THE TARGETED STRATEGIES GROUP

FAMILY DYNAMICS ARE CENTRAL TO BUSINESS SUCCESSION PLANNING

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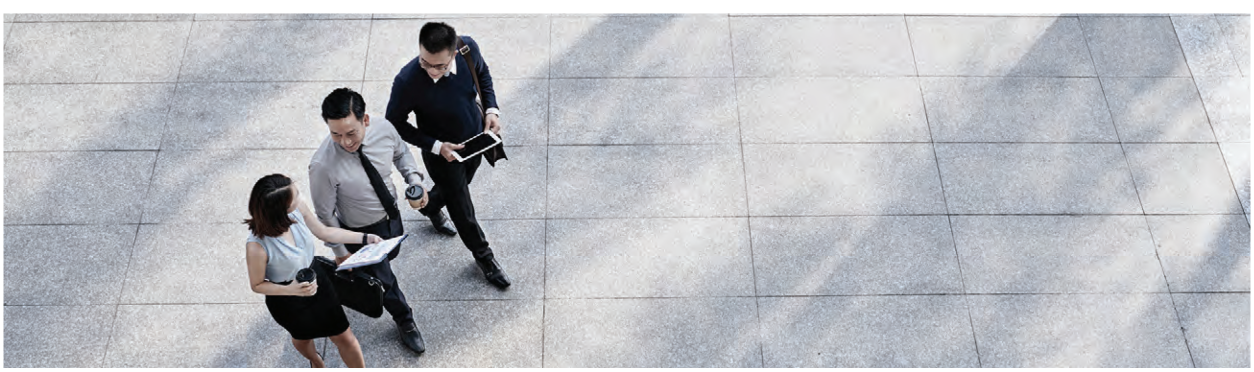

INTRODUCTION

It should go without saying that family dynamics play a central role in succession within family businesses. Experts agree that successes and failures in family businesses stem most often from the family side of things, not the business side. This is especially true of so-called "triggering events" such as a transfer of power.[1] For example, financial-services firm **KPMG notes that relations within the family, particularly regarding communication and trust, have been found to be the single factor with the greatest impact on the successful transition of ownership and wealth.**[2] Family-business expert James E. Hughes argues that "preservation of long-term wealth is a question of human behavior."[3] And entrepreneurship scholar Michael Morris advises, "In spite of the considerable emphasis . . . placed on succession and tax planning, it appears that one's first priorities should be building trust, encouraging open communication, and fostering shared values among the family members themselves."[4]

On the face of it, family-business leaders understand all of this. When asked in a major recent survey which succession-related issues they considered "of the greatest importance and greatest difficulty," their top answer was, "resolving conflicts among family members who are in the business."[5]

In practice, it's often a different story. The impact on the family business of "soft issues" such as family relationships is often underestimated, neglected, or mismanaged.[6]

One survey observes that even **for many of the wealthiest and seemingly most successful business families, the area of family dynamics and conflicts is a "no-go zone"** that both leaders and family members tend to avoid.[7] Out of discomfort, they neglect the area to which they should be devoting the most time and resources.

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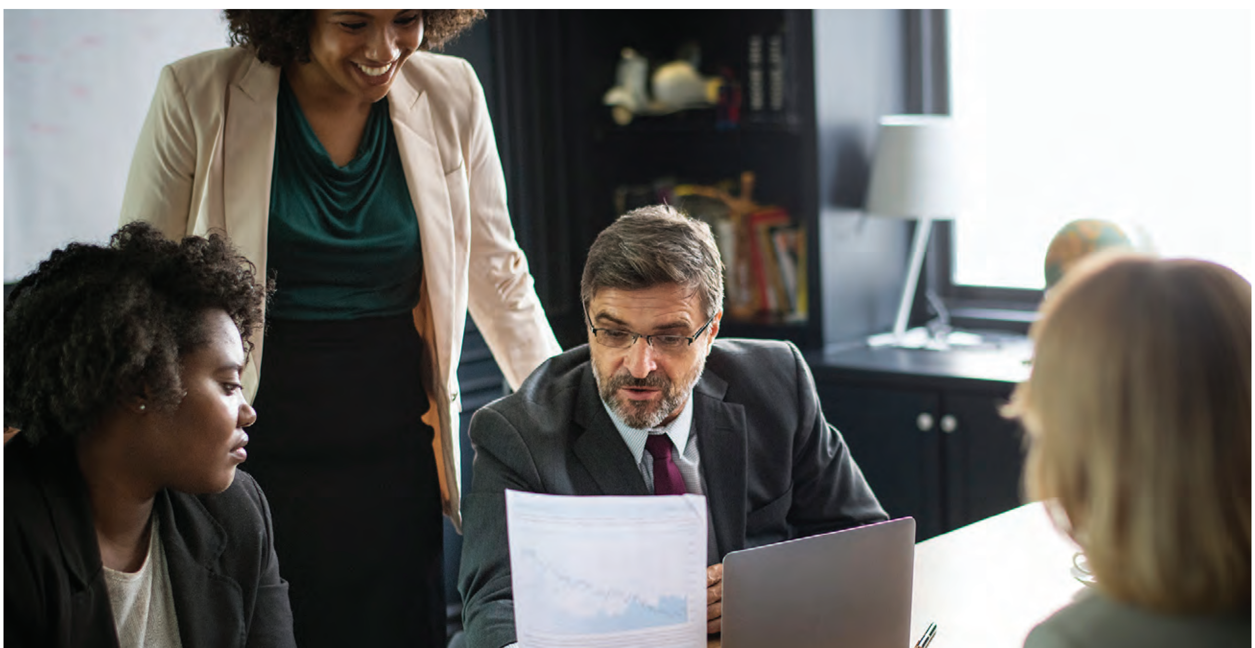
So, like the man who looks for his lost keys under the nearest streetlamp instead of in the area where he actually dropped them, many family-business leaders choose what is easiest over what will work. This is particularly the case in countries with "business-first" cultures such as Canada and the United States.[8] As one report noted, in these cultures, "The demise of the non-economic legacy often precedes the ultimate loss of wealth and the spirit of enterprise in these cultural contexts, making it vital for family businesses to embrace governance practices that strengthen family bonds."[9]

In fact, North America is the only part of the world where family-business leaders use more corporate-governance tools than family-governance ones.[10] And when they hire professionals for help with succession, most of them turn to financial experts, attorneys, or accountants, rather than professionals who could help them manage the family side, such as family-business therapists.[11]



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THE IMPORTANCE OF FAMILY IN BUSINESS SUCCESSION

Family-business owners and leaders who turn a blind eye to the crucial importance of family psychology and relationships set their businesses on the path to joining the 70% of those that fail to survive through the second generation. It is possible that they are misguided by the conventional “three-circle” model of family firms that shows three equal-sized, slightly overlapping spheres: ownership, management, and family. This model gives the family domain equal importance with ownership and management. Since the latter two elements make up a combined 66% of the model, it may seem logical to commit the bulk of attention and resources to those non-family components.

The problem is that the three-circle model doesn’t really make sense. Families have existed as an emotional, social, and economic unit for the full 250,000-year history of the human species. They are integral to human survival and nature, at every level from the individual to the evolutionary. Businesses, on the other hand, have existed for about 5,000 years and are artificial constructs. Except in the immediate sense of generating money to put food on the table and a roof overhead, they are as unnecessary to human existence now as they were when they first arose in ancient Mesopotamia.[12]

Families have existed for the full 250,000-year history of the human species. Businesses have existed for about 5,000 years.

So when it comes to power over people's behaviour, it's no contest: family is going to beat business every time. For this reason, at least **one expert suggests that a version of the three-circle model in which the "family" circle takes up about 80% of the space** and subsumes much of the "ownership" and "management" circles is "a more accurate illustration of a typical multigenerational family business."[13]

Another flaw in the three-circle model is the fact that in family businesses, the owner and manager are often the same person. For instance, in KPMG's 2019 major global survey of family businesses about succession, 39% of the owners were CEOs, with another 61% holding other top leadership positions as well as or instead of the CEO position.[14] This means that both ownership and policies come from what scholars call "an emotional kinship group." This, in turn, means that **family businesses by default violate a principle tenet of business organization, the separation of ownership and management**.[15]

As well, even the tidy-looking three-circle model covers an infinite variety of possible family dynamics and permutations. A family business owner can have no clear successor, just one, or many. Family conflict can be mild, moderate, or so extreme as to lead to what family-business therapists call "catastrophic failure," usually meaning the end of the business (either entirely or as a family-owned firm). The children may get along in relative harmony or bicker endlessly; their relationships could even be so fraught that once the parental figure hands over the reins, their feuding destroys the business. All, some, or none of the potential successors might be interested and involved in the family business. There may be no marriage, only one, or several marriages; spouses can be involved with the business or detached from it; relationships between current and ex-spouses might be friendly or embittered. Even the simplest "nuclear-family" combination, with two parents, 2.5 children, and a dog, can constitute a cohesive, functional unit; one riven with fighting or (as is increasingly common) addiction[16]; or anything in between. And this is not even to mention in-laws, cousins, grandparents, and influential close friends.

NEW TRENDS AND DEMOGRAPHICS ARE MAKING SUCCESSION DYNAMICS EVEN MORE COMPLEX

The challenging complexity of family psychology means that avoiding the issue is not a workable option. And it is getting more complex by the year, as generational change alters the landscape of family-business succession. One key way this change is showing up is in the perception of women as successors. Historically, succession followed the line of male primogeniture—that is, an automatic transfer of the firm to the oldest son. As recently as 1989, **a study of 18 American family firms found that 100% of the father-CEOs said they had not considered their daughters as successors**, even after the daughters had joined the family firm.[17] Meanwhile, 43% of today's CEOs are still the first-born of their families, and, in North America, only 7% are female, leading to the conclusion that male primogeniture has been a significant force in succession right up to and beyond the Baby Boomer generation.

While this convention did not make family businesses any more successful (statistics show that family businesses that use male primogeniture to determine their next CEO underperform compared with those that choose their successor on a different basis)[18], it did make the succession process considerably simpler. One long-time family-firm advisor reminisces almost nostalgically that "In the old days. . .everyone knew there would be only one successor—usually the oldest son."[19]

However, this is changing. Women are no longer so willing to be overlooked as potential successors. Further, in the same way that male CEOs overwhelmingly select other males as successors, female leaders are strongly inclined to select other women, leading to an eventual virtuous cycle in female succession. [20] As well, only 12% of current CEOs globally plan to use male primogeniture as the basis for choosing their successor, while nearly half (48%) say they will use the potential successor's degree of interest in the business and 23% say they will choose the most qualified.[21]

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Another trend—and one that alarms many experienced advisors—is to spread out ownership and leadership. A 2018 North American survey revealed that **a full 60% of current family-business owners planned to divide ownership of their business equally among all their children**, regardless of which ones were qualified, interested, or involved.[22] It is perhaps this kind of admirable but ill-conceived attempt at fair-mindedness that has led to another sea-change when it comes to succession: while 25 years ago only 5 to 10% of American family businesses were jointly run by siblings, with the rest led by single (almost exclusively male) leaders, studies show that **in the near future, 40 to 50% will be owned and led by sibling pairs or groups**.[23]

Since the majority of family businesses that have survived beyond three generations (60 years) have seen the firm pass from one single individual to the next,[24] this trend represents a significant disruption. It introduces multiple players to the second-generation stage of the business's development, instead of delaying this level of complexity until the third-generation "cousin collaboration,"[25] as has been traditional. Thus, the move toward sibling partnerships adds even more complication to a situation that already wasn't working the majority of the time.

Although no two family situations are the same, there are some challenges of family relationships and dynamics in regard to succession that arise commonly and predictably enough to be worth noting, preparing for, and redressing.

HANDLING CONFLICT IS VITAL TO FAMILY-BUSINESS DYNAMICS

Family conflict gets worse when succession issues enter the picture

There may be, somewhere, families without conflict. There are probably not any family businesses without conflict. And there are definitely no family-business successions that don't make conflict worse. Family-business experts actually consider "succession conflict" its own thing, and they believe that it "is likely a major contributor to the often-quoted family business succession failure statistics."[26]

Many researchers believe that one reason for the amount of conflict within business-owning families is that family and business are inherently conflicting systems with many mutually exclusive demands.

John L. Ward notes the sharp contrast between the nature of family systems and business systems:

The family system

- is emotion-driven
- is essentially socialistic
- has permanent membership

The business system

- is rationality-driven
- is essentially capitalistic
- has voluntary membership[27]

One researcher argues that, **by extending the parent-child relationship, a family business "acts as a powerful amplifier" of conflict.**[28] Another goes so far as to propose that, since the family business represents "disequilibrium between two systems of activity," much of the conflict that the family members think is generated by themselves actually comes from the inherent conflict between the "differential pressures" of the family and business environments.[29]

Successors experience significant strain during the succession process

More evidence comes from studies of successors themselves. For instance, **in one survey of 102 successors going through a transfer of power within a family business, nearly every respondent cited at least a moderate degree of conflict during the process**. The conflict prompted many of them to consider leaving the business; some had moments when they thought about taking offers of more money from other businesses.[30]

Another major study of the successor experience during a transfer of power found that 100% of the successors mentioned some degree of “separation strain”—that is, the strains that come from trying to separate out family and business matters. These included “family conflict, emotionality, heated arguments, unrealistic expectations for family members, arbitrary rules, and informal policies.”[31] About one-third of the successors said these conflicts were so bad that they seriously affected the succession process. One 53-year-old heir remarked,

> It’s a shame, because all the infighting and all this psychological stuff took 50 percent of the energy that if I had directed it at the business—you know, if we had all been pulling in the same direction—we might have had a good business.[32]

An equal number reported that significant strains and conflicts were brought into the family from issues with the business, increasing the intermingling of family and business.

Not surprisingly, succession experiences are found to be more negative in proportion to the degree of separation strain.[33] The business world is rife with stories where this psychological element led to family battles, fallings-out, and the break-up of the business. The seemingly invincible Mondavi winery empire was brought to humiliating insolvency and a forced sale in 2004 by a lifelong fight between Robert Mondavi on one side and his brother and their mother on the other. Media giant George B. Bingham was eventually forced to sell his family’s newspaper because of continued conflict with the media company’s board, centrally about the role of his wife and sisters. Feuding within the Shoen family of U-Haul included accusations of murder, a suicide, and years of litigation that led to a bankruptcy filing.[34]

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DIFFERENT TYPES OF CONFLICT NEED DIFFERENT KINDS OF HANDLING

Conflict comes in many varieties. One important set of categories for the purposes of managing the succession process are **active and passive conflict.**[35] We all know what **active conflict** looks like: the fighting among family members, sometimes to toxic levels. Less commonly identified and addressed is **passive conflict**, where family members feel stuck, often out of fear of active conflict. They create a culture—within the family, the business, or both—that allows them to avoid having important conversations, making important decisions, or indeed interacting very much at all with their family members. This avoidance can be damaging enough in itself, but during loaded transition points such as succession, passive conflict can (and often does) erupt into active conflict,[36] as the event or process makes avoidance impossible.

One contributing factor to family conflict in enterprising families is **role ambiguity**[37]. This is a challenge for many business families, especially as the next generation enters the business. For the owner/CEO/parent, the levels of authority are difficult to segregate. When the head of the family is also the head of the business, how do other family members know when he or she is acting as CEO and when as a parent or spouse? CEOs who are also parents often don't know the answer themselves. This can lead them to carry over controlling, autocratic behaviour from the business to the family, causing damage, breakdowns in trust and communication, and open or hidden rebellion. CEO-parents have been known to "audition" their children for succession, pitting them against each other and often damaging their sibling relationship irretrievably.[38]

Similar to role ambiguity is **hierarchy incongruence**. This refers to the conflict between a daughter's or younger son's position lower in the family hierarchy but at or near the top of the business hierarchy if they succeed within the business.[39] Family members, and even nonfamily employees, can find it very difficult to treat "little sis," "little bro," or "the baby of the family" with the respect they deserve as business leaders. As the trend of male primogeniture wanes and sibling rank no longer automatically line up with business rank, this conflict is likely to arise more and more. The besieged successor, fighting to reconcile different positions on different hierarchies, will have a hard time avoiding creating sibling rivalries, parent-child conflict, and ongoing power struggles in the process.

Feelings of unfairness lie at the foundation of many succession conflicts

At the base of much family conflict for members of family-owned firms are feelings of fairness—or, more accurately, unfairness. When so much is at stake—money, status, parental approval, and the success of the firm—real and perceived inequities can become ongoing and often severe sources of conflict. In many transfers of power, one sibling is being chosen over another to lead the company. When there have been multiple marriages, issues arise of how the "new family" is being treated versus the "old family," with rocky spousal relationships often adding fuel to the fire.

One reason that these perceptions arise so often and are frequently severe and intractable is that different people arrive at what they think is fair and unfair using different measures, which can affect their perceptions of everything from who is chosen as successor to whether they are receiving adequate compensation or whether their workload is fair. Researchers propose that the more family members use different measures and accept different rules regarding fairness, the more strife and rivalry will arise within the family and its business.[40]

Another fairness factor at play in many business-owning families is the presence or absence of **a sense of long-term fairness called "global reciprocity,"** which can be thought of as the emotional equivalent of patient capital. The idea of global reciprocity is that the strong attachments within a family allow any **individual** interaction to be unbalanced and/or unfair but still be accepted, because family members have a reasonable expectation that over the lifetime of the family, a balance will

THE FOUR KEY WAYS OF ASSESSING FAIRNESS ARE

1. **Fairness according to need.** Roles, compensation, etc., are allotted on the basis of family-member need.
2. **Fairness according to equity.** Roles, compensation, etc., are allotted on the basis of family-member contributions.
3. **Fairness according to equality.** Roles, compensation, etc., are allotted equally, irrespective of other factors.
4. **Fairness according to competition.** Roles, compensation, etc., are allotted to whichever family member prevails.

be achieved. However, not all families have close enough bonds for this expectation to be present—or, if it is present, for it to be realistic. When global reciprocity is not present, conflict can arise during succession as an attempt to achieve a balance of fairness in the shorter term. For example, a woman who feels like her father favoured her brother over her might create conflict over financial compensation in an effort to balance that emotional unfairness with financial fairness.[41] Overall, perceptions of fairness can be a major predictor of whether there will be more or less conflict during a transfer of power.

It is important for family members not try to change other members' way of assessing fairness. Instead, they should understand that family members are getting their feelings of a situation being fair or unfair in a variety of ways. The best approach is to acknowledge that these differences exist and that all of them are legitimate.

Not surprisingly, successors feel it is a better experience when conflict has been well-handled. However, the reality is that there will be conflict, and even constructive conflict is felt as a negative. Therefore, a conflict-resolution mechanism, one that is clearly communicated and agreed to be fair, needs to be established as early as possible. Ideally, this mechanism will far predate any mention of succession.

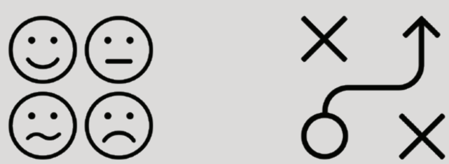
The more family members use different measures and accept different rules regarding fairness, the more strife and rivalry will arise within the family and its business.

SIBLING RIVALRY IS A MAJOR ELEMENT OF FAMILY-BUSINESS CONFLICT

For most siblings, their relationship with their sister(s) and/or brother(s) will be ***the*** most strongly felt of any relationship except that with their parents. This includes their relationship with their spouse—especially as they reach middle age, and especially if they are sisters.[42] This is one reason that **sibling rivalry has always been one of the key factors in family-business conflict, especially during succession**. The consequential nature of a transfer of ownership and power brings passive and active rivalry to a head. Given the significant succession trend toward sibling co-ownership—what leading expert John L. Ward terms a "very difficult" leadership model with which advisors and families have "very little experience"[43]—issues of sibling conflict are more important now than ever to the survival of family businesses.

Because of the history of business owners using male primogeniture to choose their successors, most of the research on sibling rivalry within family businesses treats it as synonymous with brother-brother rivalry. These days, that assumption in itself is capable of generating rivalry and feelings of resentment among female siblings who feel unjustly dismissed or relegated.

There are two main forms of sibling conflict:



Emotional **Strategic**

It is important for family members and business therapists understand the basis of the rivalry when they are trying to address and reduce it.

Emotional sibling rivalry is based in a lack of recognition and attention from parents, leading to feelings of low self-esteem within one sibling. In the words of one family-business psychologist,

> Too little of what they need from either or both of their parents in childhood creates siblings who, as adults, will be chronically distrustful and jealous of one another. ("You were always the favorite.") This may explain why even some extraordinarily wealthy adults squabble like children over matters involving relatively few dollars.[44]

In emotional rivalry, therefore, although the conflict is between the siblings, the real problem lies with the parent-child relationship. These situations often freeze the unfavoured sibling in a state of immaturity, focused on gaining approval long into adulthood. Both theory and experience suggest that **these kinds of dynamics between parent and child can rarely be changed**; in one case study, a next-generation successor in his early 50s remarked about his continual efforts to gain his father's approval,

> I never got the picture. I was so damn dumb that I kept trying to please someone whose goal was not to be pleased. He won. The day he died, he died not being pleased with me. And that was the way he lived.[45]

The more effective course of action is for the sibling to separate from the family sphere and take steps to advance her or his own maturity level and development, such as working in a business outside the family-owned one. Greater emotional separation will often lead to reduced sibling rivalry. Even where conspicuous sibling rivalry does not exist, or takes the form of passive rather than active conflict, getting work experience outside the family business is an advisable, even crucial, step for all siblings who are involved preparing for succession. Successors who remain within the family (read: parental) boundaries and fail to establish their own identities are more likely to be unhappy when they take over the reins, feeling that they have little ownership and influence in the family firm even if they are successful leaders.[46]

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Strategic sibling rivalry is both more external and more specific to the sibling relationship. It occurs when siblings have different values, styles, and personality-based views of how things should be run. Often, this kind of rivalry will centre on the siblings' different levels of comfort with risk-taking.[47] Strategic sibling rivalry is usually easier to address than emotional rivalry (though the two are often found together). The key is to discuss, settle upon, and formalize a strategic plan—with the help of a family-business advisor, if appropriate—and then stick to it. When business elements such as investment risk, operating procedures, and job descriptions are spelled out, there is less room for these differing outlooks to escalate into serious conflict.

It is noteworthy that in Deborah T. Gold's groundbreaking typology of older adult siblings, those who fell into **the "hostile" category**—that is, those whose relationships are marked by resentment, anger, and outright enmity—usually said that their intensely negative relationship with their sibling was "overtly precipitated" by "an isolated critical event like a dispute over an inheritance".[48] The takeaway from this is that even siblings who have successfully managed a long-simmering hostility toward each other can be pushed into an intractably antagonistic relationship, and even feelings of hatred, by the stresses of a transfer of power.

Belonging to a business-owning family can also affect sibling relationships of **the types known as "loyal" and "apathetic"**[49], mostly by forcing the siblings to have a closer relationship than they naturally would. **"Loyal" siblings** are those whose bond arises more from a creed of "family" and beliefs about what "brotherhood" or "sisterhood" should be than strong feelings of love or intimacy. Because of the belief-based, rather than emotion-based, nature of their relationship, these siblings can seem more harmonious than they are.

When adult siblings have hostile relationships, they usually say that the intense negativity was triggered by an isolated event such as a dispute over an inheritance.

Low-level envy and resentment can unexpectedly emerge into more intense conflict under pressure such as in a succession.

Alternatively, if the succession is experienced as a crisis event, "loyal" siblings may come together temporarily and artificially "for the good of the family," and may make agreements that they regret or renege on once normalcy has returned. As well, if their definition of siblinghood or "the family bond" doesn't extend to non-blood family, loyal siblings can create considerable conflict in their open dislike of their siblings' spouses and/or children. They might even express open disapproval of their sibling, as long as they can reassure themselves that their actions are adhering to the family creed.[50]

Apathetic siblings are just what they sound like: siblings who have no feeling of bonding, even a negative one, with their sister(s) or brother(s).[51] In normal circumstances, these siblings would hardly know if the other was alive or dead; they feel no desire or obligation to spend time with each other. As with "loyal" siblings, the fact that they are part of a family-business system forces them into a closer relationship than their emotional capacity can actually sustain. While their genuine indifference has the potential to make apathetic siblings work smoothly together, it also gives them no basis for or experience with managing conflict that may arise. As well, it can make them prone to walking away from the business in order to be able to interact (or not interact) with the sibling in a way that reflects their feelings.

For apathetic siblings, as with those who experience emotional sibling rivalry, taking a position in a non-family business, so that they can live in a proximity to their siblings that feels more natural and sustainable, is an option to consider.

SUCCESSOR INTEREST AND READINESS ARE OFTEN OVER-LOOKED FACTORS

Much attention has been paid to the challenges that arise from family members having different levels of interest in and involvement with the family firm. As with so many other facets of family/business relationships, these tensions can and often do come to the explosion point during the emotionally and operationally fraught process of a power transfer. In the absence of a long-standing, well-managed succession process, the questions and challenges that this touches off are numerous. These include

- Who gets the power?
- On what basis do they get it?
- If some siblings or cousins haven't been participating in the firm, how will they be compensated?

However, these sticking points can usually be handled by having family members communicate their notions of how to assess fairness, creating a formalized compensation agreement, and having a system that grants all family members the freedom to exercise choice.

Psychologists and researchers agree that when adult children go into the family firm, which is an extension of the family unit, their process of individuation is often stunted.

Often overlooked in the process is the **psychology of the participating successor himself or herself**. If they haven't taken or been allowed the opportunity to develop as individuals, and if they are accepting successorship out of a sense of obligation, then their interest and involvement can give rise to considerable intrapersonal conflict. Psychologists and family-business researchers agree that when adult children go into the family firm, which is an extension of the family unit, they experience a stunting of their process of individuation. In other words, their growth into differentiated adults with their own identities and boundaries is compromised.[52]

Allowing no opportunity for the heir to separate from the family system, form an identity, and mature can create a successor who is ill-equipped at best and deeply unhappy at worst. Yet this dynamic happens a great deal of the time. One expert even cites study results showing that many family-business founders start their businesses as an attempt to fix a particular relationship with a relative or fix dysfunction in their whole family. The expert proposes that a high proportion of founders may be semi-consciously trying to keep their children within the family fold, where they will be unable to separate and become an individual.[53]

Whether this is the case or not, it is true that multiple studies show **successors often participate out of feelings of duty**. One pioneering survey of over 100 firms revealed that 61% of successors reported being "strongly or somewhat encouraged" to join the business, and 20% cited "obligation" as their primary motivation for doing so.[54]

A duty-bound CEO is a disengaged and potentially ineffective one. This issue should be identified, aired, and used as the basis for decisions about successions. Psychologists agree with business experts that for a host of reasons, any potential successor should work outside the business for at least five years and earn her or his way to a certain level within that business. Only then should they consider joining the family firm and being prepared for eventual succession.

ENTITLEMENT: A MAJOR ENEMY OF FAMILY-BUSINESS SUCCESSION—AND SUCCESS

It is easy to shrug off the problem of entitlement as a bugaboo invented by scolding moralists and blown out of proportion by a prurient media. Ask family-business experts, though, and they will quickly correct that misunderstanding. One expert ranks entitlement among "next-generation" family members at the same level as autocratic business owners, stating emphatically, "The two main enemies that threaten the very survival of family businesses are the controlling patriarch/matriarch and the next generation sense of entitlement!"[55]

While not every financial expert will put their concerns in such dramatic fashion, the fact remains that even sober-sided financial firms such as KPMG caution against entitlement problems when they talk about family firms and succession. And then there is the unavoidable fact that when wealth is transferred from one generation to the next, **a full 70% of that wealth is squandered**—and it only gets worse **in the third generation, where a remarkable 90% of families lose their wealth**.[56] These figures reflect next-generation family-business members who feel entitled to spend but not obliged to earn.

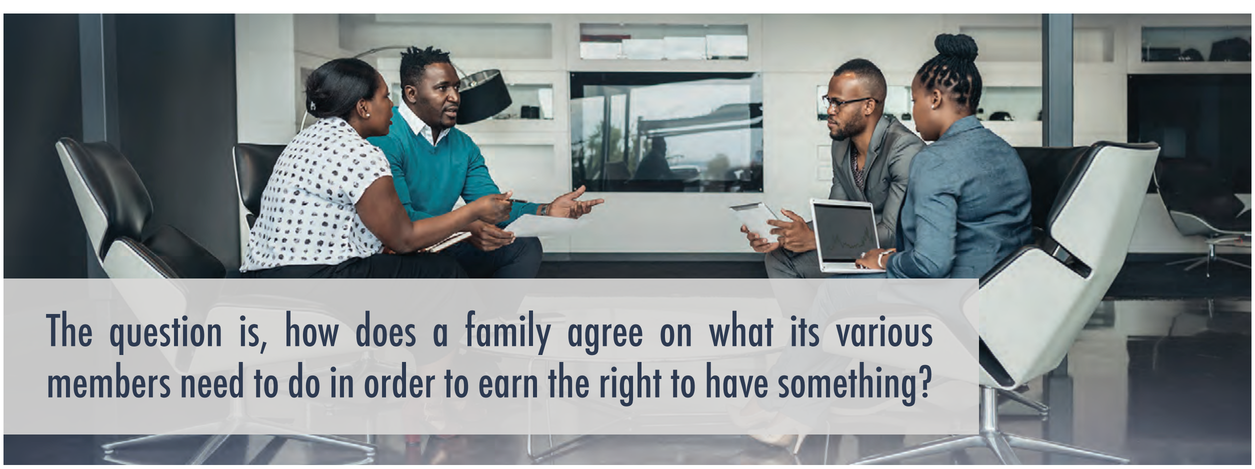
Entitlement most directly affects succession when the thing that a family member feels entitled to is the ownership or top management position at the firm. Where this kind of attitude is allowed to arise, it is safe to surmise that there is an absence of checks and balances in the succession process, and the entitled person will bully his or her way into the position. There is no good outcome to this even if the person is competent or talented in the job. The very fact that a family member is running the show without having earned the right to do it is likely to cause resentment, scorn, and alienation among nonfamily leaders and employees, as well as at least some family members.

A full 70% of wealth is squandered when it is transferred to the second generation, and 90% when it is transferred to the third. These figures reflect next-generation family-business members who feel entitled to spend but not obliged to earn.

The trait of entitlement is considered to be rooted in **faulty parenting and role ambiguity**. Many wealth-creating parents, quite understandably, want their children to have opportunities and an easier life than they themselves had; they want to give their children advantages. Others may want to compensate their children for their own parental absence or the neglect caused by the parents focusing mostly on the business. These parents often shower their children with unearned gifts and experiences out of a sense of guilt. When entitled children are old enough to throw their weight around, parents may act out of fear. As one family-business consultant puts it, entitlement "usually springs from a lifetime of enablement by parents who let the next generation get away with contributing less than they should while taking more than they've earned. The next gen is gifted with rights, but not tasked with responsibilities."[57] Another says, "This sense of entitlement begins early, when kids are taught they have some God-given right to benefit from the business without concern for what they contribute. The message heard from too many parents is not, 'Work hard to be accepted.' Instead, the kids hear: 'Whatever you get out of the business is your right.'"[58]

Conversely, a parent can be so stingy with approval that the children feel justified in giving up any effort and receiving money and material goods as if it is their right, instead of trying to earn it.

We are accustomed to using the term "entitlement" to mean an unfounded belief that one has a right to something. The first definition of the word, though, is actually having a right to something—in which case a sense of "entitlement" is entirely appropriate. The right question, then, is how does a family agree on what its various members need to do in order to earn the right to have something—whether it is the top position in the firm, a given amount of the wealth assets, a number of voting shares, et cetera? For billionaire Warren Buffett, the solution is a principle of "enough but not too much": "Give each child enough money so that they can do anything, but not so much that they can afford to do nothing." A major European bank advises families to minimize the growth of entitlement in their cultures by developing a list of guiding principles about their relationship to wealth and including the list in the Family Constitution.[59]



BEST PRACTICES FOR CREATING FUNCTIONAL FAMILY DYNAMICS

Best Practice #1: Shift the paradigm

Family-business leaders who are trying to fix problems arising from an enmeshment of family and business face a chicken-and-egg dilemma. The business supports the family; the family supports the business. If they have to devote the majority of their time, attention, and resources to either their business or their family, which one should they choose?

Many will choose the business, with this reasoning: The material success, happiness, and opportunities of the family members depend on the business surviving and thriving. If the business falters from lack of attention, the family will go down with it. Thus, keeping the business in good shape takes priority over keeping family members and relationships in good shape.

Nearly every expert who has studied families that successfully transfer wealth and power over multiple generations will say that this is the wrong answer. More importantly, it is an answer that reflects a fundamentally wrong conception of family business, one that confuses the means with the end. As leading wealth-preservation expert James E. Hughes writes,

> The issue most critical to the failure of a family to preserve its wealth is the concentration on the family's financial capital to the exclusion of its human and intellectual capital. A family's failure to understand what its [true] wealth is and to manage that wealth successfully dooms that family to fulfill the shirtsleeve proverb. In fact, this concentration on financial capital may even cause it to go out of business in just one generation.[60]

A PwC report expresses the same view: "Family firms fail for family reasons."[61]

The necessary first step for a successful transfer of power, therefore, is to reconceive of the money side of a family business as the means to an end—and to recognize that money has no real value if it does not get the family to the goal. What is that goal? The happiness, fulfillment, and intellectual development of family members.

It is understandable that this kind of thinking has a credibility gap with many business owners, since the cultures of business and wealth assume that money and the profit motive will always take centre stage. However, the statistics of failure on family-business succession don't lie. As much to the point, they haven't changed. Something is going wrong for a significant majority of family-business transitions, and the traditional approach of focusing on money doesn't seem to be helping. Looking at those grimly low rates of success can bring to mind the old bromide "Insanity means doing the same thing over and over and expecting different results." The experts who recommend shifting priority to the family over the business have spent years studying some of the most long-standing and successful family-business firms in the world. It could be worthwhile considering the merits of their conclusions.

A paradigm shift of this kind means finding ways to measure the growth of human, not monetary, wealth in the family firm. Business owners and family members need to ask questions such as "Is each family member thriving as an individual?" and "Does each generation have a social compact that encourages the leader of that generation to stay and manage the business in a way that prompts them to follow him or her?"[62] An important part of this metric is whether there is an established way for family members to leave the business freely and with emotional safety. As leading expert James E. Hughes notes, a family-governance system must address a foundational principle of human behaviour: people don't willingly enter a group unless they believe they are free to either change it or leave it.[63]

This reconception has the potential to address a great many of the common problems of family dynamics and relationships that arise.

- Families with entrenched conflict who look at the balance sheet of their firm's "human capital" will see that they need to sink time, commitment, and resources into remediating steps such as hiring family-business therapists, advisors, and meeting facilitators, instead of viewing these investments, as so many business leaders do, as an unnecessary outlay[64] and waiting until things are so bad that they can't be fixed.

- They will allow and even encourage family members to separate, grow, pursue their own paths and identities, and fulfill their potential—steps that have been shown to significantly reduce both sibling rivalry and successor resentment.
- Most of all, family leaders or other members who look at their business and wealth from the perspective of "Gross Family Happiness" rather than "Gross Business Product" are showing themselves to be willing to take the family component seriously and give it its due as the driver of the business, instead of the other way around.

Best Practice #2: Create a comprehensive family-governance system

A strong family-governance system is the single most effective way to achieve a successful family—and thereby a successful family business, one that can handle the process of power-transfer smoothly and productively. This system will usually develop from the above-mentioned paradigm shift that puts family at the centre of business: any good outside adviser called in to deal with family dynamics will recommend that the family create and emphasize family-governance tools. Conversely, a comprehensive family-government system can itself help to create the paradigm shift by putting more focus on the family and offering a way to manage both new and long-standing problems of family relationships and psychology.

The time, energy, and persistence needed to establish a family-governance system may seem like a lot, especially for firms that are starting from scratch or have had their governance systems develop dysfunctionally. However, it is worth keeping in mind James E. Hughes' observation about setting priorities: "Businesspeople know that for a business to be successful, 70 to 80 percent of management's time must be spent on asset growth. . . .Families who understand this spend 70 to 80 percent of their time growing their human assets."[65]

There are two foundational elements of a family governance system:

1. Family meetings (and, if applicable, family assemblies)
2. The Family Constitution

Businesspeople know that for a business to be successful, 70 to 80% of management's time must be spent on asset growth. Families that understand this spend 70 to 80% of their time growing their human assets.

–James E. Hughes

Family meetings and family council

Regular, scheduled family meetings are the cornerstone of the family-governance process. Most experts advise that these meetings be limited to immediate family but intermittently include all family members, even those who are not actively involved with the business.

Family meetings can start well before succession events, or even before next-generation family members are involved. Indeed, the best time to start holding family meetings may be as soon as there is a family with members old enough to understand what's going on. These gatherings are family-strengthening events that can greatly increase family cohesion, closeness, and functionality, as well as giving everyone a voice and encouraging group perspective.[66] Parenting and family experts advise them even for families without businesses.

There is no reason to hold off on starting this crucial tradition until close to a transfer of power. In fact, the one time that families are advised ***not*** to initiate the practice of holding family meetings is during a time of crisis or particular stress. Although the meetings can mature into an excellent way to manage conflict, this ability needs time to develop. If the meetings start during times of heightened tension, they could turn ugly through the inexperience of the members.[67]

If family conflict does exist, or a decision is made to begin holding family meetings during a time of unusual stress, it is advisable to bring in a facilitator for the first number of meetings. An outside party will be better at mediating disagreements. [68]

Non-active family members should be given regular reports on important goals and events within the family, and be involved in discussions about values and decision-making.

Family meetings can greatly increase family cohesion, closeness, and functionality. They also give everyone a voice and encourage group perspectives.

Some key principles for conducting productive, enjoyable family meetings include the following:

- Define the meeting's purpose (in writing) and set an agenda. Both of these documents should have input from every family member who is willing to provide it.[69]
- Select both a chairperson and a secretary for each meeting. Be scrupulous about keeping a record of what was said, to prevent future arguments.
- Agree to a basic set of rules, such as showing up prepared, giving everyone an equal chance to speak without interrupting, and listening with an open mind.
- Create an operating process that includes
    - a predetermined (and equal) amount of time for each person to speak;
    - a process for responses;
    - an order of speakers (youngest to oldest, parents down through children, etc.).

It is important to keep in mind that the stronger and more explicitly expressed the "protective" rules are, the fairer and safe the meetings will feel. Fair, safe meetings are more likely to foster honest, productive communication, rather than devolve into ugly squabbles that make matters worse and turn family members off the idea of gathering. The gradual development of clear, safe communication channels in turn helps to build **the so-called "thick trust"—that is, trust based on familiarity and personal experience of reciprocity[70]—that allows families to discuss emotion-laden events** such as succession constructively. With thick trust, a family can move through transfers of power with minimal conflict.

Many successfully run family businesses have quarterly or semi-annual family assemblies for the larger family group that includes extended family. These are vital for maintaining communication, trust, and cohesion among family members who, while perhaps not at the operational core of the business, can nonetheless wield significant influence and have a strong emotional impact.

The family constitution

The Family Constitution is the most important written expression of family values, agreements, and operational procedures a family can have. Although it is not legally binding in and of itself, its contents can play a strong part in legal documents and proceedings.[71] More importantly, by providing an explicit written expression of the family's basic understandings and agreements about core issues, the Family Constitution can stave off perceptions of unfairness that cause so much of the conflict and strife within family businesses, especially in succession. A strong Family Constitution includes

- Mission and Vision statements, including the family's commitment to the firm
- Core family values
- Employment policy, spelling out what family members are required to do to be considered for employment, such as a certain level of education and a substantial period of work outside the family firm
- Next-generation development, setting out how the family and business will help the next generation get their education and/or other development
- Ownership policy, defining such items as stock ownership and business-valuation
- The requirement for family meetings, as well as their purpose, functions, membership, and operating procedures
- A set retirement age that applies without exception to everyone involved with the family firm, including the owner/CEO[72]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As with a formalized succession plan itself, having a written set of agreements and mutual understandings laid out ahead of any crises or major feuds can prevent these from happening, or at least minimize the damage they inflict on both the family members' psyches and the fortunes of the family business. For example,

- The requirement that jobs with the company be merit-based addresses problems of entitlement and perceptions of favouritism.
- A set retirement age can act as a trigger for active succession planning and keep the owner-CEO from delaying or reneging on the act of handing over control.
- A development policy helps maintain the business's principle purpose as being to help family members optimize their potential, allowing all possible successors the freedom to separate, individuate, and mature for their all-important psychosocial development.
- Articulating the family's vision, mission, and values can uncover and address underlying differences in family members' perspectives and priorities. It can then serve to increase the family's sense of togetherness and higher calling.

FOCUSING ON THE FAMILY IS WORTH THE EFFORT

Although some of the ways to manage family relationships in a business family are relatively simple, none of them is easy. Rarely are families so free of loaded relationships, warring points of view, painful histories, and misunderstandings that they can glide smoothly through the unnatural circumstance of having their lives and their livelihoods closely intertwined. As John L. Ward observes, even families whose relationships have long been in a state of harmony and equilibrium will often come unglued after the family leader—usually "Mom"—passes away. With her or his skilled relational orchestrating suddenly gone, both the family and the business are thrown into chaos.[73]

Like succession planning itself, family-psychology management works best when it is started as early as is reasonable, thought about in a long-term way, and treated as a dynamic, ongoing process. Slapping a family-government framework into place and expecting family relationships to improve is unrealistic. In fact, they could well get worse when longstanding roles and patterns of the family system are disrupted and the inevitable resistance to change kicks in. For most family businesses, it is crucial to invest in skilled, experienced facilitators to guide both the family and the business through the initially choppy waters of this intense emotional system. One major report suggests that, especially in "business-first" cultures such as those in Canada and the U.S., "nurturing the heart of the family in business through family meetings, family assemblies, much communication and trust-building promotes the engagement of next generation members that otherwise would be threatened by the loss of family values."[74]

The payoff is worth the effort and discomfort. Those who have studied the most successful multigenerational family businesses believe that a weak business with a strong family team has good potential, while a strong business with a fractured family team is in trouble.[75] Both history and a preponderance of data show that a technically successful transfer of power within a climate of family discord is not success at all: it's just a failure that hasn't happened yet. Only a persistent, long-term commitment to the health of family relationships—to the human wealth that the financial wealth is there to foster—is likely to put both the family and the business into the category of those that thrive through many generations.

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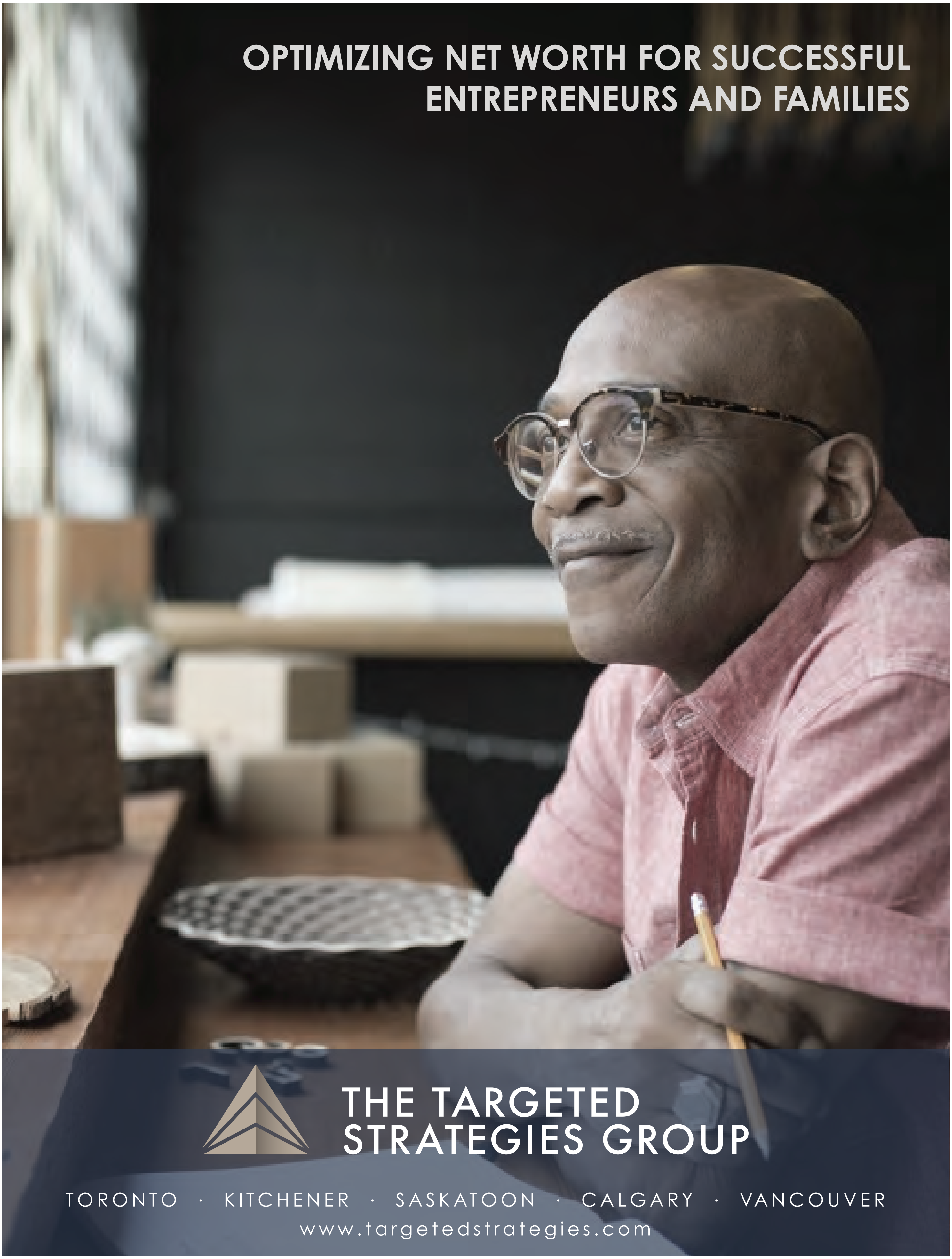

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