# Between Family and Firm

**Family dynamics can kill a family-owned business and incapacitate the consultant who tries to help without knowing the ropes. Here are some tips for working in the twilight zone where family and business systems collide.**

By PATRICIA GALAGAN

Statistics about family-owned businesses incite wonder: more than 90 percent of America's 15 million businesses are family-controlled. They account for about 40 percent of the gross national product and provide millions of jobs, yet 70 percent don't survive beyond the reign of the founder.

Family firms come in all sizes from the mom and pop store to huge empires, but all have one fact in common: they are a meeting place and often a battleground for two major social systems—the business and the family. What happens when these two force fields overlap and compete often determines whether or not the business will survive. Working in this volatile border zone between two powerful systems, the human resource professional needs special knowledge and skills.

Many of the most serious issues—the ones that can prove fatal to the business—have their roots in the entrepreneurial character of the founder. Typically a strong charismatic founder creates a firm in his image and lays a stable foundation for its growth and prosperity. If the company is successful and has an impact on the community, the founder becomes a kind of monument. (See box, page 71.)

But the single-minded purpose of the founder may also create some of the problems that characterize and kill off almost 70 percent of family businesses. The founder may fail to share power and information; he may not prepare for his successor; he may retain but not train incompetent family members in key positions; and he may become insulated from events in his company and the environment in which it exists.

A different set of problems plagues family businesses in succeeding generations when a complicated network of family members are involved in and depend on the company. Dependency can be financial or psychological. Third and fourth generation family members may derive their sense of belonging, influence and social identity from being related to a successful enterprise. Loss of this touchstone can be as threatening as loss of assets.

Issues are more likely to arise out of the need to accommodate the clash between the personal, occupational and institutional interests of all the parties involved. By the third and fourth generation, important questions will include the company's assets and their division among family members, the sense of entitlement of various children and spouses, and the fixation on values and methods that time has made obsolete or questionable at best.

## Task vs. kinship

Observers of family-owned firms believe that these problems arise out of the conflicting demands between two powerful social systems—the family and the business. Elaine Kepner, a Gestalt psychologist who consults on succession planning for family firms, explains that a family is "a social system endorsed by law and custom to take care of its members' needs (e.g., for belonging, affection, sense of identity and of one's self as a source of influence and power) while a business exists to produce goods or services at a profit without specific regard for the members of the organization." These two purposes often conflict, presenting problems of task vs. kinship.

Kepner believes that "the family is still something of a scapegoat in the family-firm system." Family firms are not often viewed from the dual perspective of family *and* firm and the important effects of one on the other.

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Richard Beckhard, widely considered the founding father of organization development, has worked extensively with family-owned firms and supports the view that they must be treated as overlapping systems. Human resource work in such firms will be influenced by the complex interdependence between family and firm and calls for some special skills.

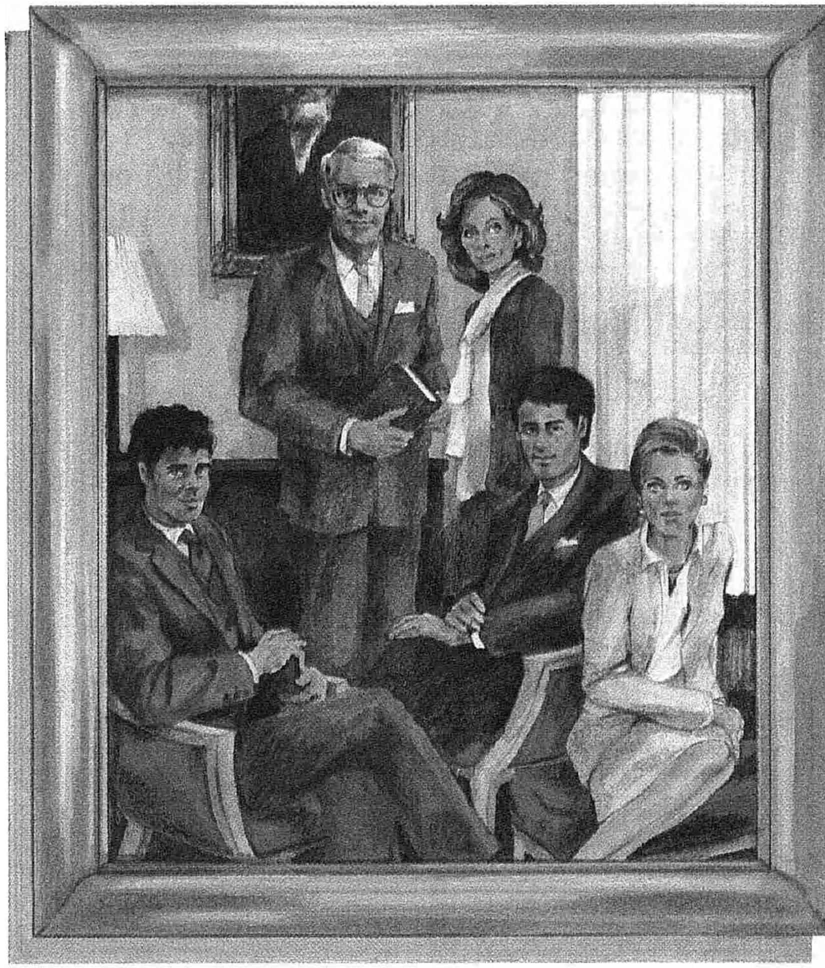
Beckhard insists that the human resource person working with a family firm must understand family dynamics. "Your understanding can be Freudian, Jungian or whatever. What matters is that you understand family dynamics. You must be able to judge what kind of family you are dealing with—healthy or unhealthy, fragile or strong. Understand power. Understand ambivalence. Understand gender biases. Understand the psychology of letting go."

To this psychological perspective Beckhard recommends adding a solid understanding of estate planning and taxes. "You should know enough about it to be able to judge when legal advice could mess up a company." The objective is to safeguard a succession plan from legal consequences that might defeat the intention of the founder. It helps to be familiar with tax planning techniques such as company valuation, gifts of stock, cross-purchase agreements and recapitalization.

"Corporate leaders are surrounded by helpers. They get advice from lawyers, accountants and other corporate leaders. But each of these helpers sees the world through his own set of eyeglasses. The head of a family-owned business needs advice from a broad perspective. He needs the equivalent of the family doctor, someone who will consider the environment when treating the disease."

Beckhard cautions the HRD person to be prepared for competition from lawyers, accountants and other helpers. "Have your own act together before you try to help a family. Avoid the tendency to prove yourself necessary by holding excessive meetings and interviews. Work on being competent rather than proving your worth."

Getting many points of view about the family and its problems is particularly important, advises Paul Rosenblatt, coauthor of *The Family in Business*, published this month by Jossey-Bass. His study of 59 family-owned businesses in the upper midwest convinced him that it is important to look beyond the organization chart. "Collect information as independently as possible and find out if family members who aren't on the org chart have any influence," he suggests.



Rosenblatt found that often a family will present a problem as a financial or business issue when it is really a family problem.

## Don't get caught in the middle

Because family relationships will be played out in the business, the human resource consultant should be aware that it is easy to get caught in the middle of situations that are extensions of sibling and Oedipal rivalries. K.T. Connor, who won ASTD's 1984 award for Distinguished Contribution to an Employer for her work with the family-owned Rich Products Corporation, says it is essential to know what the relationships in the family are when trying to understand the corporate power structure.

For example, she points out, if the family has a tradition of respect for parents, this might take the form of support for projects that are the chairman's. If women in the family are not given key roles, women in the corporation aren't likely to have them either. If the family takes delight and pride in its members and their accomplishments, one might see this practice in the company, too.

For some family members, the family equals the company, says Connor. Attempts to influence existing relationships or to present feedback might be perceived as attacks or criticisms of the family. "If the HRD person lays down rules for the company, he may be perceived as setting rules for the family.

"Remember that the family doesn't have the luxury or the protection of a private life. Their rivalries and failures, shortcomings and strengths are all part of the business. Brothers may have no other means of expressing rivalrous feelings except through corporate power struggles. Dad's favorite child may use that position to achieve corporate goals. The company is an extended family. People create channels to get their needs met just as they do in the family."

## Enter the consultant

What roles can the human resource consultant play in the family business beyond succession planning? K.T. Connor, who developed a performance management system for Rich Products that touched on motivation, appraisal, compensation, career development and human resource planning suggests other possible roles.

The HRD person can help a family-owned business objectify its reward system. At the same time he can help employees deal with negative feelings at having to work for a family member who has been appointed for reasons of kinship rather than competence.

The HRD person might work to make employees aware of some of the special benefits of working in a family-owned business which often will have a strong, family-like culture.

Elaine Hazelett, married to the son of the president of the Hazelett Strip Casting Corporation of Colchester, Vermont, plans and organizes development programs for the company. She maintains that it is important to understand the close-knit nature of family firms. "The family and the employees are like one. They're close and they pull together, but they're also protective and don't like outsiders coming in to tell them what to do."

Hazelett spent weeks trying to find a suitable management development program for the company. "Consultants weren't willing to respect or even acknowledge the strengths of the company. They took an 'I know exactly what you need' approach long before they knew anything about us. The president of this company would throw someone like that out in the snow after five minutes. They were extremely aggressive about changing the company, even though it's in a strong growth phase. That annoyed me the most—the push to change for its own sake."

Hazelett felt that consultants to small family-owned businesses would be more successful if they stopped trying to be slick and flashy. The managers at Hazelett, most of them long-term employees from the surrounding small towns, asked specifically for a program that did not use jargon or high-level language. They wanted relevant information in simple terms.

Hazelett believes that success in the early stages of an HRD effort is critical when trying to work with a family-owned business. She assessed the plant managers' needs carefully, got management support, and found a no-nonsense seminar in strategic planning for the managers. The success of that effort led to a request from the plant supervisors for training.

## Will it be like this forever?

In discussions about the future of consulting for family-owned businesses, two

## The Founder

It was New Year's Eve, 1915. Auburn's lights glittered without warmth, but the happy people who hurried through the streets had good cause to be gay on this occasion.

Auburn's industries were booming, employment was high and everyone was looking ahead. The war in Europe was only a headline in the newspapers, and Auburn was savouring the moment for the bright future it promised. Except in the big house on South Street where a man lay dying.

A few weeks before, Colonel Edwin Dickinson Metcalf had been out for one of his last drives in and around the city he had made his home. As the car swung down Genesee Street past the Columbian Rope Company, he told the driver to stop, then sat in silence, studying the plant which was his creation. "That is all the monument any man ought to wish," he said at last.

A few hours before the cacaphony of Auburn's whistles, horns and bells marked the end of 1915, the Colonel passed away.

The next day Auburn was in mourning. The city's sense of loss was compounded of gratitude for what the Colonel had accomplished and of melancholy that, in a sense, an era had ended. Columbian's operations would not be affected: the Colonel had left three able sons to carry on the activities which had made Auburn "The Cordage City." But it was difficult to compute the Colonel's legacy to Auburn.

There was Columbian, of course. What it had meant in terms of employment and of increased industrial activity were concrete things. There was the Colonel's leading role in the physical rehabilitation of Auburn, his active influence on the civic affairs of his adopted home. There was also the significance to Auburn of the concepts which had served as a mould for shaping Columbian. The Company was. . . the prototype of what American industry used to be—family-owned and family-managed. . . What had been good for Columbian had been good for Auburn, since the benefits of Columbian's success as a major firm in the cordage industry, had not been siphoned off by outside interests.

Columbian could certainly serve as the Colonel's monument, but his contribution to Auburn must be measured in other terms. Roughly, it consisted of the application of a genius for organization to community problems and to the building up of Auburn's industrial potential over a period of twenty-five years. He brought change and improvement to Auburn, and left the city better than he found it. That was his legacy.

Reprinted from *The Monument: A History of the Columbian Rope Company*, 1948.

points come up repeatedly: women are more involved at higher levels in family firms and founders aren't what they used to be.

Richard Beckhard describes a new breed of founder who is likely to have an impact on family/firm dynamics. He, and often she, is a young entrepreneur with a high-tech idea who wants to make some money and then get out of managing the business, in the manner of Steven Jobs of Apple Computers. Such founders are more mobile and geared to the movement and change of high-tech industries. And they are more likely to have postponed having a family or to be married to spouses with independent careers. There's less loyalty to a product or a company once it's an established success. Succession planning for such companies must deal with what happens to the company when the founder leaves, taking his charisma with him.

Beckhard also sees some weakening of the traditional bias against women in family-owned businesses. They are being invited to take high-level positions in family firms and are being given equal access to the business with their brothers.

Paul Rosenblatt disagrees about the pace of progress women are making. "People still don't want to consider women for roles in family-owned businesses. The attitudes in the families we surveyed seemed about ten years behind the times. Only one man in the 59 families we interviewed would even consider bringing a daughter into the business."

There is no question that entrepreneurial families, because of their complexity and the nature of the forces at work within them, are difficult to deal with. Fortunately, for the human resource professional, many advances are being made in systems knowledge pertaining to family firms. The special sensitivity and understanding that is required to work with family firms is available to the thoughtful professional.