

Family Business

When Disaster Strikes

A personal tragedy can sink a small business -- but it doesn't have to

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Cheryl Rumley, a 45-year-old single mother of three, borrowed from her brother and against her house to launch her own business, a home-care agency with a dozen employees. The business took off right away, quickly picking up 30 patients.

Six months later, Ms. Rumley learned she had breast cancer.

"I don't have time for this," she protested, after her doctor told her she would need surgery, followed by eight months of chemotherapy and radiation treatments. Fighting cancer meant she wouldn't be able to dedicate her usual 60 hours a week to work.

Ms. Rumley thus found herself in a dual struggle for survival -- one for her life, and one for her business. "When you start a business," she says, "you really don't think you will die."

The fate of a company may seem unimportant compared with battling a serious illness or disability, or when a death occurs. But when such calamities strike at the owners of a small business, the repercussions can threaten the livelihoods of the owners and their families, and those of their employees and partners and their families.

Eight years after her diagnosis, Ms. Rumley's cancer is in remission, and her oldest son just graduated from college. Her home-care agency, Apex Healthcare Services Inc., Springfield, Mass., is thriving, with about 35 full-time employees and revenue that Ms. Rumley expects to reach about \$1.2 million this year.

A look at the experiences of Ms. Rumley and other small-business owners who've faced similar situations helps shine a light on what can be a perilous path. What's clear is that when a small business is hit by a personal tragedy, it could spell the end of that small business. But it doesn't have to.

In particular, one theme runs through much of the advice offered by small-business experts: Business owners facing personal crises must be willing to delegate. "Those business owners who are entirely self-sufficient and are not going to yield any amount of control are the most subject to disasters," says Bob Cockrell, a family-business adviser in St. Louis.

What follows, then, is help on how small-business owners might best handle their businesses -- and themselves -- should misfortune arrive.

The Importance of No. 2

Having a reliable second-in-command and a well-structured organization is essential for ensuring smooth operations during an owner's absence or disability, or when a death occurs.

In the best scenario, the person taking charge is someone already working for the company who has had test runs as captain. Often the responsibility falls to a family member, though degrees of preparedness vary.

Olga Martinez, founder, president and chief executive of Allright Diversified Inc., a construction company in Fresno, Calif., working on government projects, had long wanted to involve her family in the business, but they weren't very interested, she says. Finally she added her younger brother to her business checking account and established him as an officer of her company. Six months later, she suffered a ruptured brain aneurysm. During her nearly yearlong illness and recovery, Ms. Martinez's brother took over most financial duties of the business. "He literally took over my purse," says Ms. Martinez, who adds that it was difficult for her to yield that control, but she was glad she did.

In choosing a successor, it's important for owners to not only groom them for the job but to make their choice widely known. Julie Smolyansky took over as chief executive of Lifeway Foods Inc., a dairy company in Morton Grove, Ill., after her father passed away from a heart attack in 2002. Although there was no formal succession plan, her father had told his business partners and staff that his daughter was next in line. She also had been director of sales and marketing, which gave opportunities to demonstrate her abilities. "My father made it easy for me," Ms. Smolyansky says.

Often there is no family member ready or willing to assume the leadership of a business. Family connections, though, are less important than knowing how the company runs. For Ms. Rumley and her home-care company, two staff members -- a coordinator and a nurse -- stepped up to take on the temporary leadership. It helped that the business was straightforward and that all of her employees knew their jobs well, Ms. Rumley says.

In other cases, it can be necessary to hire a turnaround or crisis specialist. Such experts can be consultants, retired or unemployed executives, or someone from a turnaround firm. These firms generally charge hourly rates of \$150 and up, says Mr. Cockrell, the small-business adviser. The Association of Certified Turnaround Professionals, a Chicago-based certification organization, has a Web site, www.actp.org, featuring a database of specialists that is searchable by industry and state.

Retired executives can cost \$10,000 to \$15,000 a month and more. Some ask for a salary 25% above that of the absent chief.

While a small business may consider these tactics to be expensive, says Mr. Cockrell, they may be cheaper than closing the business outright.

Take Financial Precautions

Whoever takes charge can expect a rocky start, along with a possibly significant drop in revenue. It's a good idea for small businesses to have a portion of capital in an emergency reserve fund, several forms of insurance, and a detailed list of instructions covering key duties in the owner's absence.

Many advisers recommend doing annual contingency planning for a key person's absence. They say owners should consider establishing an advisory board made up of the company's accountant and attorney, family members or friends who would know what to do in case of an emergency.

Alliances can be set up with peers and partners to try to stem losses from disruptions in business. Ms. Martinez, for example, had agreements with other contractors who temporarily took on some of her customers. Mr. Cockrell, too, says that when he had his own accounting firm, he and the heads of a few other firms had a mutual-support agreement that if one of them should be disabled, the others would temporarily help with customer needs and projects in progress.

Philip London, senior tax partner with the accounting firm Freeman & Davis LLC in New York, advises his small-business clients to ensure there is a continuation plan in place. When two partners run a business, it's common to set up a buy-sell agreement insured by a life-insurance or a disability policy, Mr. London says.

For example, each partner holds a life-insurance policy on the other. The surviving partner then uses the insurance payout to buy the stock of the deceased partner from his or her family. That sort of situation is used when the owners don't plan to pass the business to other family members.

Less common is so-called key-man life insurance, in which the business is the beneficiary of the policy. Only about 17% of businesses with fewer than 500 employees have key-man life insurance on their chief executives, a 2003 study by Hay Group found.

Other types of insurance, however, are essential -- especially good medical and disability insurance. Disability insurance can cover a business's overhead expenses or some lost income, says Paul Stawinski, managing director at the New York financial advisory firm Price Raffel & Browne Inc.

It's important to note that disability policies will cover only about 60% of income, says Mr. Stawinski, who also recommends making sure that the policy covers partial disability. Insurance policies should be re-evaluated and revised as the business grows, he adds.

Stay Engaged in the Business

Some owners trying to cope with tragic circumstances find that staying involved with the business can help.

When Troy Dunn discovered that his 9-year-old daughter had cancer, he handed the day-to-day operation of his marketing agency, DunnDeal Consultancy LLC, in Fort Myers, Fla., to his mother; she had already been working at the company. But Mr. Dunn told his staff that while his schedule would be inconsistent, he wouldn't be invisible and shouldn't be treated like he was. Although he had to skip conference calls, for example, he made sure to quickly and effectively make his opinions known after seeing minutes from company meetings.

Mr. Dunn spent many days incommunicado at his daughter's bedside while she was undergoing chemotherapy. He would turn his BlackBerry off during those times. Afterward, he would see messages about matters he once would have considered crises. But scrolling down, he would often discover that those crises had been resolved by his staff or had disappeared on their own.

The year that his daughter was ill, Mr. Dunn says, was actually the most productive so far in his career, a time in which he wrote a book and secured a television deal. If he hadn't made some commitments, like signing the book contract, before his daughter's diagnosis, he says he probably would have put them off. But having to focus on them helped during the most difficult times.

His daughter's cancer is in remission now, and she has returned to school and playing sports.

Ms. Rumley, for her part, says that despite the difficulties it caused her at the time, having the business was her saving grace. At a particular low point during her chemotherapy, she says, she sat on the couch in her house and cried to her father that she couldn't manage everything that was going on in her life.

But the next day, she decided she couldn't sit on the couch and cry anymore, and would start going back to the office, working only half-days at first. She also hired a woman from her own agency to help her with housework as she was recovering.

Share...but Not Everything

One of the most difficult of the many balancing acts required is deciding where to draw one's line of privacy, and what to share with employees and clients.

Mr. Dunn asked his mother to be the spokesperson for the family and to keep everyone updated. He didn't want every phone conversation with employees or clients to start with questions about his daughter, he says.

"We had to keep the sad people at arm's length," since soon the crisis wasn't new to him but was new to someone in his extended network every day for months. He felt drained talking to people about it every day, he says.

Ms. Rumley called each of her staff individually to break the news of her diagnosis and to assure them that the business would go on.

Telling clients is another matter. Mr. Cockrell says the amount of information to be shared should depend on how much clients are affected by an owner's absence. If a partner at an accounting firm is ill and his colleagues take on the burden and spread the work, managing to deliver projects on time, then the client doesn't necessarily have to know, he says. But in many other cases an owner's absence may delay deadlines and reduce oversight, Mr. Cockrell says, in which case it's only fair to tell the client.

Don't Make Rash Decisions

At one point Ms. Rumley's father was so concerned for her health and energy that he called the coordinator who was in charge of her business and told her to begin shutting the company down. Ms. Rumley reversed her father's decision after she learned about it, and had to talk to her coordinator, through tears, to assure her that indeed the business would keep running.

Things were bad, she says, and everyone thought it was all over. "But I didn't think so."

In the years that followed, Ms. Rumley says her father, who has since passed away, was proud of her keeping the company going and enjoyed hearing stories about her business.

"He was thrilled," she says. "He knew it was a good decision."

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