ChappelWood Financial Services

THE PRIVATELY HELD BUSINESS

STILL IN THE FAMILY: FAMILY DYNAMICS

Still in the family

Business—in general—is tough. It always has been and always will be. Add to this eternal truth the word "family" and you add multiple layers of complexity. Navigating family dynamics in a business is a crucial part of business transition planning—and doing so successfully can lead to endless possibilities.

Today, it's entirely possible that three, even four, generations are trying to figure out how to coexist peacefully in the workplace—from the silent generation's insistence on daily desk time to Millennials' comfort with working from a mobile device in a coffee shop at 7 p.m. It's hard enough in any company, but the challenges can run even deeper for a family business. When a business is being passed to many generations, the family dynamics, including the issues and definitions of "family wealth," can become even more complex and more of an ongoing challenge, even in the family businesses that appear most successful.

"The primary driver of wealth creation is success in business, often a family business," says James "Jim" Grubman, Ph.D., of FamilyWealth Consulting, an internationally recognized consultant, speaker and educator in the multi-disciplinary field of wealth counseling. "A family that shares ownership or management of a business can reap many benefits unavailable to other families. Many of those with whom I've worked over the years feel very honored and appreciative of the fact that they are able to be productive and successful together. But a family business also must contend with powerful stresses that can destroy love and create rifts that can last for decades. That's why it is so imperative that all of those who care about and hold the business dear, including key employees, advisors and other stakeholders, understand the universal themes about family dynamics within a family business."

Recognizing—and navigating—family dynamics

Family businesses are a breed unto themselves, and business families deal with two extraordinarily complex systems: the business system and the family system. Each has different purposes, different rules and different measures of success—and what might be summed up as two different operating systems. The way these two systems interact in times of transition and stress can cause things to fall apart. Families often find that they are not prepared to handle the inevitable consequences of the collision of these two radically different systems.

Typically, the operating systems developed along two parallel tracks. The entrepreneur often spent years building a business that was born in the cauldron of competitive markets, complex business issues, tough finance environments and so on. To survive, the business needed to foster a culture of excellence. Meanwhile, the family developed along very different lines. Here, the children were nurtured, educated and loved. To thrive, the family has to create a culture of inclusion.

When these systems inevitably come together, the operating systems of "excellence" and "inclusion" often collide in spectacular fashion. The consequences are predictable—with tendencies of families to favor one operating system over another. Companies hire family members who may not be qualified, thereby favoring inclusion over excellence, or they exclude family members from ownership, favoring excellence over inclusion. Almost all problems of succession can be seen through this clash of operating systems. The complexity and confusion arising from the collision of operating systems can be substantial. Families will spend years attempting to carefully tease these apart in ways that allow both the business and the family to survive and function at higher levels than they did before the transition. Unfortunately, many don't make it.

Some of the ways these clashing systems manifest themselves are:

- Families that can't stop talking about business when they need to

- Siblings working together who bring business conflicts to family gatherings, or siblings who carry old "rivalries" into the business
- Founder parents who create either too rigid boundaries between the family and the business, or too loose ones
- A "family democracy" model applied to the family business, with no clearly defined roles or accountabilities, and often without true business leadership
- Children who cling to the dinner-table business war stories of their parent-founder, while also yearning for their own starring role in such a family business story

A common pattern seen in family businesses is one in which a child is brought in to succeed the founding parent, but the founder refuses to relinquish real authority. Often, the parent's health fails or the parent dies before the children take over. And all too often, the value of the business has eroded. While this example highlights the perspective of the waiting-in-the-wings, next (often frustrated) generation, a common stumbling block for the generations in a family business is that the founding generation believes that the second or third generation in the business simply doesn't share the "magnificent obsession" with the business. Founding generations may be so focused on making sure that their children and grandchildren understand this obsession before they let them "take over" that they fail to recognize that succession in the family business is a long journey—a process, not an event.

This is only one of the patterns common to business succession. Another pattern involves the anointing of one child above the others as a successor. This often breeds resentment and anger within the family system. Yet another pattern involves bringing multiple children into the business with the expectation that one will emerge as the "winner" to lead the company, while the others will either exit or live in the shadow of the victorious sibling. In addition, some families, by unexamined agreement, divide into "teams." Common teams are boys versus girls, blood relatives vs. those who married into the family, older vs. younger children or family branches vs. each other. The sides square off to see who can gain the greatest advantage. These patterns all develop as the family attempts to cope with the clash of operating systems and the tensions generated by the operation of power and love within the family and business systems.

As the Family Office Exchange advises, "The issue is not the unplugging of one leader and plugging in of a new one, but developing the capacity for the whole system to develop, collaborate and support leadership. Succession in family leadership is usually not just a change of person; it means changing the family governance structure—from an individual to a sibling group to a larger network of cousins, for example. The real issue is the evolution of the enterprise and the development of leadership capacity to guide it. Families can capitalize on generational transitions as advancement opportunities, rather than surviving them as crises of lost authority."[1]

Adds Courtney Pullen, M.A., a psychologist and family wealth counselor, "Leadership acumen is a very different skill set than being a manager or an operations expert. It's critical in a transitioning family business and something that founders need to place a high priority on if their business is to pass and succeed into the next generation. Most successful family business owners recognize this truth, because they often hold in their hearts the desire for the business to be taken into the future by a family member. But a big part of the family dynamics in a family business is for the founding generation to be able to honestly answer the question, 'Am I hiring a child or an employee?' And, 'Can these children be leaders?'"

Family-focused business vs. business-focused business

So, is navigating family dynamics successfully a matter of it being a unique group of people in business who just happen to be in a family, or is it simply applying best practices of business to any family? "In many ways, it's about the people," says Grubman. "Individuals and families vary in the degree to which they are resilient, open, communicative and adaptable—and adaptability is the single most important quality that will result in a family business prospering. On the other hand, a family in business together is dealing with a level of complexity that doesn't exist for either 'regular' families or other types of business."

This tension between the two systems—the family system and the business system—and the operating systems that drive them is grounded in solid research. Research done in 2008 by Dr. Russ Alan Prince studied 242 ultra-high net worth family businesses and their owners. Based on his research, he found that families that were able to successfully tease apart the family dynamics from the business dynamics were more successful. He called those families who were unable to untangle the systems "family-focused families," and those who were able to, he called "business-focused families.[3]" About 60% of the respondents were family-focused, and only about 40% were business-focused.

"To contrast the two, for business-focused families, business decisions were made solely in the best interest of the business. Management was either composed of nonfamily, professional managers or operated as if it was. Decisions were made in the interest of furthering the goals of the company; the wishes of the family were not influential in the day-to-day management of the company. (This begs the question: Where did the family find influence? Family influence was generally delivered at the highest level, that is, the Board of Directors. The owners direct the board, which directs senior management.) These families—some of the most successful families in the world—elected to exert their influence only at the highest level and to abstain from day-to-day management in favor of allowing professional managers to do it. Business-focused families clearly drew lines of demarcation between the needs of the business and the wishes of the family.

"Family-focused families, on the other hand, were different. Many of their decisions were based on the needs of the family first, with the business coming in second. By way of definition, perhaps examples work best. A family-focused family may elect to employ one or dozens of family members who are not particularly productive or accountable to others in the business. In other words, they see bloodline, meaning that employment for family members is virtually guaranteed. The resulting productivity and morale issues associated with employing underperforming family members are rarely taken into consideration. Another example may have to do with certain perks doled out to the ownership family. Family-centered families may elect to pass through certain family expenses to the business. They may expense their family vacations in the Caribbean to the company, or they may have company automobiles, boats and aircraft, which are really assets of the family and tools the family uses only for its convenience and pleasure. Family-focused families frequently utilize their companies as a fringe benefit or tax-advantaged vehicle for the family's lifestyle purposes.

"What were the primary differences between business-focused families and family-focused families? Business-focused families had far fewer family problems . . . we may theorize that a business-focused family has much clearer boundaries and definitions for things like family employment, the distribution of business wealth, accountability for family employees inside the company, active Boards of Directors, etc. Finally, in terms of psychographic characteristics, Prince has done some groundbreaking research. One of the characteristics of the most successful family business individuals is that they are 'centered.' These people are:

- In touch with themselves and their responsibilities
- Clear about their unique skills and talents and how to best leverage them to a specific set of goals
- Able to focus on the key challenges and obligations in front of them
- Armed with the resolve, confidence and determination to do so

"Business-focused individuals were more highly centered than family-focused individuals by a significant amount. Why is this measure of good psychological health important? For every dollar of net worth the less-centered people exhibited, the highly centered people had $6.20 of net worth. Extrapolating this data, it is possible using good psychological health and excellent business practices to transform a $10 million family business into a $60 million family enterprise over time."[2]

Honoring transitions

"'Succession' within a family business is often viewed only as the older, founding generation letting go," says Grubman. "But succession is as much about a 'taking on' by the new generation. 'Transition' is a more accurate term, reflecting the changes in both generations." Successful passage through the letting go and the taking on—again, a process, not an event—is probably the most important attribute of a successful, multi-generational family business.

"Everybody in the family is going through this generational transition together and separately," says Pullen. It's a stew of complex emotions. Old sibling rivalries and long-suppressed memories of parental 'favoritism' may surface. Yet some, or all, members of a next generation are now charged with stewardship of a precious resource, the family business, at a time when they might feel somewhat fragile. And they still have to sit together around the Thanksgiving dinner table."

The letting go by the founder can be a source of younger generation eye-rolling ("Why can't Mom and Dad just get on with it?") and older/founding generation mild disappointment ("They have no idea what this is like for me."). For all the reasons why letting go is the source of stirred-up family dynamics, Pullen suggests that family businesses step back and take some time to honor the transition. In fact, he says the family should even think about ritualizing it. "In the same way that we feel the urge to ritualize the departure for college, the first adult job and the big birthdays, families should develop a way to ritualize the transition," says Pullen. "The ending of something can be the opportunity for a more satisfying passage and an incredible new beginning, but if we don't honor an ending in a clear way, the beginning is somewhat polluted. A process of ritualizing a family business transition brings something special to multiple generations."

Pullen says that people in major life transitions are actually in chaos. The coping skills, attention spans and general abilities for making appropriate short-term and long-term decisions are diminished during a transition. The status quo has been broken; family members in a business are encountering their version of fight, flight or freeze as they try to cope with uncertainties, fears and confusion around the change. "It's very important that family in a business together rely on a team of advisors, including a psychologist or counselor, to work through the sometimes messy transition process. Caterpillars get to do their transitions in the privacy of their cocoon; we humans must cocoon in public, and it is not always pretty to watch."

Beyond these capacities and capabilities are some hard realities. Typically, the founder of the company wears all the important hats in the business. The founder makes all of the strategic decisions, runs the company to meet those strategic objectives and reaps the benefits of that work. In the second generation, these functions are separated—we might call them governance, management and ownership. Families that tease apart the operating systems become adept at navigating the boundaries between these functions. They have educated owners, competent managers and wise board-level leadership. These families spend substantial time helping the rising generation understand and adopt these distinctions.

Beyond that, these families help the rising generation develop genuine financial literacy, to ensure that they don't squander money; wealth literacy, so that they grow personal wealth independent of the family business; governance literacy, so that they can work together with other family members; and often philanthropic literacy, so that they can give money wisely in ways that benefit society and the family social networks.

Confronting fears and embracing possibilities

Any transition brings with it increased anxiety. Successful transition in a highly functioning family business with one or more generations involved requires confronting those fears. Oftentimes, the senior generation expresses one or more fears related to:

- Watching the business fail
- Relinquishing control
- Becoming irrelevant or bored
- Losing financial security

At the same time, the next generations commonly have their own fears, including:

- Displeasing the senior generation
- Failing to grow or maintain the business
- Disagreeing with their own generation

Confronting the fears of all involved should be high on the to do list for any family. Once the family's fears are acknowledged and addressed the family can better move forward to the possibilities the future holds for them and the business.

Family businesses, says Grubman, can be likened to pioneering immigrants: "Pioneers work to go to and explore distant opportunities," he says. "The best family businesses think of themselves that way, knowing that the journey and the adjustment will not necessarily be easy. But while the challenges for family members in business together may sometimes seem daunting, the flip side of the coin is that, for those willing to stay energized about a successful and harmonious family business (and family), the possibilities for the future are almost endless."

When families are able to navigate the power and love resident in the family and business systems by creating a deep common purpose, and then cultivate the capacities and skills necessary to achieve that dream, they create paths that benefit the individuals in the family, the family as a whole and the world beyond the family. ■

1 *"Succession in Business-Owning Families," Families," Family Office Exchange, 2005.*

2 *"Business Focused Families v. Family Focused Families, Family Business Institute, familybusinessinstitute.com. Data pulled November 2013.*

Updating those family business statistics

Discouraging statistics about the success and failure of family businesses are frequently cited, the most common being that only about 13% of family businesses last beyond the third generation. These figures come from research done in 1987 by John Ward, Ph.D., a professor at Northwestern University and a highly regarded family business consultant. But more recent research, from three professor-researchers sponsored by the Family Firm Institute (FFI), has more positive results, says James "Jim" Grubman, Ph.D., of FamilyWealth Consulting. "The new research uses better methodology, and I believe it paints a much more accurate picture of families in business," says Grubman. "For example, a family business may fall into the statistic of being 'gone' after 10 years, but it may be a situation in which the family has simply exited that business and gone on to create another successful venture. The point is to focus on the family, not necessarily the business, when family businesses make transitions."

The goals of the research study were to challenge the assumptions of family business survival statistics, shift the wealth creation vehicle from firm to family, challenge the tendency to generalize about family firms (they are not a homogeneous population), and explore the impact of entrepreneurship on longevity and family firms. Among the most interesting findings are:

- Families in business are very entrepreneurial—the average number of firms controlled over the history of a family in this study was a surprising 6.1 firms, with an average of two industry shifts.
- Transgenerational value creation drivers are built on internal autonomy (independence of teams within an organization), external autonomy (independence of the firm from external stakeholders) and acquisitions. In short, survival is not the same as transgenerational value creation.
- Oft-cited survival statistics are used out of context and may not be generalizable. As the study points out, only 25% of all firms, not just family businesses, last 10 years.

Source: The FFI – Goodman Longevity Study, Family Firm Institute, Inc.

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Courtney Pullen, M.A., is the president of the Pullen Consulting Group. He has more than 25 years of experience in individual and family coaching, business and management consulting, leadership development, communication training and team building. He has extensive experience in small and large group facilitation covering the continuum from family meetings to corporations. Pullen's book, ***Intentional Wealth: How Families Build Legacies of Stewardship and Financial Health***, is available on Amazon.com.