Relationship Challenges in Family Businesses and Legacy Families

At Aspen Consulting Team (ACT), we work with family businesses and legacy families as they walk the balance beam between love and money, socio-emotional wealth. Using a metaphor from the golf course—we go into the deep weeds and thicket of family dynamics and get the ball out to the short grass—so family members and their financial and legal advisors can move it forward. We work with family businesses and legacy families at the top 1% financial level.

The organizing principle in our consultation, including work with our colleagues David Bork and Dr. Will Bledsoe at Family Business Matters Consulting, is based on the Biblical message—build before the rain, from the story of Noah. There will be "rain" in a family business and a legacy family.

We believe four pillars—alignment, boundaries, communication, and competence—provide a framework for building strategy, synergy and structure for managing the relationship challenges and conflicts in a family business and legacy family.

Over the years, we have worked for family businesses with 5 employees to over 15,000 employees and legacy families with $50 million to $5 billion in assets under management. At the ownership level, the relationship dynamics are very similar. It is first about trust, then alignment, boundaries, communication and competence at the ownership, family and management levels.

Recently, we helped a third generation (G3) family business transition to the fourth generation (G4). This involved the owners doing both strategic and succession planning for the business and establishing a Family Council. We have worked with several family businesses where there was a death by suicide of an heir. Helping these families understand and heal from such a tragedy was critical to their continued success.

How ACT helps families sustain and grow their wealth

Both psychological and economic theories frame our work. Our task is to resolve and restore breakage in relationships that block and prevent positive economic interaction, longevity and harmony in a family business and legacy family. The foundation of a good family is love and care, and the goal of a successful business is profit and return on investment. These can be in conflict in a family business and legacy family.

We define a family business as a company in which two or more family members hold a management, board or ownership position. We define a legacy family as a family unit or office that has $50 million dollars or more in assets under management. Our work is influenced by six theories as we help families sustain and grow their wealth and at the same time, maintain personal and relationship harmony.

> *"Our group has been through a litany of psychological consultations. Dr. Edgell was the first facilitator to bring it all together in a coherent, sustainable path for our work."*
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> *Ryan Ritchie, managing director of Hallador Management, LLC*

1. Love and money in a family business or legacy family are symbiotic and immiscible—they are connected but don't mix together naturally. Love and money, what we call emotional economics, influences nearly everything in business and family relationships. There are no major emotional decisions without an economic dimension, and no major economic decisions without an emotional dimension. Pre-nuptial agreements are an example.
2. Family business and legacy family members must have "thick trust". The first stage of psychosocial development is trust versus mistrust. We believe there are three types of economic trust. Exchange trust is the basic form, "trust, but verify"', where we expect to be served and to pay for the meal we ordered. Mutual trust, "tit for tat", is the most typical type of transaction in business, where we move in response to the first actor. Thick trust, long-term interactions and exchanges, is the only, but hardest, trust strategy for family members to avoid discord and have the advantage of effectiveness and speed. Negotiations are an example.
3. When emotions compete with economics, both lose. In many important decisions, the emotional tail can wag the economic dog. The oldest part of our brain is the emotional system. It evolved long before

Thomas Edward Pyles, MA

Tom, founder of FLEX Training, LLC, Principal at Aspen Consulting Team, associate at Family Business Matters Consulting, is an executive coach and co-author of MAPS for Men: A Guide for Fathers and Sons and Family Businesses. Tom works with organisations and clients on the importance of connecting physical, spiritual and emotional fitness to reach their highest individual and professional levels.

With a master's in performance psychology, an undergraduate degree in business, Tom has a 25-year career in the food, sport, and health industries and has logged thousands of hours coaching and challenging individuals and companies toward peak performance. Tom is a member of Institute of Coaching Professional Association, International Society for Coaching Psychology and Corporate Health and Wellness Association.

A competitive athlete and Level 1 CrossFit™ trainer, Tom continues to participate in multiple sports events. In his early 40's he was the top-ranked amateur tennis player in Colorado - and the day he turned fifty - he ran fifty miles. Tom and his wife, Linda, an Academic All-American, live in Denver, CO and are the parents of three daughters.

Edgell Franklin Pyles, PhD

Edgell, founder of Aspen Consulting Team, LLC and Principal at Family Business Matters Consulting, holds degrees in economics, theology and psychology. He consults with business companies on leadership strategies, particularly succession and with legacy families on the complexities of mixing love and money. He has lectured nationally and internationally, including YPO Forums and CEO Universities, on the relationship between fathers and sons. He is the author of three books including MAPS for Men: A Guide for Fathers and Sons and Family Businesses, author with his son Tom.

Fourth generation business owner Charles S. Luck, IV, wrote, "MAPS for Men is one of the most comprehensive guides to families in business that I have ever seen." Edgell is a Fellow in the American Association of Pastoral Counselors, a Founding Fellow at the Institute of Coaching Professional Association and a member of the Family Firm Institute, Inc.

Edgell won two world championships showing cutting and reined cow horses, and competed in rodeos for many years. Edgell and his wife, Marty, an attorney and managing director at Rocky Mountain Institute, live on a small ranch near Aspen, Colorado.

our economic system to help us survive. When our emotional system works in a healthy and mature manner it will provide a positive guide to decisions, when it malfunctions in business and economic decisions it will derail productivity, profit and reputation. Succession is an example.

4. A healthy endowment effect can turn into an unhealthy entitlement effect if not managed. Nearly every parent wants to endow his or her child with special opportunities. There is a thin line between endowment and entitlement. Entitlement happens when endowment expectations are not clearly defined and managed and financial gifts enable negative behaviours. Addiction is an example.
5. Every generation must manage their 'commons'. The Boston Common, the historical park in downtown Boston, is an example of what economists call "the tragedy of the commons". After 200 years of commercial use by many, it was closed because of overuse by a few. Affluent families and family businesses must have agreements on how to grow resources, limit extravagances and avoid rivalries and feuds that divide and destroy the common assets. Family constitutions are an example.
6. Parents must identity, understand and manage the dynamics of equality and equity, the 'fairness monster', among their children. Equality is identical apportionment and exact division of quantity. Equity is justice tempered by ethics and division based on contribution and need. One illustration is how the turkey is carved at the dinner table. Equality would mean that everybody would get the same size and type (white/dark meat) of turkey. Equity would mean that the carver would divide the turkey according to needs and perhaps even wants. Balancing these two dynamics in a legacy family requires the Wisdom of Solomon. Gifting and distributions are examples.

"Edgell and Tom do a great job."

Alex Hardie, managing director of NextG Partners, LLC

How love and money are mixed for the best possible outcome for families, businesses, and individuals is where the rubber meets the road. Relationships follow predictable, evolutionary life cycles that can either create advantage or discord. For legacy families and family businesses to successfully grow, share and transfer financial assets and social values, attention needs to be given, equally and systematically, to wealth, interpersonal, spiritual and human capital, what we call WISH™ investments.

Family wealth has a history of not surviving beyond the 3rd generation, called "shirtsleeves to shirtsleeves". Dr. John Ward, professor at Kellogg School of Management and co-founder of Family Business Consulting Group, Inc., conducted a study on family business succession. He found that only 30% of family companies survive through the second generation, 13% survive through the third generation and only 3% survive beyond the third generation. Less than 5% continue through appointment of a successor from the next generation.

In one effort to answer the question of why the transfer of wealth in an affluent family is so problematic, Roy Williams and Vic Preisser, authors of Preparing Heirs: Five Steps to a Successful Transition of Family Wealth and Values, interviewed members of families with net worth ranging from $5 million to over $1 billion. They asked questions about how the failed transitions of wealth differed from the successful ones. They found that the involvement of all family members in the decisions about the transition of wealth required both trust and communication skills, which helped avoid the dynamic of parents dictating the future to their children.

Conducting a quantitative assessment, Dr. Michael Morris, along with Roy Williams, Jeffrey Allen, and Ramon Avila, interviewed 209 family business owners from the second and third generations. Their report, "Correlates of Success in Family Business Transitions'" concluded that relationships within the family had the single greatest impact on the successful transition of ownership and wealth: The dominant variable in successful business transition appears to be family relationships. Family business leaders' first priorities should be building trust, encouraging open communication, and fostering shared values among the family members.'

The work of Morris, Williams and Preisser reached the conclusion that the major causes of financial failure have more to do with psychological patterns in the family than with legal, financial or business planning. According to their research, 30% of legacy families are successful in transiting wealth, but 70% lose control of their assets.

- Success rate in legacy families (30%);
- Collapse in trust and communication in the family system (42%);
- Failure of parents to adequately prepare their heirs for creating and managing the wealth (17%);
- Lack of proper governance structure (8%); and
- Insufficient tax and legal planning (3%).

Both financial interest and interpersonal dynamics can be successfully managed when family leaders give systematic attention to the following four areas.

Alignment

Alignment in a family business and legacy family requires collaboration, coalition and movement to the same target. Family businesses are poised for long-term success when family members, owners, executives and employees have similar values and are united toward the same goals. The best companies are the best aligned. Strategy, purpose and organisational capabilities must be in sync. Without clear alignment family businesses are vulnerable. Even hairline cracks in the family business can widen and invite disaster.

On the one hand, family businesses are the source of family happiness; on the other hand, they can be the source of family heartbreak. Misalignment creates discord, tension and conflict. Alignment creates a process that reinforces the company strategy, increases family and organizational harmony and promotes accountability and profitability. Keep the focus on the business! Its success is what makes other things possible.

Boundaries

Like a Trefoil clover, family businesses have three components: the family, ownership and enterprise. Boundary skills determine how family members, owners, non-family executives and employees will interface for the advantage of the business. 'Good fences make for good neighbours.' Unclear boundaries are at the root of many of the problems in family business. Boundaries need to be clear and constantly maintained if they are going to do the job for which they were intended. In order to create and maintain good boundaries family business leaders must define roles, responsibilities and accountability for owners, managers and employees and methods for handling certain personal matters. Family members must not meddle in areas for which they do not have responsibility. When a business is large enough to hire family and non-family professionals, use outside advisors, and establish governing boards clear boundaries prevent conflicts of interest.

Communication

Communication is one of the recurring issues that owners and executives in family business identify as a major obstacle to productivity. In a business with more than 200 employees, about 14% of the working week is wasted because of poor communication between staff and management. In a family business, poor communication can turn into personal and professional conflict. It is a family's ability to manage and resolve conflict that determines its maturity and emotional health. Communication is more than transmission of information; it is the interactional heartbeat of the organisation.

All communication is grounded in relationships. Unless we've been otherwise educated, most of us unconsciously enact styles of communication and conflict we learned in our families and carry them into the workplace. Whether it's resolving relationship issues, confronting challenges, managing conflicts or planning for succession, effective communication skills guarantee that every situation will be addressed and resolved in a thoughtful, deliberate, constructive and comprehensive way. Clear, constructive communication must always be the goal.

Competency

Competence is about the maturity, fortitude and talent to be an effective leader and team member in the business and successful leader in the family. In a survey of directors serving on boards of family-owned businesses, only 11% reported that the company was effective at developing talent. From those making decisions in the boardroom to those carrying out the day-to-day operations, everyone contributes to the success of the business by knowing how to play his or her position at the highest level. You can't afford people who are doing just OK. You need high performers. Due to the unique and subtle connections in a family business, leadership and employment standards must be clearly defined, established, reinforced, and rewarded (or not) at every level in the company. This is critical in any succession plan and process. The family in business must understand sound business practice and how it is affected by family dynamics. Competency principles and procedures of leadership and employment improve the company culture.

Roles and responsibilities must be consistent with the company strategy and at the same time encourage every employee to have a personal feeling of ownership and investment, to think and act like a leader, and to give their best efforts. This entails attracting, training, retaining and rewarding talent, having the right people in the rights seats and the appropriate family members at the Family Council table.

MAPS for Men, A Guide for Fathers and Sons and Family Businesses (first person – Edgell)

MAPS for Men, A Guide for Fathers and Sons and Family Businesses (M4M) involves over forty years of studying male psychology and working with professional men, especially around the relationship between fathers and sons. I first presented a paper on this topic in 1995 at the Vienna Chief Executive Organization University.

Tom had a very successful career with a national business before starting his training firm. When Tom, who has a master's in psychology, joined me at ACT, we decided we needed to work on our relationship before we worked with other fathers and sons on their relationships. M4M is one of the results. We are both a little intense and competitive, so it was an interesting and fulfilling process.

MAPS for Men is about how our relationships with our fathers shape much of our self-esteem and professional drive and how this impacts a family business. Interestingly, before writing M4M, I had never worked with a female CEO; since writing M4M I now work with two female CEOs.

Succession planning in a Family Biz

Succession in a family business is often the greatest challenge and it impacts many people, from family members to employees. We have been and are currently involved deeply in helping family business founders' deal with what we call 'succession anxiety'. David Bork, in his book, Family Business, Risky Business, identified the issue within a family business, "When succession is left to the whims of fate, the family's empire begins to crumble under waves of emotion". There are two succession paths, often walked at the same time, management succession and ownership succession.

On average, succession in a family company happens about every twenty years and can create a flood of anxiety, rumours and speculations. In the best of times, succession is a form of stewardship, where our legacy is not limited to what is accomplished in our lifetime, but extends in the hearts, minds and actions of those who follow us. One measurement, in the words of Ken Blanchard from his book, Lead Like Jesus: Lessons for Everyone from the Greatest Leadership Role Model of All Time, is "how well we have prepared others to carry on after our season of leadership influence is completed".

"Edgell and Tom weave a tapestry of insight for anyone seriously interested in building family relationship bridges that endure generational transitions."

Dennis Carruth, president of Carruth Properties Company

The endgame and often the most challenging issue in a family business, is the process of transitioning ownership and management from one generation to another. Ivan Lansberg, co-founder of the Family Firm Institute and author of Succeeding Generations: Realising the Dream of Families in Business, emphasises the central problem, "the lack of succession planning has been identified as one of the most important reasons why many first-generation family firms do not survive their founders." In our work, we address the father-son succession process in a family business as both a management and ownership issue.

Family financial, political and psychological anxieties can be roadblocks and barriers to succession development and execution. John Davis, an expert on family business management and lecturer at Harvard Business School, believes that family elders are appreciated for their wisdom, but not necessarily liked by all the relatives. "Leaders tell me that they have a gratifying but tough and often thankless job. Many successful family business leaders tell me that they spend half of their time working to address family and ownership issues and to maintain unity."

It is a guarantee that tension will increase during what John Ward and Denise Kenyou–Rouvinez, in their book, Family Business Key Issues, call the "hot phase" of the succession process because of the intense work of combining emotions and economics. Customers, clients, non-family managers, financial institutions and family members can apply pressure. The tension can cause announcements, solutions and directions to be presented before issues are clearly defined and processed. How important decisions are handled and communicated will depend on the family and company culture developed over many years.

"I have worked with Edgell for more than twenty-five years. He has provided counsel to our family, including our two adult sons, and my business and led several seminars for members of our Young Presidents Organization (YPO)."

James Light, chairman of Chaffin Light Management Company

Relationships follow predictable stages that can either create advantage or discord. In healthy families, an endowment effect takes place the day a child is born, we give our children special emotional and economic attention simply because they are our children. When an adult child joins a family business this can carry over into the business in the form of an entitlement effect and a special position that can create tension in the family and the business.

Succession anxiety can come from many directions. The father-son team and their advisors, must manage not only the corporate process but also the relationship dynamics. A basic psychological rule is that the first thing to fall into a void, real or perceived, is anxiety. There are two types of anxiety. Normal anxiety, like fear, is essential to the human condition, proportionate to the threat, and disappears when the risk is adjusted or removed. Neurotic anxiety is unspecific, vague and attacks the core foundation of a person's life.

Rollo May, a minister and one of the best known American existential psychologists, wrote in his book, The Meaning of Anxiety, "Anxiety is the apprehension cued off by a threat to some value that the individual holds essential to his existence." Succession can be a time of anxiety, when a father is measuring how he lived his life and a son is planning how he will live his life. Spouses, siblings, children, employees and customers will often have an emotional and perhaps a financial stake in the process and outcome.

Working together in a family business can be a long trek of personal development and organisational transformation for a father and son. The succession hot phase can be like be a fork in the road or a mousetrap on a major highway. Relationship issues, like entitlement, parentage and nepotism, must be understood and managed. The primary skills needed, by both the father and son as they move through this process, are high trust and clear communication around ownership and management issues.

Succession benchmarks are driven by time. The first issue is the transition style of the founder/owner, the second is the selection of the next family business leader, (either family or non-family) and the third is in the task of transitioning resources and power to the next generation.

The first step in the transition and succession process is to define the retirement style of the founder/CEO to overcome a sense of impermanence and indispensability. Harvard Business School Professor, Dr. Jeffrey Sonnenfeld, interviewed executives from over thirty of the best-known corporations for his book, The Hero's Farewell: What Happens When CEOs Retire. He concluded that many chief executives become like folk heroes within their organisation and depart (or not) in four ways.

- Monarchs - who do not leave until they are forced out or die
- Generals - who leave only when forced out, but plan a return to power
- Governors - who rule for a defined term, then pursue other ventures and interests
- Ambassadors - who leave willingly, then returns to a high advisor role

It is naturally tempting, but simplistically dangerous, for founding parents to direct, or coerce, their children into the family business or for children to assume a role in the business without maturity and autonomy. Every founder/parent needs to do a realistic assessment of what the business permanence, its economic potential, governance structure and management systems, would look like with one of more of his or her adult children in control.

Many younger generation members grew up in the business, doing summer jobs and listening to business conversations at the dinner table. This does not qualify them for a serious management role in the company. While blood may be a qualification for entry into the family business, adult children must have the following attributes in order to grow and succeed in the business. The founder parent is in charge of filling out the details on this list.

- Character: trust and communication
- Competence: education and performance
- Commitment: loyalty to the company and family

"Edgell enriches lives of those he touches in a most profound way."

Paul Schorr, Past President, Chief Executives Organization

The question of when a family heir should start working in the family business is one we are often asked. There is no obvious answer. The life cycle between a family business leader and his or her adult child will have an impact on the decision.

Psychological development influences the business relationship between a father and son. John A. Davis, co-author of Generation to Generation: Life Cycles of the Family Business, earned a doctorate from Harvard Business School. Renato Tagiuri received his PhD from Harvard and completed the program in psychoanalysis at the Boston Psychoanalytic Institute, before teaching and writing extensively on the topics of management, leadership and family business.

Davis and Tagiuri used their business and psychological backgrounds to conduct a research project focused on the quality of the work relationship between a father and son. They identified and examined the respective life phases of the father and son based on Erik Erikson's concept of life stages. They concluded that the quality of the work relationship varies as a function of the respective life-stage development of the father and son. They presented their research in a paper entitled "The Influence of Life Stage on Father-Son Work Relationships in Family Companies." At an early age,

"Dr Edgell came into my life in a time when I had failed. He helped me turn my life and my company around. I am only one of many whose lives have been infinitely enriched by Edgell."

M. Ray Thomasson, PhD. President, Thomasson Partner Associates, Past President, American Geological Institute and American Association of Petroleum Geologists.

most sons admire and even worship their fathers. In a family business, this could be the beginning of a thirty-year journey resulting in the father also being the boss.

The successful long-term growth of a family business, as with every organisation, requires turning over power to a successor. Max Weber, the German sociologist, referred to this process as the institutionalisation of charisma and saw it as one of primary challenges of leadership.

Succession in a family business is a process not an event. In the best-case situations, it is a 3-5-year process, where a strategy is in place before the tension or crisis of transition. This requires a realistic assessment of the skill level of their candidates for handling the wealth or business, pragmatic discussion with all involved family members, practical involvement of senior management and balanced advice from outside legal, financial and business advisors.

The paradox is that only a few family companies give serious attention to the task of handing the business down to the next generation. Resistance factors can come from the founder, family owners, senior management teams and/or family members.

The second step of succession—outlining if, when and how a successor from the family will be the next leader—can be a time of celebration or challenge. The heir should be graded against these twelve ideal standards.

1. Innate interest in the business (pre-teens)
2. Natural leadership abilities in the family and school (teens)
3. Exposure and work in the company (late teens)
4. Excellent education and training experiences (early 20's)
5. Apprenticeship in similar industry (middle 20's)
6. Success in a comparable business (late 20's)
7. Desire and commitment to join the family business (early 30's)
8. Successful progression through different department (mid 30's)
9. Senior managerial responsibilities (late 30's)
10. Partnership with the company CEO (early 40's)
11. Executive and personal leadership respect in the family and company (40's)
12. Mature succession, the 'de facto leader' (mid 40's)

It is important to determine the qualifications of the successors and to avoid the trap of an inadequate successor, from within or outside the family, such as the following persons.

- Good Son - a person with family loyalty, but limited leadership skills
- Loyal Servant - a conscientious helper, but impotent leader
- Watchful Waiter - a good performer, but with inadequate executive abilities
- False Prophet - a talented person, but with the wrong expertise
- White Knight – an exceptional leader, but with limited commitment to the business

The third step is to create a successful succession. In a family firm this will have four stages.

1. Owner-Management Stage - father is the only family involved in the business
2. Training and Development Stage - the son learns the business
3. Partnership Stage - father and son share percent of ownership and management
4. Power Transfer Stage - responsibilities and control shift to the successor

When family leaders and members work well together in the family and the family business, they can promote a level of leadership transition, company loyalty, brand commitment, long-range investment, effective decisions, rapid action and stewardship impact for which nonfamily businesses yearn, but seldom achieve.

Though we have been involved with many families at their most intense levels, we have never been fired from a case and only once left a case unresolved. The feedback we get is that we are genuine and pragmatic. As financial success increases in a family the relationship complexity and intensity also increases, thus we have worked with some clients over several years.

We are a small consulting firm in a mountain resort town. Professional relationships are key to our success and how to scale is always a challenge.

Aspen Consulting Team, LLC

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