NEWSLETTER

Aspen Family Business Group

The Aspen Family Business Group: David Bork · Leslie Dashew · Dennis T. Jaffe · Sam H. Lane · Joe Paul · serves as a resource to help families create an environment in which members are open and willing to learn and grow. It is in such a setting that families are able to envision and achieve the positive possibilities of their business as well as maximize enjoyment of their family life. Our goal is for the family to develop harmonious, healthy, constructive interpersonal relationships and to maximize the success of their family-owned enterprise.

Principle Centered Families

fall 2004

From time to time we "compare notes" and discuss how to improve the success of business owning families. One time the question came up about the single most important factor that is critical to a client's long-term success. Our consensus, based on years of experience, was it came down to the family being organized by and living according to a set of agreed upon principles rather than the group process being dominated by the personalities of one or more individuals. These principles transcend any one person's power and "level the playing field." They pre-negotiate areas of potential conflict and help the family better weather times of crises. A parallel situation on a much broader scale is: in the United States we operate according to a Rule of Law versus a Monarchy or Dictatorship. These Rules of Law are institutionalized in our Constitution and Bill of Rights. We advocate the family develop similar understandings, agreements and expectations as a way of managing and organizing themselves.

In this issue, we shall explore several of these principles. On page two, Joe will address how trust is the "glue" and Leslie, on page 4, will talk about the vital role open communication plays to make sure trust is maintained. Dennis, page five, covers the role of boundaries and the interface of the family and the business. Sam (see page 6) will explicate how the principle of shared power fits with the others and is critical to succession.

looking ahead

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The Gathering

Bork, Dashew, Jaffe, Lane and Paul
Snowmass, Aug 4-7, 2005
(see page 3)

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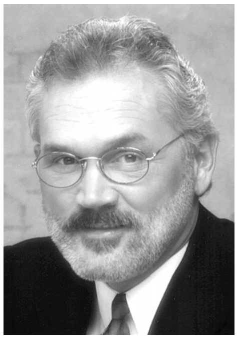
Trust: The Tie That Binds

by Joe Paul



Very skillful communication is required whenever trust (or the lack of it) emerges as a family business issue. In one family two brothers (Lyle and Jay) worked in the business and one sister (Cathy) did not. At the death, one year ago, of the founder/father, the three siblings became one-third owners and Board members. They found themselves at an impasse at a recent Board meeting. In a heated moment, Cathy confessed that she was afraid to trust either of her brothers to run the family company.

Raising issues of trust needs to be done very cautiously, because the first interpretation is that the honesty of a family member is being questioned. But often the trust issue is not about dishonesty. I have found it very useful to help my client-families define precisely what they mean when they are afraid to trust another family member. It is helpful to differentiate among five categories of trust. They are: Honesty, Skills, Clarity of Vision, Commitment to the group's best interests, and the Courage to make hard decisions.

Honesty is about the integrity of the person. When this is a problem, family members are either worried that they will be victimized by a relative or that the business will be put at risk by illegal or unethical activities.

Trust in the **Skills** of a successor is often an issue in succession. Frequently the business has been based on the unique executive skills of a founder that are hard to pass on. While siblings often trust in the honesty of their brother or sister, they may not think they are the right person to be the boss.

Leadership is based largely on **Clarity of Vision**. Very often the successor is honest and competent in specific management skills but lacks a vision of the future that stimulates excitement and loyalty. This weakness in vision and communication makes stakeholders worry about the future of the business and fear to trust the successor.

The ability to balance the pursuit of one's own self-interests with a **Commitment** to keep the best interests of the other stakeholders in mind is an important way for successors to earn the trust of their family members. It is one thing for a grandparent to treat all his/her children and grandchildren equally. It is another thing entirely for that founder's successor to be a steward of the interests of siblings and nieces and nephews without taking personal advantage of a unique position of power in the family.

Raising issues of trust needs to be done very cautiously, because the first interpretation is that the honesty of a family member is being questioned.

And still, a successor may have all of the personal virtues above and still not be trusted to make hard decisions that require the **Courage** to take the heat from the family over a decision that causes pain. This might be firing an incompetent family member, or even selling the business itself when it threatens to become a liability. Or, it may be simply about the courage to speak the truth.

In Cathy's case, she trusted Lyle's and Jay's honesty. But she just knew that Lyle wasn't the right person to be president, because his obvious professional skills did not include leadership. He was an excellent CFO, but he was not the kind of person to inspire others. And she knew that Jay agreed with her impressions about Lyle but lacked the courage to say so or do anything about it.

When she was able to clarify with her brothers what she meant by being afraid to trust them with the business, they were able to have a productive series of conversations. Eventually, these discussions led to the consensus that they needed to hire a non-family member to run the company for them.

Insights that will help to build trust that has been awakened:

1) *As intangible assets go, trust is much more important than love in making a family business work.* When you are in a relationship with someone you love but do not trust, it is almost always emotionally draining and any little issue can become a big problem. On the other hand, consider a purely business relationship with a non-family member that you don't love, but trust completely. Such a relationship will weather many ups and downs and is thought of as a valuable resource.

2) *The flow of knowledge and information in a family business is profoundly influenced by the level of trust in the family.* In high trust situations, knowledge flows freely. In low trust scenarios "knowledge is power" and it is used that way.

3) *The formula to build trust differs in different kinds of relationships.* In interactions between people with equal power (e.g. siblings or spouses) equal give and take leads to trust and a sense of fairness. But in relationships between individuals with unequal power (e.g. parents and children or bosses and employees) a greater burden for the quality of the relationship lies with the more powerful person.

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Principles That Contribute to Effective Communication by Leslie Dashew

One of the most important contributors to a family being principle-centered is thorough, open and multidirectional communication. Our collective experience with family businesses suggests that without the ability to have open dialogue, neither the business nor the family can succeed. This is in part due to the fact that families who own businesses have a greater need to make decisions together, to share information and to relate in multiple roles. Yet effective communication in family business can be very difficult.

A young woman who is president of her family business confided in me that she is so frustrated with her family that she wondered if she could continue to run the family business. Her sister, who serves on the board, goes around her and demands information from employees, rather than speaking with her directly. Her father, whose health is failing, is frightened by his declining ability, is holding on to information rather than sharing it, and is creating major delays in business decisions. She finds herself over-reacting to her brother and sister because they have always depended on her to do the work, yet expect her to spend time she doesn't have, getting their input before making decisions. They have distrusted her since they were children and she feels their questions reflect continued distrust.

The difficulty this young president experiences typifies many of the factors contributing to communication difficulties: 1) Emotions and sensitivities are often greater in families, and so members are often more reactive to one another and do not listen openly and patiently. Misunderstandings prevail. 2) Feelings of entitlement to information by some family members may not be shared by those who have

information and this may lead to distrust and feelings of exclusion. Past conflict, disrespect and/or distrust often makes it difficult to have open, comfortable dialogue.
3) Assumptions that one understands what another family member is trying to communicate are more prevalent because of a long-standing relationship. Such assumptions are often wrong.

We have found that there are three principles that contribute to healthy communication in family businesses: structure, safety and skills.

Structure: Create Forums for Communication Normally, families communicate in an informal manner. In order to assure that communication occurs in this complex system, we must create structure. First, we want to assure that there is a legitimate forum for communication within each of the three roles typically held by members of family businesses: family, ownership and business.

Thus, we encourage leaders of the family business to have an effective management team that assures clarity and consistency of communication throughout the business. Owners are represented by the board of directors. Having a highly effective board, with independent directors as well as appropriate family members, can assure not only communication but effective stewardship of the business. We recommend that a forum such as a family council be established to assure that communication occurs about the goals of the family, the role of the business in the family, policies about the interface between the family and the business and education about life in a family business. Documentation of the family values, vision, guidelines and policies assure that agreements and information don't fall between the cracks.

Safety: Establish a Safe Environment Open communication occurs most readily in a safe setting. Sadly, it often feels threatening to communicate openly in families, and so problems are not readily resolved and issues mount up. We have found that, as consultants, our first job is to try to create safety through our implementation of healthy communication processes. These include: 1) Establishing ground rules which support openness (around confidentiality, respectful participation, etc.) 2) Legitimizing everyone's perspective (listen respectfully and appreciate different points of view) 3) Paraphrasing (demonstrates understanding) 4) Recognizing that a trusting environment takes time 5) Keeping the big picture in mind 6) Using outside resources to help break the ice.

Skills: Develop the skills and the Courage to Share Openly and Handle Conflict 1) Listening respectfully and paraphrasing (not only creates safety, but helps to assure that what we believe we heard is what the speaker intended) 2) Asking for and sharing information 3) Sharing feelings (tactfully) 4) Offering observations or beliefs 5) Solving problems in a systematic and calm manner

Once the forum is established, the climate is safe and the skills are developed, almost any challenge can be mastered!

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Boundaries: Safe Travel Between Business & Family
by Dennis Jaffe

Robert Frost said, "Good fences make good neighbors." While the same family members may be involved in either ownership or management of the family business, as consultants we find that in order to navigate effectively these multiple roles, it is necessary to create clear differentiation and boundaries between them. A boundary is defined as "the point where something ends and something else begins." Think of a family, two parents, and their adult son, having a meal together. Their relationship is informal, playful, ranging over many aspects of life. Consider them as each owning one-third of a business. As business owners, they have to work together to oversee the health of the business and install effective management. They are not father, mother and son, but three equals, with a shared interest. What if the son is the CEO of the business, and the parents, though owners, are not involved? Can the parents tell their son what to do?

In fact, I worked with such a family, and their dilemma was: when they talked, they were not sure which role they were acting out. The parents tried to be parents, when the son was trying to be a CEO, and also please his parents. As owners, the parents felt free to come to the business and tell employees what to do and make suggestions. The employees weren't sure how to respond to them. This is a classic example of how a family business can be confused, even paralyzed, by boundary confusion.

The learning process for this trio was about appropriate boundaries. When they had a conversation, they had to define whether they were acting as owners, parents and adult children, or managers. In fact, only the son was a manager. For each role, they had to clearly define what they could and could not do. The son had to have full authority to act as CEO. The owner group could still ask the CEO to leave, or hold him accountable for results (acting as owners). The parents had to see their son not as a child needing guidance, but as an adult manager, and peer owner, of their business. Of course, as parents, they could decide to leave their two-thirds interest to their son, or to someone else.

Probably the major source of difficulty in a family business comes from the many aspects of relationships that cross system boundaries. When people are in such relationships, they have to ask themselves if what they want to do, or are about to do, is appropriate for the relationship they have. Can a mother come to her CEO son and ask/tell him that he should hire his cousin, who needs a job? I have seen a business where the mother actually sent the nephew to work without telling her CEO son! Imagine the consequences if the nephew is a failure; or the message the employees get when he shows up to work one day, clueless what to do.

There is information about the family finances that is not to be shared.

Good boundaries are needed in other dimensions of the family. Certain things that the parents feel and do are private, and should not be shared. A family faces boundary confusion if a parent talks to a son or daughter about issues in the marriage, or if one sibling goes to her mother whenever she disagrees with something her sister, and business parter, does. In a family business, people are together even more than in a family where people do not work with people they live with or are related to. There is such a thing as knowing too much about each others' lives. A young adult in a family business often feels pressure to socialize all the time with the whole family. A daughter may have married a man who respects and likes the family, but who wants to create his own family with her. The young nuclear family wishes to create a boundary of privacy so they do not feel obligated to do everything with the family. For example, they may want to take a cruise for the holidays, rather than go to the family retreat to ski. The parents may in turn take the efforts to create a boundary as an affront to the family. Tension ensues. Part of growing up and becoming independent is the task of creating one's own identity, and not feeling like a junior part of one's original family This is made more difficult in a family business where the generations are business partners.

Another kind of boundary is between the family owners, their employees and the community. There is information about the family finances that is not to be shared. As a young person grows up in the family business, he or she must learn the boundary between the affairs of the family, the business, and finances; and what can be shared with employees and friends.

The irony of Frost's statement is that boundaries seem to separate things, rather than link them together. Clear boundaries are such a paradox—they separate things, but in so doing, allow:

- individuals to grow and thrive
- decisions to be made clearly and appropriately
- people to know more clearly who they are and where they stand.

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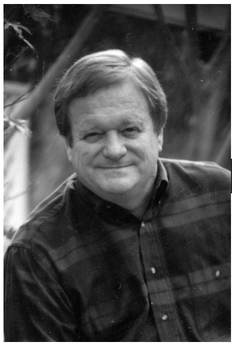
The Principle of Shared Power



by Sam H. Lane

The principle of Shared Power in a family owned business plays an important role in the succession process. It relates to the oft-found pitfall of the successor generation never feeling like they are on a "level playing field" with the senior generation. They don't feel they are "full partners at the table." A successful transition from one generation to the next rarely occurs when personalities rule, and dominate the process. It is a political, not a rational, culture. This "one up/one down" dynamic is a major obstacle to the implementation of a succession plan. The next generation is always in the shadow of the prior generation.

Shifting to a Shared Power model is necessary when a father or mother who has power by virtue of ownership or influence dominates the psychological space of the family. Everyone simply defers to him or her. Psychological ownership is minimal. Shared Power means the decision-making over certain matters will be distributed among everyone in the group in appropriate ways. For this principle to work, it is important to fully understand the appropriate decision-making process for each type of matter. For example, a major business decision should probably be made based on discussion, attempting to reach a consensus, and if that is not possible then making a decision based upon a *pro rata* vote of ownership. A question such as where the family wants to have its next retreat should be handled by each person having an equal say.

The success of being organized according to the principle of Shared Power is dependent upon the attitude of those with the power. Many times we advocate a "pocket veto" whereby the person with power only exercises it in crisis situations or instances where the issue is of vital importance and he or she is at odds with the group.

From another perspective, the principle of Shared Power applies to a succession situation where a mother and father who own the majority of an enterprise are leaving the ownership to a group of siblings who will function as minority owners. The family and the business must adapt and make a transition from being accustomed to a Concentrated Power model to a Shared Power model. This sounds easier than it is. Bringing together a group of siblings from widely different backgrounds, temperaments, talents and knowledge and forging them into a responsible Business Partner Team is a real challenge and takes work and patience.

Third, fourth and later generation families have accomplished this particular transition but must learn to deal with the Shared Power becoming more diverse and spread among more people as the generations progress. Also, it will probably be the case that influence will be out of balance somewhere in the ownership structure and branches of the family.

The resistance of the senior generation to share power with the next generation has many roots and causes. Sometimes the senior generation has legitimate doubts about the capabilities, motivation and commitment of the next generation, but is reticent to openly discuss these doubts. And, quite frankly, they don't know what to do about the whole situation, so they do nothing. Another case is when the senior generation may simply not be comfortable in working in this kind of relationship with their "children". Some parents are most comfortable when they are in a "parent-child" mode and have great difficulty transcending that model. They may feel that sharing power with their children is a demonstration of weakness.

Probably the most unfortunate case is when resistance to Shared Power is due to someone being a "control freak" who seems to derive psychological satisfaction from having power over others. This situation manifests itself most clearly as the parent having trouble "letting go." The parent usually will deny being controlling, which makes this one of the most frustrating and vexing issues to deal with. Unfortunately, these people rarely change their ways, and many times are the cause of failure of the succession effort. A variation on this theme is a parent who feels like he or she has never enjoyed the respect and attention of the children. As long as they have power and control, they get the attention they might otherwise miss.

The success of being organized according to the principle of Shared Power is dependent upon the attitude of those with the power.

Whatever the root cause, the impact/outcome and consequences of the parent generation not sharing power is the same. It is a strong deterrent to the succession process and keeps the family at a less healthy stage in its psychological development.

For parents contemplating these ideas, our advice is to be patient, take one step at a time and be willing to explore new ways of organizing the dynamics of the family and relating to one another.

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Family Business Review, Dec 2003, "Educational Needs of Family Businesses", AFBG's "10 healthy family business traits" are the focus of research in this article by McCann, et.al.

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Family Business Review, Dec 2003, Dennis Jaffe and Joe Paul review several books on family wealth and family business communication.

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