a year and a half, I said “Dad we need to get someone in here to organize this thing a little bit better” . . . [We] hired Mr. Podesta to come help us get our company back on track—to organize us . . . So, he came aboard really as a mentor to me and Cindy, to teach us, to teach us to organize ourselves. (Greg Hoffman, Vice President, Quality Dairy)

Mr. Podesta had 30 years of industry experience—including top management. Our finding that family firms employ external expertise is consistent with the few reports that so far have captured turnaround events at family firms. For example, Kramer (2003) described how consultants helped implement reductions in family member perks and the removal of nonessential family members. Mueller (1997) reported that family firms hire outsiders to obtain needed expertise permanently.

**Internal orientation.** The theoretical focus of our investigation, however, is the identification of whether and how the family nature of the businesses inhibited the firms’ motivation and ability to draw on external expertise. As outlined above, both firms struggled for more than a year before they opted for outside help. Prior research has documented a general reluctance of family firms to draw on external support—in spite of the potential value. For example, MacKenzie (2002) reported that some family firm leaders feel that drawing on external help signals that they have mishandled the business and wasted their patrimony. Jensen (2003) reports that strong mental models, such as tradition, tend to lock a family firm in established behavior patterns and prevent the firm from seeking external support.

Beyond these motivation-based explanations, our investigation revealed a second reason that limits a family firm’s ability to find adequate support externally. The strong and long-term ties between family members constrained the
development of broad external relationship networks. The resulting higher level of isolation reduced the family firms' ability to find adequate external help during a crisis. For example, both family firms described their practice for new family employees to learn the business internally from the ground up. However, such internal training limited the exposure to other similar businesses and the development of external business relationships beyond the firm and the family. When we questioned CEO George Schmidt of Fine Furniture on this issue, he indicated that he was aware of this limitation. However, recent attempts to have promising young family employees work for other organizations as a career development plan had backfired. The young family members stayed with the external organization because of higher salaries and greater opportunities for advancement. In the end, the family firm's external network was strengthened as a result of these efforts, but the organization lost a promising future executive. This experience illustrates the difficulties of family firms in developing external networks compared to organizations with higher levels of management turnover. Formally, we propose:

Proposition 5. The internal orientation of established family firms constrains their ability to find adequate external support from services providers (e.g., consulting companies) to address temporary expertise needs in response to an organizational crisis.

Integration of nonfamily employees. Our case studies also indicated that if a firm attempted to obtain external expertise by permanently hiring employees, it faced not only challenges related to identifying experienced external managers, but also in convincing them to join the family firm. The combination of family and nonfamily employees creates two classes of employees (Mitchell, Morse, & Sharma, 2003). Nonfamily employees may be hesitant to work for a family business because they may expect preferential treatment of family members. In addition, any lack of integration of nonfamily employees can limit the organization’s ability to benefit from its external appointments. The evidence from Quality Dairy indicates that because of these challenges, the organization went to great lengths to treat nonfamily employees equally and to integrate key long-term employees into the family. For example, Tom Podesta of Quality Dairy, who is not a family member, remarked:

I feel like I’m part of the family, even though I don’t have a Hoffman name. They have treated me as though I am a member of the family.

Again, we compared our observations with the emerging family firm turnaround literature. Our case observations extend prior research by providing initial indirect evidence on how strong family ties constrain the firm’s ability to search and benefit from external support. Both our firms gained access to external expertise by permanently hiring experienced employees who proved crucial for their eventual turnaround, but our qualitative evidence documents the associated challenges they had to overcome. The evidence for these challenges led to the following proposition.

Proposition 6. The internal orientation of established family firms constrains their ability to find and integrate external personnel to address permanent expertise needs in response to an organizational crisis.

Altruistic Motives and Long-Term Goal Orientation

In our case investigations, we found that the family members possessed a high willingness to sacrifice during an organizational crisis. We linked this behavior to altruistic motives and a long-term goal orientation. Extending prior research, our observations indicate that these factors provide a unique retrenchment potential for established family firms that deserves closer research attention.

Altruistic motives. In both firms, family managers expressed feeling strong obligations toward the family firm. They phrased this as a social
commitment and a responsibility to contribute to the well-being of their family members. Our interviews revealed specific incidences of incredible sacrifices and willingness to support the family business.

I was probably working about 85 hours per week for a year and a half. It was taking its toll on me even at just 27 years old. (Greg Hoffman, Vice President, Quality Dairy)

I would never do anything critical to the success of this company without having her [sister and co-manager] totally involved in it. I would think she would do the same for me. (Greg Hoffman, Vice President, Quality Dairy)

These altruistic tendencies also extended to some of the nonfamily employees.

For me, money isn’t the only issue. You get paid less here than in a nonfamily oriented business. But the loyalty is there and that’s huge. If you get people who really care, you’re going to work harder. You’re not going to worry about the hours. (Ami Smith, Credit Manager, Fine Furniture, nonfamily employee)

If employees are more willing to accept pay cuts and increase their work efforts, then established family businesses are better positioned to engage in retrenchment strategies when encountering a severe organizational crisis compared to other small firms. Even though altruistic behavioral tendencies have received substantial support in the family business literature (Gersick et al., 1997; Schultz, Lubatkin, & Dino, 2003), the related positive implications for organizational turnaround have received limited research attention. Therefore, we propose the following.

Proposition 7. Strong altruistic behavioral tendencies of organizational members increase an established family firm’s ability to implement retrenchment strategies in response to an organizational crisis.

Long-term goal orientation. Statements by the family members in our two case studies indicated a second retrenchment-supporting factor: the long-term time horizon of their goals. Current family managers often perceive the organization as a legacy from past generations to be given to future generations. For example, Tim Schmidt of Fine Furniture explained: “I entered the business and I love it because of those that came before me and for those who come after me.” Family members often make lifetime commitments to their businesses (Handler, 1994). At the same time, the likelihood of employment termination for family members is lower. The resulting more stable relationships in family firms have been linked to substantially more long-term goal orientation (Covin, 1994) and are consistent with prior family business research (Barach & Ganitsky, 1995; Handler, 1994; Sharma et al., 2003).

Our investigation of turnaround at family firms provides evidence of how more long-term goal orientation supported retrenchment. Family members were willing to personally sacrifice for the firm temporarily to an astonishing degree (e.g., pay cuts, investment of private funds). They committed their time and effort voluntarily at a level hard to imagine in any regular employment relationship (e.g., 85-hour workweek). This behavior increases the firm’s ability to withstand adverse situations and extends the organization’s timeline for implementing turnaround strategies. Thus, we propose:

Proposition 8. Long-term goal orientations of organizational members increase an established family firm’s ability to implement retrenchment strategies in response to an organizational crisis.

Discussion

Our article answers the call in the entrepreneurship literature for a more strategic approach to family business management (Habbershon, Williams, & MacMillan, 2003; Sharma, Chrisman, & Chua, 1996). It investigates one specific subset of strategies that are highly relevant to family firms: turnaround strategies. Our case data show that established family firms during early stages of their response to an organizational crisis rely on
standard turnaround strategies such as top-management changes, drawing on external management expertise, and organizational retrenchment. We extend prior research by developing an empirically grounded causal model that outlines how the implementation of turnaround strategies is affected by specific characteristics of established small family firms, such as strong ties to the business, consensus orientation, informal management systems, internal orientation, altruistic motives, and long-term goal perspectives. Thus, we identify important contingency factors that affect the implementation of turnaround strategies in family firms. Figure 1 summarizes the developed causal model and integrates it into a stage-based model of the overall turnaround process.

The outlined moderated relationships in our turnaround model represent an important novel feature. A better understanding of how “familiness” influences the implementations of turnaround strategies promises more successful responses to organizational crises in small family firms. Consistent with prior research, we found that the long-term and often strong ties between family members create unique social relationships in small family firms (e.g., J. Davis & Tagiuri, 1996). The recognition of how family ties represent both advantages and challenges should enable family managers or management consultants to better address them. For example, the possibility of organizational crises should provide an additional incentive for incumbent family business owners to prepare the next generation of family managers as early as possible for the task of leading the organization. Similarly, family businesses should be encouraged to develop external social networks to enhance their ability to draw on external expertise and increase their crisis resilience. Our findings further suggest proactively formalizing internal coordination processes where appropriate in order to reduce disruptive effects of management turnover during an organizational crisis.

The turnaround literature has argued that top-management changes are instruments that can be used not only to introduce different management approaches to the organization but also to signal...
turnaround activities to a firm’s stakeholders (Slatter, 1984). Top-management turnover can signal evidence for “breaking with the past” and “a new start” to bankers, investors, customers, suppliers, and employees. We speculate, however, that internal replacement by another family member is a much weaker signal for impending changes compared to replacements with either an internal or external manager at nonfamily firms. This seems especially likely if the family replacement manager has been groomed by and been part of the firm’s management team. External signals related to top-management change represent an issue that deserves future research attention.

Regarding organizational retrenchment, academic research on nonfamily firms has reported mixed effects related to downsizing (Barker & Mone, 1994; Barker, Mone, Mueller, & Freeman, 1998; Robbins & Pearce, 1992). Our evidence suggests that on one hand, family firms should be concerned about the potential negative effects of downsizing considering their potential disruptions to the more informal decision-making and coordination systems in family firms. On the other hand, altruistic tendencies, long-term goal orientation, and strong relationships between family members and their business support other forms of cost cutting, like reducing top-management salaries and extending work schedules. In summary, based on the number of family firms that face organizational crises, we consider the further empirical investigation of the propositions outlined in this article an important issue and encourage future theory-driven empirical research.

Overall Turnaround Effects

Our investigation of specific turnaround strategies in family firms raises the question of their combined effect on the desired outcome: firm recovery. The few prior studies of turnaround in family businesses and our study’s focus on Stage 1 turnaround strategies, however, limit our ability to discuss and evaluate overall performance effects. Still, our investigation has led us to a couple related thoughts that offer guidance for future research.

In our proposed contingency model, unique characteristics of family firms have both turnaround enabling and turnaround inhibiting effects. For example, our evidence indicates that strong commitment of family members to the family firm may inhibit top-management changes. However, at the same time, this embeddedness of business relationships in family relationships supports altruistic tendencies and long-term goal orientation, which help organizational retrenchment efforts. Incumbent top managers with a strong altruistic orientation, for example, may be more willing to step down and facilitate top-management change.1 The multiple simultaneous effects create challenges for evaluating their overall effect on organizational recovery. The narrow focus of our investigation on two successful turnaround cases is insufficient to allow more than speculations about related trade-off effects. But such joint effects of family firm characteristics on turnaround strategies represent an important field for future research. Our propositions and discussions offer both justification and guidance for the design of such more comprehensive studies.

Long-Term Turnaround Outcomes

The focus of our investigation was on key contingency factors affecting the implementation of turnaround strategies. During data collection, we discovered, however, that the implemented turnaround strategies not only contributed to addressing the current organizational crisis but also provided the organization with more permanent lessons that affected organizational processes and structures in the longer term. Respondents at Fine Furniture, for example, reported that the turnaround experience led to a general switch to hiring family members only after also considering outside candidates. George Schmidt (CEO, Fine Furniture) described the organization’s current search for a successor.

1 We thank a reviewer for pointing out such potential trade-off effects.
It is not just because you are my son that you are going to be general manager, or you are my son-in-law. One of those others on the staff could be general manager. They are going to be tested and interviewed by outside people like they did me. We work for 140 stockholders.

Our initial interpretation held that these responses represented lip service or political maneuvering to preserve the current power structure in the organizations. The actual hiring records, however, revealed that in our two cases the percentage of nonfamily managers in the firms increased and some of these nonfamily managers have since been promoted to the highest ranks. This seems to indicate a more permanent departure from hiring and promotion practices prior to the organizational crisis. Both companies also continued their external benchmarking practices and Fine Furniture continued its use of consultants beyond its recovery phase.

The long-term implications of turnaround strategies were not an explicit focus of our investigation; instead, they emerged during the discussion and interpretation of our field observations. Our related findings show that a focus on immediate recovery effects of turnaround strategies falls short of capturing their true impact. We speculate that the more intense organizational commitment of family members may lead these firms to experience organizational crises as far more traumatic. Any lessons learned during this experience may, therefore, be engrained more deeply in the organization’s memory. Obviously, this also creates the risk that family firms may continue to implement crisis practices in noncrisis situations where they may lead to undesired outcomes. Ultimately, our data were not sufficient to investigate these long-term effects, but our case-study evidence should guide and motivate future turnaround research.

**General Implications for Family Business Research**

Beyond turnaround issues, our findings also have noteworthy implications for related areas of family business research. For example, our investigation of top-management change has some interesting implications for family firm succession research. This research stream has dealt with organizational crises and failure rather as a result of succession challenges (P. S. Davis & Harviston, 2001; Longenecker & Schoen, 1978). Given a limited pool of potential top managers in any family, top-management change as response to a crisis can imply handing the firm over to the next generation—as happened in the Fine Furniture case. In these cases, crisis challenges become compounded with succession management challenges. The interpretation of our turnaround cases leads us to the possibility that a crisis situation, in spite of all the challenges, may facilitate succession if the crisis legitimizes top-management change.

Our investigation also showed that outsiders can play important roles as “bridges” to facilitate management transition. Fine Furniture, for example, employed a consulting company as arbitrator to decide who should lead the company. More surprisingly, we discovered that the outside managers both companies hired during the crisis now either run or are poised to run the companies as CEOs during the transition to the next generation. Again, the crisis situation seems to have helped the organizations to address long-term succession issues in unexpected ways. This bridging function of external managers has since been supported and further explored in a broader investigation of succession management in established family firms (Cater, 2006).

Finally, our findings contribute to the general research on altruistic behavioral tendencies and long-term goal orientation in family firms. Our findings are consistent with Zahra (2003), who reported positive effects of altruistic motives in family firms, but related to growth strategies not turnaround strategies. Schultz et al. (2003), in contrast, highlighted potential negative governance effects as altruistic behavior by manager-owners may encourage free-riding and shirking behaviors. Thus, our study contributes another facet to the investigation of the important, but ambiguous, effects of altruism in family firms.
Limitations and Future Research

Our investigation of turnaround strategy implementation in family firms provides an empirically grounded basis for future research. Considering our focus on only two organizations and the generally limited number of empirical studies in this area, we consider our findings in need of further support by future empirical investigations. Such future studies should consider broad samples that include both family and non-family firms to capture more directly how characteristics of family firms affect turnaround strategy implementation. In spite of associated challenges, researchers should also strive to include both successful and failed turnaround attempts because doing so promises important evidence about recovery implications of turnaround decisions. We consider qualitative case studies based on such broader samples and incorporating second-stage turnaround strategies the logical next step. The findings reported in this study provide both legitimacy and guidance for such future research endeavors.

Conclusion

In our study, we investigated turnaround strategies in the realm of established small family businesses. We examined turnaround commonalities at two exemplary family firms: a milk processor and a furniture retailer. We identified eight family-specific contingency factors that moderate the implementation of standard turnaround strategies. Our study develops theory at the important intersection of family business and turnaround research. We introduced specific causal propositions that are supported by our case data and integrated them in the general research streams on turnaround strategies and family-firm characteristics. Our focus on three turnaround strategies provides an important starting point for the development of a more comprehensive theoretical framework of turnaround strategies for family firms that also includes later-stage turnaround strategies and captures turnaround success. This stream of research promises not only to advance our theoretical understanding but also to improve how family businesses implement turnaround strategies—a topic of substantial interest considering the high failure rates of family firms.

References


Turnaround Strategies in Established Small Family Firms


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