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WEBINAR SUMMARY

Avoid Dysfunction in Your Family Business

Featuring Manfred F.R. Kets de Vries

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Avoid Dysfunction in Your Family Business

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Overview

Although family businesses abound, many fail to thrive in the long term, because emotional dysfunction arises among the family members. Older generations struggle to share power, relationships become strained, conflicts arise, and the business suffers. Fortunately, it is possible to address and prevent emotional dysfunction to help family businesses survive and prosper. Concrete actions that families can take to avoid business-killing conflicts include focusing on the future and on fairness; clarifying the organization's mission, vision, and values; and building a strong, independent board of directors.

Context

Manfred Kets de Vries provided practical advice that family businesses can use to improve business success.

Key Takeaways

Family businesses enjoy strong performance if they are well run, but many suffer from dysfunction.

About two-thirds of all businesses worldwide are family run. Family businesses are the backbone of global economies and the lifeblood of job creation. In fact, during the last financial crisis family businesses performed better than their counterparts.

Despite these strengths, family-owned businesses can be a double-edged sword. Most don't last long. The average life span of a family firm is 24 years. Advantages and disadvantages of this special type of organization include:

- **Positive: many family businesses have a long-term orientation and strong values.** They aren't subject to stock market pressures that publicly traded firms face. Family businesses often enjoy leadership continuity, resilience during hard times, and limited bureaucracy, which facilitates faster decision making.

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- **Negative: familial dysfunction can weaken organizations.** Some family businesses suffer from nepotism, messy organizational structures, and no clear division of responsibilities. As a result, firms can't attract the best talent from outside sources. In some cases, families try to milk the business, which creates financial strain.

Various types of family dynamics can disrupt businesses.

Common behavior patterns often emerge in family-owned firms which can lead to business challenges:

- As the company grows, the founder's leadership style may no longer be compatible with the organization's needs.
- Intergenerational conflict between parents and children may create problems within the business.
- Sibling rivalry can disrupt the organization and its operations.
- Founders may refuse to discuss succession plans, because the company is a symbol of their identity. Only 15% of family businesses have a succession plan.

> "Family businesses must recognize that succession is a process, not an event."
>
> —Manfred F.R. Kets de Vries

Family businesses that endure have strong values.

Strong values are essential because they help founders step aside from the business. One way to cultivate and reinforce organizational values is by creating a family council. This group is responsible for clarifying the company's mission and vision.

Family councils must be supported by an independent board of directors, as well as advisors such as a lawyer and an accountant. Often, outsiders make it easier for families to discuss "undiscussable" topics, such as succession. Family councils are tasked with creating business, estate, and succession plans.

> "Family councils are one way to get the next generation involved in the business."
>
> —Manfred F.R. Kets de Vries

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It is possible for families to both be happy and have prosperous businesses.

Striking a balance between family harmony and business success requires a willingness to compromise, sensitivity for the next generation, and a desire to continue the company. Kets de Vries offered recommendations for effectively managing a family business:

- **Consider how children will be brought into the business.** Some families apply a policy of "meritocratic nepotism" in which they pick the child who is best suited to work in the business. In some cases, children are asked to work outside the family firm for a while to give them broader business experience. It is important to establish rules of entry and exit.
- **Spouses' input is important.** Founders should ask their spouses what they would like the next five years to look like. Spouses often have a more objective view about what is in the best interest of the children.
- **Encourage entrepreneurial talent.** One way to identify family members with business acumen is to give them funding and see what they do with it.
- **Sometimes outside intervention is needed to break the cycle of dysfunction.** Confidants can give founders a push when needed. Input from an outsider may be what is required to start productive conversations between parents and children.
- **Professional management can simplify family businesses.** Bringing in outside leaders often helps eliminate problems arising from family dynamics.
- **A fair process must exist for advancement.** Without this, family businesses will find it difficult to recruit and retain top talent from the outside. Unless it is clear that competent, non-family people can advance in the organization, top performers will leave.

> "The founders of family businesses must plan for the long term, without becoming distracted by managing the most immediate crisis."
>
> —Manfred F.R. Kets de Vries

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Manfred Kets de Vries brings a different view to the much-studied subjects of leadership and the dynamics of individual and organizational change. Bringing to bear his knowledge and experience of economics (Econ. Drs., University of Amsterdam), management (ITP, MBA, and DBA, Harvard Business School), and psychoanalysis (Canadian Psychoanalytic Society and the International Psychoanalytic Association), Kets de Vries scrutinizes the interface between international management, psychoanalysis, psychotherapy, and dynamic psychiatry. His specific areas of interest are leadership, career dynamics, executive stress, entrepreneurship, family business, succession planning, cross-cultural management, team building, coaching, and the dynamics of corporate transformation and change.

The Distinguished Professor of Leadership Development and Organizational Change at INSEAD, Kets de Vries has been the Founding Director of INSEAD's Global Leadership Center. In addition, he is Program Director of INSEAD's top management program, "The Challenge of Leadership: Creating Reflective Leaders," and Scientific Director of the Executive Master's Program "Consulting and Coaching for Change (and has received INSEAD's distinguished teacher award five times). He has also held professorships at McGill University, the Ecole des Hautes Etudes Commerciales, Montreal, the European School for Management and Technology, Berlin, and the Harvard Business School, and he has lectured at management institutions around the world.

David Champion is a senior editor at HBR. Based in France, he is also a member of the Academic Committee of the European Center for Executive Development (CEDEP) in Fontainebleau.

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The Art of Truly Open Financial Conversation

How you have conversations about wealth is as important as what you discuss. In the business world and even in day-to-day life, we tend to approach conversations as debates. Declarations and efforts to convince rather than understand are the norm, and a conversation is often labeled "successful" when someone has been convinced of a position or action.

While this model is sometimes undeniably valuable, when it comes to family, money and wealth, we have found that a different approach is more effective. Why? One reason is that family wealth plans can be complex and take time to understand. Perhaps more importantly, money is a charged topic in our culture. It is seen as a source of power, and family members often will add their own layers of meaning onto financial messages. As a result, the typical Western communication model – the "short, directive declaration"– can cause unintended misunderstandings or even conflict within families.

For example, parents who sit down to talk about their estate plans with their children may host a one-time meeting focused on describing all the details of tax planning strategies. They emphasize that "we've thought about this a lot" and these strategies are "the best ways to pass down our wealth." The "conversation" then closes with mom and dad describing what the kids need to do in their own lives to be equally responsible. But in fact, this is not a conversation – it is merely an information dump rather than a session to foster a dialogue. The children may nod their heads in assent but also may come away from the meeting believing that their questions or input are not welcome, and the die is cast with no room for discussion about their understanding of the "plan" or its consequences in their financial lives.

What's the alternative? Families often find their discussions become more effective when they learn to communicate in open-ended ways. This means communicating in a manner that invites different perspectives and shared understanding. Encouraging open communication is perhaps the single most important way to improve your effectiveness in family financial discussions.

> "We often believe we have communicated when we have really only transmitted information."
>
> —Robert Ricigliano, consultant and author

If you want to build your skill set in this area, the following tips may be helpful to remember.

- **State what you really want for everyone.** As you start an important family money conversation, take time to tell your loved ones what you most want for everyone to gain from the discussion.
- **Share your path.** We take insights from life and other people when these insights are shared in the form of stories rather than abstract facts. In financial conversations, this may mean telling family members about how you came to your financial decisions.
- **Check and affirm.** Don't just declare. Practice turning your stories into invitations to explore together what you've shared.
- **Allow for quiet in your conversations.** When you allow pauses to become part of a discussion, the silence provides permission for everyone to reflect more carefully on what they hear and process information before trying to evaluate or act on it.

Talking about wealth is a difficult, complex topic. But not having these important conversations with loved ones may have unintended consequences. You can begin a more rewarding relationship with your family when you learn to have effective "money talks" together.

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