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CHALLENGING THE FAMILY BUSINESS:
THE RELATIONAL DIMENSION

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Introduction

When you read about companies, you read mostly, if not exclusively, about the likes of the Fortune 500. Yet, the Fortune 500 companies now constitute only 10 percent of the US economy. Companies with 19 or fewer employees create 50 percent of US exports. Companies with 500 or more employees create only 7 percent of US exports. About 83 percent of Small and Medium Enterprises (SME's) are family businesses: members of the same family occupy top management positions and own the majority of the shares. Mind you, we are not only talking about the countless 'Pop-and-Mom-shops' of our world. Some of the world's most known companies are Family Firms. Conclusion: worldwide research shows that family-owned businesses or family firms are the cathedrals of our economy.

When you work with family businesses or you meet people working in a family business, more often than not the subject of the inseparable tie between family and company is brought up. The family and the company are continuously and in turn each other's fore- and background. The relational dimension in all human systems, in every family structure, and thus, a fortiori, in every family business is an given. Yet this relational dimension is a challenge. Why? Research shows that those involved in small and middle-sized companies consider the emotional aspects of management as irrational and of less importance than the purely economical ones. What kinds of defensive processes are active here? Would small and

middle-sized (family) business not benefit by paying a more open, professional attention to “that of which one does not speak”?

When talking about growth and succession in family firms, Professor Rik Donckels plainly puts: “The fact that in all studies the emotional aspects come last (after the financial, economical and business aspects) seems to me to be the result of a process of repression”.

In our opinion, these emotional aspects should be given priority. As long as this emotional minefield has not been cleared, most technical, legal and economical interventions that are designed to enhance the company’s power are doomed to fail.

The challenges in the field of relationships are connected rather with two obvious matters, so normal and evident that they are not paid due attention.

First element: the combination of two different worlds, namely the family and the company.

In our Western culture, the family holds the individual in high esteem. The main goal of companies, on the other hand, is doing business, and there, the individual is a mere means to that end. Conflicts between the good of the individual and the good of the company arise easily.

A second element that makes the relational network into an obvious challenge, has to do with the fact that individuals, families, and family businesses, go through a cycle of development. To say that the eternal wheel of existence, in other words the succession of generations within the family and the company, poses challenges is evident.

1. CENTRAL EVENTS

Three moments that mark the life of human beings can also be applied to the life of a company.

The *conception*. The conception is the start of human life; and just so, the fundament of a company is often laid in a split second of excitement and hope for the future, more precisely the moment in which the decision to start a company is taken. This is probably the most important decision in the endless series of decisions that is called entrepreneuring.

Here everything is charm and excitement; nothing has happened yet, so nothing can go wrong.

The second moment is the *birth*, in casu the actual start that takes place after a period of preparation-the pregnancy as it were. The choices made during this period are often crucial for any further development. What do I want to do, where do I want to go, with whom do I want to cooperate? For many companies, the problem consists of having had an all too short pregnancy or none at all. No careful preparation, no clear view of the possibilities and hindrances... Often the problem can be summarized as follows: there is an idea, there is hope but there is no financial plan, no business strategy.

This is the cause for the high death rate among starting companies.

Third moment: the *end*. Until the opposite is proved, all human beings are mortal. They go through stages of growth, stagnation and decay, and ultimately perish. Some companies are immortal most are not. Companies more often than not fail miserably; only rarely do they leave the scene gloriously...

Keeping these three central events in mind, we can now proceed to look at things in a more dynamic way.

You will learn how the life cycle of the family intertwines with the life cycle of the company.

2. LIFE-CYCLES OF THE FAMILY and THE COMPANY

2.1. Remarkable similarity

The eternal cycle of generations starts at the magic moment of “boy meets girl”. With a bit of luck, a couple will grow out of this meeting, and if a child is born, a family is founded. This family has to maintain itself by working. One possible way to do this is to engage in some sort of independent activity: a one-man business, a company with co-workers, or a partnership in some form or another.

The respective families from which the young couple originates influence the “mental marriage contract” of the newly wed. The marriage is often a struggle between two families to determine which of them is being reproduced. The two partners, through their interaction with each other and with the world around them, create the relational interplay of their marriage. They must decide on the amount of distance they take from their family of origin. They learn the - often unspoken - rules about who does what, about dealing with intimacy, about dealing with income and spending etc.,

Let us assume, in the classic role pattern, that, shortly after their marriage, the male partner starts up his own company. The arrival of the first children forces the couple to devote a large amount of their time and energy to the household. The young couple is now confronted with the difficult balance of the two scarcest goods on earth: time and money.

The development of a family continues through consequential stages: family with small children – family with adolescents – children growing up and becoming independent -children leaving the parental home to begin a new cycle, starting with their own “boy meets girl”. At that time, the parents often have to take care of their own parents and/or cope with their loss.

All these stages of life bring their own specific developments tasks (the details of which we will not go into here).

Family businesses have their own life cycle, which you will find represented in Table 1. The life cycles of the family and the company are always intertwined, like two climbing roses that grow together on the tree of life.

Table 1: Stages in the development of the family/business

	Phase 1	Phase 2	Phase 3
<u>Period of time (years)</u>			
Age of business (innovation)	0 to 5	5 to 20	20 to 30
Age of parents	25 to 35	35 to 55	55 to 70
Age of children	0 to 10	10 to 30	30 to 45
<u>Challenges</u>			
Nature of business	Fast expansion, need to invest time and money	Full development or “fully-grown”	Need for strategic “rethinking” and reinvestment
Organizational nature	Small, dynamic	Larger, more complex	Stagnation/Consolidation
Motivation of owner-manager	Concerned with success of business	Seeks control and stability	New interests or is “semi retired”. The next generation seeks growth and change
Financial expectations for family	Limited to basic necessities	Greater demands, particularly with regard to comfort and education	Bigger needs, particularly with regard to security and generosity
Family objectives	Business success	Growth and development of the children	Family harmony and solidarity

2.2 Stage 1: Birth and initial expansion

Everybody can start a company; making it big is not given to all, and only a few exceptional people can make a company flourish over several generations. Worldwide statistics show that the mortality rate among small and middle-size businesses is about fifteen percent at the end of the first year of existence and some twenty three percent after the second year. In the USA, the average life expectancy of family businesses is twenty-four years, which more or less coincides with the period in which the founder of the company is actively present.

The newly created company is – of course – a fragile little flower, which demands a great deal of effort, time, energy and devotion, just like a newborn child does.

Starting companies tend to have high operational costs and low profits while the turnover is rather modest and still unpredictable.

For practical and financial reasons, the young family often lives on the premises of the company. Father devotes all his time and energy to the company, while mother is supposed to take on the households' tasks and the raising of the young children. Although both live and work in the same building, there is nonetheless little contact between them: both are completely absorbed by their respective tasks. Usually, the mother helps in the office: secretary work, the reception of customers, administrative tasks, bookkeeping etc. Her (free) help is a big financial advantage for the young company. Apart from the occasional 'quality-time' with the kids, father devotes his energy exclusively to their oldest child, the company. Being constantly together while at the same time being absorbed in totally separated activities, the young couple now has to be careful that they do not drift apart. Emotional problems emerge out of this closeness-separation and can have negative consequences both to their life as a couple as for their entrepreneurial enthusiasm.

The personality of the Founder is of great importance. As the driving force of the company, he takes all the decisions and assumes all the economical responsibilities. Founders often are more 'do-ers' than 'thinkers'. When starting the company, the Founder had to do almost everything by himself. He tends to lose himself in the idea that 'if you don't do things yourself, they are not done well'. Later on, some Founders keep doing things by themselves because they are convinced that instead of explaining to others how they want things to be done, it's faster to do it themselves. Founders have a tendency to limit the delegation of tasks to just giving orders. In small starting companies where only a few employees work and people have no experience, it is not easy to know who is best in what tasks, what the best way to handle things is, how to solve the problems that arise every day. In this stage, they have to learn by experience, by trial and error and sometimes one has to learn lessons the hard way. The boss has to learn what it means to be the boss, what it means to cooperate, how to handle differences between his employees, how to handle conflicts, etc. In general, job descriptions are not available, and if they exist, they are very vague and offer not much of a guideline. In such an environment, it is the personality of the Founder that makes the difference. Unfortunately, some Founders stick to this way of managing their company even when it grows into a much bigger corporation.

As the young company grows, more employees are coming to work in its dynamic team. Trustworthiness and loyalty to the company are important values: one has to be able to count on each other. Sometimes this is translated as: the employees are supposed to support the personal goals of the Founder. If these goals are business-oriented, that is not a problem. But if these goals are just personal, this Founder will not go very far with his new company and he will not be able to retain valuable employees.

The organization in young companies often is very informal. Non-family employees are more or less considered as non-family family: the non-family manager spends so much time and energy on a shared dream with the Founder that very intensive relationships are likely to develop.

Control over what happens and individual performance are not considered the most important management issues in this stage. Everybody involved in the young company is focused on short-term business successes.

As the initial stage in the life of the company goes on, those involved are confronted for the first time with one of the great dangers inherent to the twin elements of family and business: the phenomenon of role confusion. The role a partner plays in his or her position at work seeps into his or her private life or vice versa. The Founder, used to being the boss and giving orders to people, comes home at night and orders people around there too. His wife, who during the day is perfectly capable of managing her own tasks, may not readily accept this.

A clear perception of, and an open attitude towards this unjust transference of actions from private life to business life, or vice versa, prevents this role confusion from becoming a bad habit. Since role confusion happens subconsciously, you only notice it when it starts causing serious problems in business and/or family affairs. This problem can only be solved by open communication about it and changing the behavior that comes with the problem.

The great challenge for families in business is to separate the world of the family and the world of the business appropriately and to maintain this separation

2.3. Stage 2: Growth and complexity

If the company survives this start-up phase, it comes in the second stage, where it is confronted with growing pains. This can happen relatively soon after the first successes, when the company operates at cruising speed.

Every study points out the important role of the Founder in the achievement of growth, but, vice versa, research also points out that growth is the most important motivation for the manager: the circle is closed!

During the first stage, the company had mainly been the Founder's playground. Now it is growing fast and this growth often is due to the involvement of the employees. This implies growth in turnover, growth in personnel, additional investments. The organization becomes more complex.

The company, in a manner of speaking, starts leading its own life.

The purely economical necessities that now push the company on can be different from the needs and wishes of the founder!

The Founder no longer has the same general overview of all the details of this company. Often Founders in this stage say: "it is growing over my head." Some Founders have a hard time to cope with this second phase. They have to adapt their management style to the new situation. Management by control is no longer possible or useful. Not everybody has the necessary flexibility to make this transition. If the Founder is not able or willing to do so, he/she can become a bottleneck for the development of the organization.

In this phase, the Founder must delegate many tasks, allow others to take over vital functions in the company and he must be able to hand over the power of decision to others, be it family members, be it non-family employees.

In fact this is the transition from a one-person business to a real family business, in which other members of the (non-family) family have a growing influence on the way the business is managed. The founder must be prepared to gradually let go of his direct influence in exchange for indirect influence through his leadership.

This transition of a company led by an individual to a family business can take up quite some time. To discuss this openly and to take the time to write down a business strategy take time and courage.

If we look at the family life cycle, we see that the period of growth of the company often coincides with the puberty and adolescence of the second generation.

While the founder is confronted with the economic challenges and risks, as well as with the necessity of growth, it is not at all clear whether his children are actually interested in the company, let alone whether they will have the qualities necessary to stand their ground in the company.

Coping with the children's puberty is not unsimilar to walking a tightrope with a side wind of the force of a hurricane. The business owning parents have to find a balance between allowing their children to find their own way in life (even if it leads them away from the family business) and preparing them for a life in business. It is normal that the Founders hope that their children show interest in the business. It is much more difficult not to push them towards the business. It is extremely difficult to keep an objective view on one's own children when it comes to their business capabilities.

In this second phase the company can only keep growing by allowing more and more non-family members to participate.

The non-family members working in a family business need special attention. Very often, non-family members have been involved in the company right from the start. The growth of the business and the fact that the members of the family, by virtue of their blood ties, usually occupy a special position, can lead to precarious situations. Status in the company, prospects of promotion, prospects of financial rewards and the special relationships between the members of the family; they are all aspects that have to be thoroughly controlled to prevent the demotivation or even the loss of these non-family employees. Non-family employees deserve a good career planning and the Founder has an important task in this.

When the children grow up, some of them will probably work in the family business. The way they enter the family business is important. In the literature on this topic, you can read that it is preferable that the children prepare their business career outside the family business. This is indeed the best but it happens seldom.

A good way to help them integrate in the family business is to invite a trusted non-family manager to supervise this process. There are several advantages to this: it gives the non-family manager an important job and proves to him that his competence is appreciated, the founder learns how to delegate this task, the emotional conflicts caused by the role confusion of father and son versus boss and co-worker are thus avoided. The ideal is that the family members are trained according to an objective strategic plan, rather than receiving a position in the company for the sole reason of bearing the name of the founder. Otherwise, you run the risk that the 'fils-à-papa' syndrome will emerge.

2.4. Stage 3: Maturity

As the business "matures" and its Founder grows older, the business is fully developed. The second generation has taken over some of the leadership and they have important functions in the company. Non-family managers and executives are in high positions. The Founders interest has shifted from daily operations to more strategic issues.

Two key elements are important in this phase. The hereditary succession that is interwoven with the management succession. By this time the company being fully developed, there is often a need for strategic reorientation and reinvestments. These elements add up and make this phase complicated both from the family as from the business point of view.

Businesswise, difficult choices have to be taken one after the other: expanding or consolidating; diversification or not; cooperating with external partners or continuing to play solo; retaining financial autonomy or admitting external capital; etc. Companies in this phase often are in need of large reinvestment projects because they have been running at cruise speed for a while now. This puts an extra financial strain on the second generation who need to make long term financial decisions at a moment when they are not yet the owners of the company.

At the same time, the family needs to plan the hereditary succession. The Founder has to consider, together with his family, the conveyance of the property and the delegation of the management.

The fair distribution of the property among all the children is such a way that the continuation of the company is not endangered, is a difficult and complex task. By this time there are often in-laws and grandchildren involved, and neither will all the children be involved in the company to the same degree.

All these aspects make it necessary for the hereditary and management succession to be tailor-made and as unique as the family and the company themselves.

In my opinion, it is considerably harder, for the company as well as for the family, to bring this phase to a satisfactory end than to start a family and a business in the first place.

The basic rule is: ‘what is good for the company is good for the family.’

3. **Potential Harmful effects**

Family business owners often designate the following factors as the key to their success: their dedication (the members of the family have no fixed working hours); their flexibility (as members of the same family we don’t need to discuss things for hours, we just get on with the job); and their motivation (we are boss in our own business, we do not depend on others).

The family element can, on the other hand, just as easily entail a series of dangers to the company!

May the following list serve both as a warning and as a guideline of what you’d better avoid.

3.1. The family solidarity

In a family business, the connections between the members of the family are per definition stronger than the relationship with the non-family employees. This fact distinguishes a family business from a regular organization where only professional relationships rule. These emotional relationships create many advantages but can also be a hamper to the company: weak points in the work of family members are ignored, criticizing each other is more difficult and sometimes even threatening, rivalry between the children can easily arise etc.

Quarrels occur easily: a son being reprimanded by an uncle on a family holiday can be enough to start a dispute between brothers...

The non-family executives are not seldom the victims of this family solidarity.

3.2. Communication between members of the family

Two major possible trouble areas can be distinguished here.

First, there is the fact that each family has its own specific style of communication, which is not always in line with the style that is most efficient for business purposes. If, for example, in private the family is not comfortable with open discussions, then chances are high that open discussions with the employees will not be allowed either

Secondly, there is the evident phenomenon of family members discussing business matters in private. This must be closely monitored for various reasons, not the least of which is the fact that non-family members in leading positions in the company are excluded from these discussions. The non-family executives then lack the necessary information they need to manage the company in the best possible way.

3.3. Financial secrecy

Often, the financial aspects of the business are considered to be the exclusive domain of the family. When this is the case, non-family members are denied the right to information that they need to give optimal support to the management of the company (or to change the business strategy if necessary!).

Exaggerated secrecy can lead to absurd situations, such as the sales manager who is not given the exact inventory data, the CFO who does not have access to the latest financial details, etc.

3.4. Remuneritis or the expense disease

Each member of the family, regardless of his or her actual contribution to the company, is paid the same wages. These wages and their remunerations in kind are high and have no relation to the actual performance of the family member. Every expense of the family members is being paid for whether they spend the money in a way that benefits the company or not. Plenty of examples of this kind can be found, and the non-family members have no way of reacting to them.

3.5. Nepotism

Regardless their capabilities as businessmen, family members are given all the key positions in the organization. Apart from the direct harmful effect this has on the company, an even more damaging consequence of this nepotism can be that competent non-family executives see their career prospects blocked and subsequently leave the company.

3.6. The income of the family is deemed more important than the profit of the company

When business owners decide that the family income is more important than the corporate profit, the business strategy that follows out of this stance is totally different than when the corporate profit is the goal. If the company only serves as a milch cow for the personal wealth of the family members, one ends up with rich family members and a poor company. In that case it is only a matter of time before the company perishes.

What are the conclusions to be drawn from all this?

Negative minds will conclude that family businesses are breeding grounds for problems. Realists will say that family owned companies that are managed with respect for the company, with discipline and professional spirit are responsible for a large part of the employment and the welfare of all involved. Basically, only one condition needs to be fulfilled, namely that the good of the company prevails over the good of the family.

4. Suggestions

When working with or in a family firm, the following suggestions are helpful.

1. Family Business does not mean unprofessional business.
2. Accept emotions and personal relationships as unavoidable elements in the rational world of your company.
Keep the company and the family apart as much as possible, yet all the while bearing in mind the degree to which they are interwoven. That way you will avoid emotional and/or business trench warfare.
3. Accept the synchronicity of the family and business life cycle.
4. Keep family and business separated whilst knowing that they are both sides of one coin.
Create clear contexts or arenas so that everybody knows what can be discussed where. Family quarrels, which have an influence on the affairs of the company, can best be discussed in the family arena. Business conflicts are discussed in the office. Make use of the formal structure of the Board of Directors.
5. Accept help in order to avoid blindness for family and for business affairs.
External feedback from accountants, bankers, consultants, business-friends and even family therapists can assist the family business as sounding boards. This avoids company blindness as well as family blindness.
6. Respect the loyalty of 'non-family family'.
A family firm cannot grow big without the help from non-family executives.
7. Give the company a chance.
Everybody lives off it and for it. It is often the center around which everything revolves, and which provides the income, the security, the status, the future and a meaningful occupation to every member of the family.
8. Succession is a coin with two faces: hereditary succession and management succession.
Keep in mind that in the word 'succession' the word 'success' is hidden.
9. Succession preferably implies a (mental) de-familiarization.
- 10. What is good for the company is good for the family.**

About the author:

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