

The challenge to the Business Family: Growing and changing with the business

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Research from the Family Firm Institute indicates that only 12 percent of family-owned businesses successfully transition from second to third generation ownership and leadership. Those that do make the leap are faced with increasingly complex business and family challenges.

One of the shifts that are necessary to secure continued business growth is for the second generation to begin to build the disciplines required to ensure that the work ethic, vision values and entrepreneurial spirit embodied in the founder becomes part of the unifying fabric of the family. We are calling this intentionally developed and nurtured family system the “Business Family.”

Family roles distinct from business roles

It is clear that family businesses grow and change over time and so does the family who owns the business. This suggests that the relationship between the family and the business also changes over time. The entrepreneur/founder of a business tends to perceive little difference between the business and the family, largely because he or she is the head of both entities—the sun around which both orbit. The entrepreneur/founder is not only the leader of the business, but also embodies the structure and culture of the company. Thus, the business is at the heart of the family life.

As the business and family move toward the second generation of owners/leaders, the growth of the company usually means that a more traditional, managerial structure becomes necessary. In preparation for the entrepreneur/founder’s departure, the organization must create policies, processes and reporting relationships that can replace him or her. As business roles become separated from the founder, they are often filled by their children. This necessitates the differentiation between family roles and business roles for the first time. For example, there must be a distinction between father and son (or mother and daughter) and manager and employee.

Family members are assets

At RSM McGladrey, we have come to understand that families who own businesses must be just as conscious and intentional about enhancing the capacity of their family to grow, learn, change and adapt as they are about enhancing these capacities within their business. This intentional process requires the empowerment and development of family leadership, as distinct from business leadership.

The leadership of the Business Family drives the tools, programs, processes and structures needed to facilitate the continuing development of individuals and relationships. It challenges the all-too-common belief that the financial assets of the family are its most

important asset. In fact, most business owners today recognize that the most important asset they have is their people.

Business Families must recognize that the family’s most important assets are its members and the variety of gifts they have. Business Families must come to honor and value the diversity of interests, styles and skills that emerge as the family grows. When a family is defined only by the business it owns, or when family membership requires participation in the business, the reach and scope of family members (and thus of the family) are limited.

Not all gifts can be expressed in the family business and not all dreams can be fulfilled there. When we ask family members to subordinate their dreams for that of the founder, we are simply inviting entitlement and resentment to the family table. The Business Family (and its wealth) allows gifts and dreams to be expressed and does not dictate which dreams are acceptable and expressible.

Families and businesses are systems

Family-owned businesses, and the Business Families who own and operate them, are often conceptualized as human systems. This means that the family and the business are composed of groups of individuals, of which the whole is greater than the sum of the parts. Said another way, the family and business are systems with their own characteristics, traits and behaviors that are distinct from each other and from the individuals who comprise them.

In this conceptualization, the business system has a task focus and relies on the competence and commitment of employees and managers to maintain the growth necessary to sustain the business. The family system is held together by emotion, specifically the emotional process, with a goal of continuity, harmony, loyalty and belonging. The family’s tendency toward homeostasis, or safety and stability, is often believed to impede the growth and effective functioning of the business. While the family emotional process most often functions to maintain harmony and a sense of belonging and predictability, it does not mean that family systems are unable to change and grow.

As long as families and their advisors believe that the business must grow to survive, and that the family is unlikely to grow and change, the family and its members tend to be viewed as impediments to effective business functioning. RSM McGladrey Family Business Consultants believe that it is not only good for Business Families and their members to grow and develop, it is imperative to the health of individuals, the family and the business.

Family perspective requires individual perspective

The goal of any Business Family must be to grow and adapt, just like their business, if the family is to remain capable of supporting the continued success of its business while stewarding the family wealth and maintaining healthy individuals and relationships. Both the family and the business become more complex over time. Unlike families that do not own businesses, though, Business Families have an entity that both ties them together financially and can drive them apart emotionally.

It is our belief that growth and adaptive capacity must be intentionally and continuously addressed within the Business Family, just as it must be within the business. No business that intends to be viable and successful over the long run would attempt to maintain the organization structure on which it was founded. Nor would a business leader fail to train and work to retain employees and managers.

Successful companies—especially the executive leadership teams—work hard and intentionally to improve their ability to think together, decide together, and use conflict and variety of perspectives to enhance decision making and innovation. Does it make sense that a Business Family would need to do less in order to sustain its viability and success and to support the business it owns?

High-functioning families are flexible

Family development cycles, especially in relation to the ownership of a family business, are not, to our knowledge, well documented. Taking a long-term, multigenerational view of the family and its business, the need is clear for the Business Family to adapt and enhance the flexibility and resilience of its emotional process. The adaptation of the emotional process to the increased complexity of the family and the business must be accompanied by the growth and development of the structures the family uses to support these growth efforts and its relationship to the business.

The Beavers Scale of Family Functioning is one of the most widely accepted measures of family functioning. It defines a well-functioning family as being relationally healthy. This means that the members are comfortable with loving feelings as well as feelings of annoyance and frustration. High-functioning families respond flexibly to life events and consistently focus on tasks with clarity. These families experience conflict, but they are confident of their ability and desire to resolve it. Trusting one another allows for disagreement and a variety of perspectives, which aids in the effective resolution of issues. Because their fundamental relationships are secure, they can work out differences without threatening their sense of safety and belonging. In these families differences are enriching, and thus being oneself

doesn't threaten or betray the family. Because individuals are free to be themselves, intimacy becomes possible and feels safe. These characteristics suggest a framework for the intentional development of a Business Family and its members.

Emotional capital and shared values

Business Families must adapt in ways that other families can usually avoid. Business Families must learn to think and decide together at a level of complexity that exceeds that of most other families. This requires that they develop the emotional capital and requisite tools to deal with conflict and to maintain their connection and relationship to one another. Emotional capital is just another way of saying there is a high level of trust in the good intent of family members, even when behavior seems to signal the opposite.

Teaching family members the art of dialogue—and practicing it in all formal discussion settings—is one of the tools available to help families build emotional capital and deal with the inevitable conflicts with which they will be faced. Beginning to teach these skills early in life with siblings and cousins is part of building relationships that can withstand the tests of time and ownership.

Business Families must also identify, operationalize and live a set of shared values in which the family is valued and honored as an equal to the business. Over time these shared values can come to guide the business as well as the family. These values can be the foundation of a business culture that is guided by family values rather than driven by the family emotional process.

Business Families must have a conscious and communicated understanding of the meaning of money and wealth within the family. They must also have a plan for passing on the values of work ethic, philanthropy, stewardship, financial and business acumen, as well as character and gift development, both individually and as a family. These values cannot be platitudes—they must be taught and lived.

Changing roles in the Business Family

All living entities, including human organizations, must maintain a dynamic balance between stability and adaptability as a basic condition of life. Similar to babies and their mothers, families and the businesses they found are symbiotic in the early years, meaning it is hard for family members to distinguish where and how the two systems are different. The family and the business tend to be seen as a single entity, especially by the founder. As the business and family move toward the second generation of owners, it becomes necessary to begin to delineate boundaries both within and between

the family and the business. In the business role, definition and clarity become critical for the training and development of people. Clarity and continual renegotiation of roles within the Business Family is critical to the continued emotional growth and development of family members, individually and collectively. The business structure generally becomes more hierarchical in response to growth, and this often spills over into the family.

One of the challenges in this stage of development is that the role definition and structural changes in the business are done intentionally and usually based on precedent and best practices. All too often, the same changes in the family system are allowed to happen without much thought, planning or discussion, and almost never based on precedent or best practices. Unfortunately, far too many of us believe (or need to believe) that our family just naturally knows how to grow and change effectively. In most cases, nothing could be farther from the truth. This belief is similar to the belief that adults who have children automatically know how to parent.

Making conflict and diversity productive

Diversity is nature's way of sustaining life. A Business Family cannot deny or ignore its diversity and survive. Diversity in the Business Family means differing gifts, personalities and styles, as well as differing opinions, needs, wants and desires. This means that conflict is built into life regardless of the context. Business Families that cannot learn to make conflict productive cannot grow.

The paradox of the growth-versus-safety continuum is that the harder we focus on safety the less safe we become, because we are not adapting through learning. It is not safety itself that foils our attempts but our singular focus on trying to be safe, to avoid pain and suffering. The inability to experience pain and suffering, or to change and adapt, means the entity is dead. Learning means failing, and failing means a lack of total safety. All too often, families and their members seek safety from suffering and pain rather than the safety provided by unconditional love and support—which must include allowing the natural consequences of our choices to find us.

A family mission statement and other tools

It is our belief that the family business and the Business Family share an intertwined maturation or development process, which is driven by an increase in complexity within the two systems and, in turn, between them. There is much written and researched regarding best practices in response to the growth of a business and its employees and leaders. This is less true in the development of the Business Family. The best practices that have been identified center on the

family's development of a family mission statement that expresses its reason for continuing to own the business and how the family and business are meant to reciprocally support one another.

The mission statement should also express the family's hopes, dreams and expectations of and for its individual members. The identification of, and agreement on, a set of shared values become the foundation for shared ownership and decision making, and replace the family emotional process in the business culture. Family constitutions, councils and other governance tools are also helpful.

We also recommend that the family learn and practice the art of dialogue as a tool for having difficult but meaningful discussions, and for thinking and deciding together. As the Business Family grows and moves from the relative unity of a small group of brothers and sisters to a larger, more diverse consortium of cousins, it becomes imperative, early in the cousins' lives, that a conscious effort be made to develop trusting relationships and relational skills that are continually tried, tested and honed as they get older.

Support and let go

Perhaps the most critical developmental need in any Business Family is for every adult to be able to leave home emotionally while maintaining the ability and desire to remain connected to the family. This is believed by many behavioral experts to be the core developmental task of adulthood.

The successful differentiation of individuals, from the emotional process of their family of origin, is based on the parent's ability to continually support the child and then let go, so the child can learn to be self-supportive and self-reliant. "Support and let go" is the core skill of any parent, and is also coincidentally a requisite skill for managers.

As the child grows and develops, the level of support and the completeness of the letting go increases until finally, when the child is his or her 30's, the parent must resign as parent and become a peer. The ability of former children and former parents to form adult to adult relationships is critical to the ongoing health of both, and to the family as a whole. Dependency must give way to independence, so that the interdependence required of a third or fourth generation Business Family can emerge.

This process will need to be repeated in each successive generation. It is the shift to adult-to-adult relationships between parents and children that sets the stage for the development of adult-to-adult relationships between siblings.

Breaking the bonds of dependency

In Business Families, the ability to leave home physically as well as psychologically is often impeded by the early entry of children into the family business. Family employment policies that require young people to take jobs outside the family business for five to seven years are meant to help launch the young people and give them time to establish their personal sense of self distinct from the family emotional mass.

These years can give the young person the opportunity to succeed in his or her own right and to learn what it means to be an employee, and even a manager or leader, outside the context of the family business. If, for whatever reason, a young person is not able break the bonds of dependency with the parent (and these bonds can be very difficult to break as they have been part of the parent-child relationship as well as the individual's identity from birth) the manager-employee roles in the business will not be perceived by either the parent or the child as different from the parent-child relationship.

When this is the case, we often find the child has a role in the business based on family membership rather than competence to do the job. This is usually accompanied by excessive salary and perks and a lack of accountability and discipline. Adult dependency in the business is most often expressed as entitlement. This also makes it all the more likely that sibling relationships will remain based in the family emotional process and fail to reach the sophistication necessary to effectively operate a business together.

Purposeful adaptation

The Business Family will need to adapt in much the same way the business does in order to maintain a healthy and productive relationship to the business. This adaptation must be just as conscious and purposeful as that undertaken within the business. Business Families must become aware that they and their members are always in a state of becoming, and only self-assurance and mindfulness can guide that becoming.

Business leaders recognize the need for mission, vision and strategy—not only to guide the business's becoming but because the process of defining and developing these foundations builds emotional capital and reduces anxiety about the ambiguity of the future. As Winston Churchill said "Our plans may be worthless but the process is invaluable."

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