

Communication in Family Business

Learning materials for family businesses
Module no. 4



Erasmus+

In this module you will learn:

The importance of communication during a transition process

The model of intergenerational transition

How to improve communication during a transition process

Communication tools

Communication pitfalls to avoid in a family business

Why does a family transition fail?

Willian and Preisser identified 4 factors that most often lead to failed transition:

In most of the Case Studies gathered within the SUFABU project, problems related to communication within families emerged.



1. Preparation

Inadequately prepared heirs (25% of failures)



2. Communication & Trust

Breakdown of communication and trust within the family unit (60% of failures)



3. Mission

Absence of a clear vision or mission to align family members (12% of failures)



4. Finance

Failure by professional advisors to correctly interpret (or anticipate) taxation governance and wealth preservation issues (less than 3% of failures)

Family Business

The term "family business" combines two very different words.

FAMILY



It evokes feelings such as love, bonding and support



BUSINESS



It evokes concepts such as creation of enterprise, problem solving, employment, money, power, profits



FAMILY BUSINESS



It evokes concepts such as cohesion, attachments, trust, common values, dedication

Family Business



With the first generation, normally, a few problems related to family governance emerge, as most of the decisions are made by the founder and the family is generally united.



As the family goes through the later stages of its life cycle, new generations and more members enter the family business.



This implies different ideas and opinions on how the business should be managed and its strategy set.

Family business dynamics



Where the second-generation siblings inherit shares in a business from their parents, the relationship between them is no longer just that of siblings but also, now as shareholders and partners in a business. Inevitably this adds a different dynamic and intensity to their natural fraternal relationship.



Where families lack alignment, family members do not understand the motives of the actions of others, and this may give rise to inaccurate assumptions about the behavior of the people around them. Consequently, messages can be misinterpreted (or not even passed on) and ideas misunderstood.

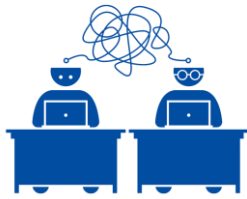


The divergence between someone's role and their other role in the family and his other role and responsibilities within the business can create confusion among the family members and within the business and can ultimately lead to conflict.



The way expectations are dealt with within a family is more different from the manner in which expectations are dealt with in a business. The manner in which a father would deal with the expectations of his son or vice versa is vastly different from the manner in which a supervisor would deal with the expectations of his report or vice versa!

Communication problems in family business



POOR COMMUNICATION

It provokes a lack of trust and conflict between family members.



GENERATION

Family members from different generations differ in their expectations about what to say and how to say it.



INVOLVEMENT

Each generation of a business family has its own identity and different methods for the involvement of family members in the business.



STRATEGIES

Conflicting personal or commercial objectives and priorities.



FEEDBACK

Delivering a difficult message in a family business is typically even more challenging because of the multiple and deeply personal relationships that exists.

The core issues likely to cause tensions on family business



Performance of family members actively involved in the business



The setting of remuneration levels for family members actively involved in the business



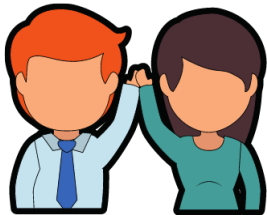
Decisions around who can and cannot work in the business



Family members actively involved in the business not consulting the wider family on key issues



Deciding between the reinvestment of profits and the payment of dividends



The role 'in-laws' should or should not play in the business



How can family shareholders exit?



Choosing the future leaders of the family and business- succession



Divergency in business strategies



Communication between different generations

Nasser, A (2014)

Why is communication so important?

Trough **communication** families establish common values, goals and expectations.

Open communication helps to define corporate roles, responsibilities, vision and objectives as well as effectively connect the talents of indivudals with the need of the company.

Communication helps to deal with conflicts among family business during a family transition.

Open and transparent communication between the senior and the young generation is essential for carrying out the succession process

Open communication helps to establish trust between family members.

Trust promotes collaboration, streamlines network relationships, reduces harmful conflicts, and reduce the risk of breaks between family members



Boudewyn, A, Morgan W. (2019)

Model of intergenerational negotiations for family businesses

Problems in communication could create additional challenges during the succession process.

In order to face them, Leiss and Zehere developed a **Model of intergenerational negotiation for family businesses** identifying 4 factors which characterize intergenerational communication.



FACTORS

TIME

Succession process requires a lengthy time period for discussion, negotiations, decisions and implementation of solution among the actors involved.

PERSONAL DIMENSION

Old and young generation have different communication behaviour given by their different knowledge and experience

INSTITUTIONAL DIMENSION

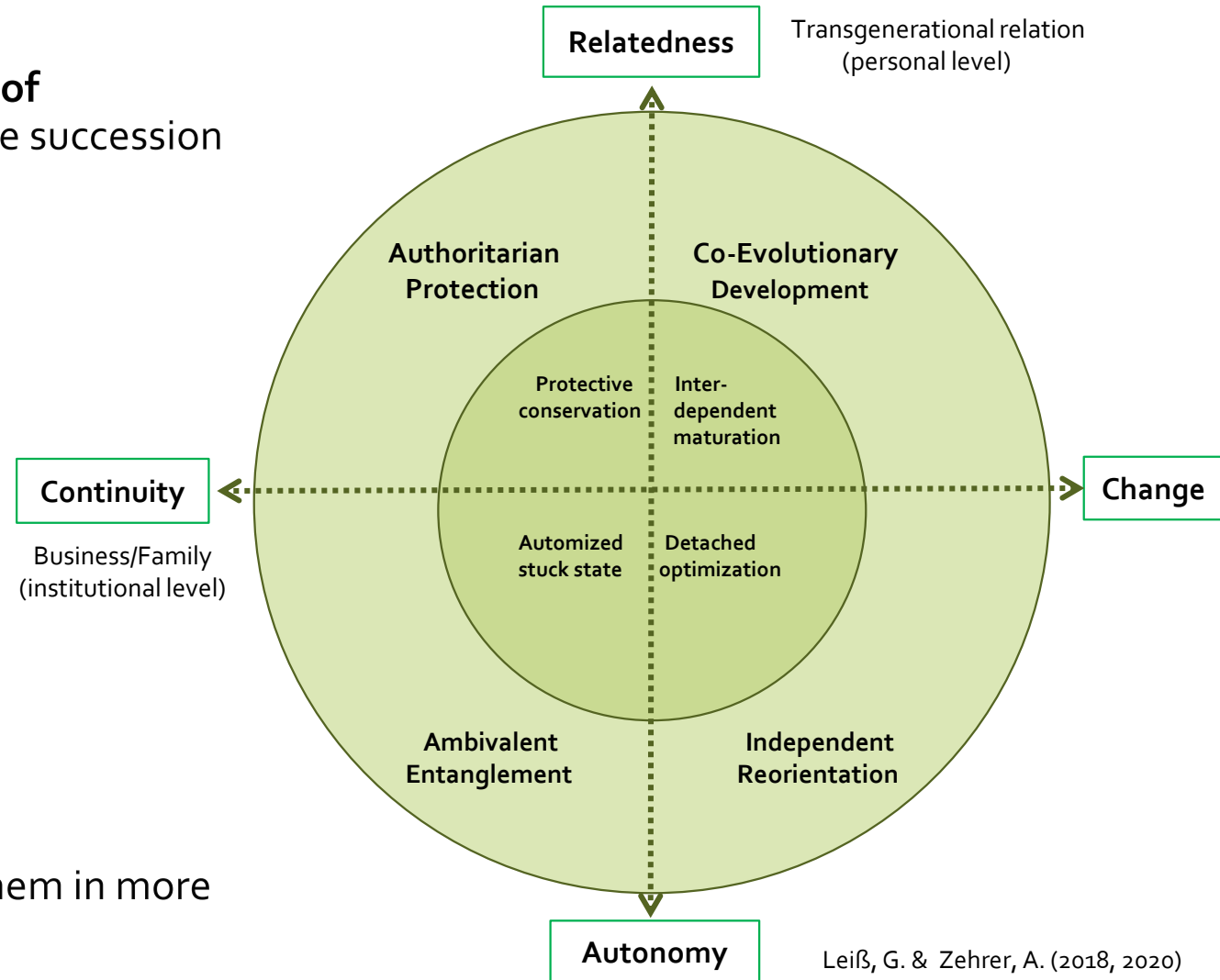
Communication within family business boosts the reputation, credibility and status of the family firm and makes it necessary to jointly build a social network and communicate strategic alliances.

SOCIETAL DIMENSION

Trends and other effects have shaped the perception of work, where the family no longer serve as a functional identity.

Types of communication in Family business

- ❖ The model is based on **4 distinctive types of communication of business families** in the succession process:



- ❖ On the next slides, we introduce each of them in more details.

Types of communication:

1. Authoritarian Protection

- ❖ The predecessor acts as a patriarch and takes decisions on his own.
- ❖ Communication among the family business is very limited.



Official Power switch

Father is the decision maker

Family is marked by a patriarchal structure

Immaterial values (reliability, continuity, loyalty) prevail

Conserving and expanding of buildings import

Successor spends some learning and journeyman years outside of the family business

Types of communication:

2. Ambivalent Entanglement

- ❖ There is no plan for succession in place, resulting in an unlimited phase of cohabitation and «stuck state».
- ❖ Often accompanied by a lack of communication and negotiation.



The succession project is not planned

The unlimited phase of cohabitation

Potential successor undergoes the required training after oscillating between succession and no succession

Little to no Innovation, integration of new family members is difficult

Symbolic relationship, double binds, traumatic experiences, as well as a lack of negotiation

Types of communication:

3. Coevolutionary Development

- ❖ Open approach to succession, including a quite open and transparent way of communicating, giving the successor increased room for manoeuvre.
- ❖ This is congruent with the family type laissez-faire in both conversation and orientation.



High degree of generativity with the children emotional interconnectedness and parents serving as role models

The long phase of fading in and out a transgenerational relationship based on cooperation and communication, as well as mutual appreciation and recognition

Family serves as a stabilizing element open to deal with the unknow

Types of communication:

4. Independent Reorientation

- ❖ Long phase of fading in and out and ground the transition on cooperation and communication, as well as mutual appreciation and recognition
- ❖ This phase is equal to the family type “pluralism” in conversation but low in conformity orientation



Open approach to the succession

The main objective is to increase the individuals' room for manoeuvre/ power switch

Economic independence and survival of the firm is the focus

Lack of knowledge transfer, risk of unexpected social death of predecessor

Conflicts

Conflict of interest

happens when people have different goals and interests to pursue

Conflict of values

involves important beliefs for the subject, conceptual worlds of reference, founding ideals

Cognitive conflict

is created when a confusion of roles and tasks exists between people within an organization

Relationship conflict

involves communication and relationships of trust



Affect conflict

rises when we have incompatible feelings with another person


Goal conflict

occurs when people disagree about a final outcome

Caputo, A. et al. (2018)

How to resolve conflicts in family business?

Develop a plan for the resolution of potential conflicts that may emerge within the family. Stewart explains three basic ways how to proceed to resolving conflicts when they occur, from the informal ways to the formal ones.



An agreement to attempt resolving conflicts through facilitation or through the input of family elders

Engage in a formal mediation process with professionally qualified mediators

The dispute be resolved through binding private arbitration; and If all of the above fails, then litigation in the court system.

Pitfalls to avoid

Not trusting
in the
next generations
capabilities

Not considering
changes in the
society

Not celebrating
victories of the
family members
involved in the
family business

Not involving
the family in
important business
decisions

Not having
communication
tools to prevent
conflicts

Not having a plan
or rules about the
entrance of new
families members
in the family
business

Treating non-
family employees
differently or
handing
out special favours
to family

Being hostile
towards
advisors

Downplaying the
role of the family
shared values

Ignoring
the generational
expectations

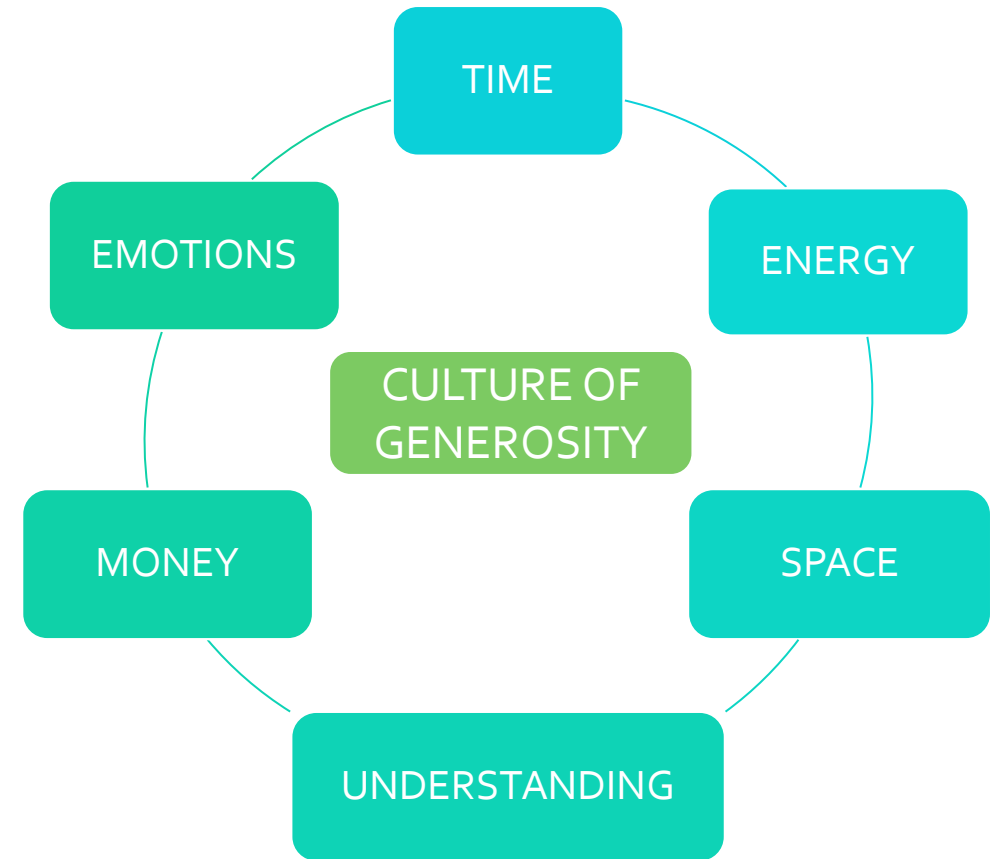
Taking the family
into work and
bringing work into
the family

Not
respecting the
family hierarchy

Greenberg, G. (2015)

How to improve communication inside the family business?

- ❖ Create a **culture of generosity** and communication to keep a family and a family business together.
- ❖ It is essential to **encourage openness to dialogs of all kinds**, on a regular, on-going basis.
- ❖ It is important to **address the issues as they come up**. Left unattended, many small issues can add up.



Wing C. and Roit K. G. (2020)

How to improve communication dialogue?

- ❖ Create a **culture of communication** based on a real listening and dialogue between family members
- ❖ A culture of communication will require **buy-in from everyone involved**, and it will allow each and every individual to put their dreams and aspirations on the table.
- ❖ A culture of communication allows to the family business to **take individuals needs into account**, and incorporate them into the ultimate family goal



How can family governance support good communication?



Communicating the family values, mission, and long term vision to all family members

Keeping family members (especially those who are not involved in the business) informed about major business accomplishments, challenges, and strategic directions

Communicating the rules and decisions that might affect family members' employment, dividends, and other benefits they usually get from the business

Establishing formal communication channels that allow family members to share their ideas, aspirations and issues

Family governance



A clear family governance is really important as it can:

bring cohesion among family members



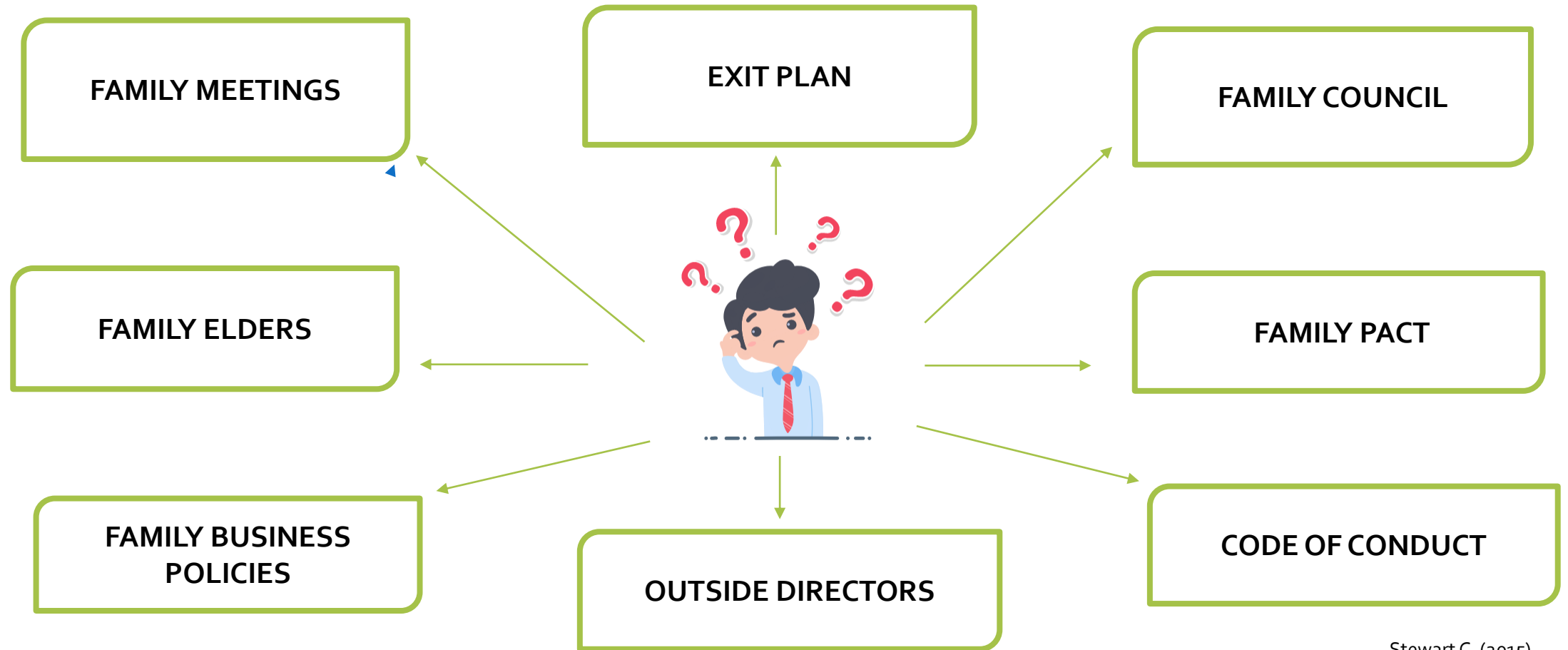
prevent potential conflicts



ensure business continuity



What tools to resolve conflicts in family business?



Stewart C. (2015)

Tools to resolve family business conflicts

FAMILY MEETINGS

A Family meeting could be a preventative measure when there are potential conflicts. Likewise, they encourage the sharing of ideas, information, moods, relevant updates, planning for the future and company-related issues.

FAMILY PACT

The family pact establishes the terms and restrictions for a family member to be able to transfer their shares of stock. It also establishes the rules to join and leave the company, how conflicts will be resolved, educational requirements, and compensation and promotion policies.

FAMILY COUNCIL

The family council, established and organized through a specific agreement between the shareholders, sees the participation of the family members, with the possible participation of an external person specialized in family businesses, as a consultant/director.

FAMILY BUSSINESS POLICIES

Family business policies help to define the boundary between family and business and to strike a fair balance between ownership and business. Examples include a family employment policy, a dividend policy and liquidity policy.

CODE OF CONDUCT

The family pact establishes the rules of behaviour for family members within the company and information-confidentiality matters.

EXIT PLAN

A family member shareholder can sell some shares in the family business, reducing their stake or exiting from ownership. An exit plan gives shareholders a way out if they do not believe in the direction the business is taking and prevent disagreements.

Stewart C. (2015)

Support inside and outside the family

FAMILY ELDERS

Electing someone who can be trusted by both the senior generation and by the next generation is a good way to manage conflicts mediate disputes between family member. A family elder could be a family member or a well-trusted non-family member.

FAMILY OUTSIDER

Another way in order to mediate disputes between family members and bring an objective view (particularly with respect for the performance and skills of family members in management roles) is to have several non-family, non-executive directors on the board of the company.

Stewart C. (2015)

Some examples from SUFABU case studies



Gancedo company

Spain

The family practices afternoon thoughtful **coffee sessions** where all of them share their thoughts and concerns.

„The arguments are unavoidable but when that happens, we remember we are a family, and we listen to each other.“



Miniconf company

Italy

The family established a **family pact** which is important as a guideline for the next generations who could enter the company but can take managerial responsibilities only under meritocratic conditions.

„The evaluation should be made from the family and, in case there is conflict among family members, by an external commission.“



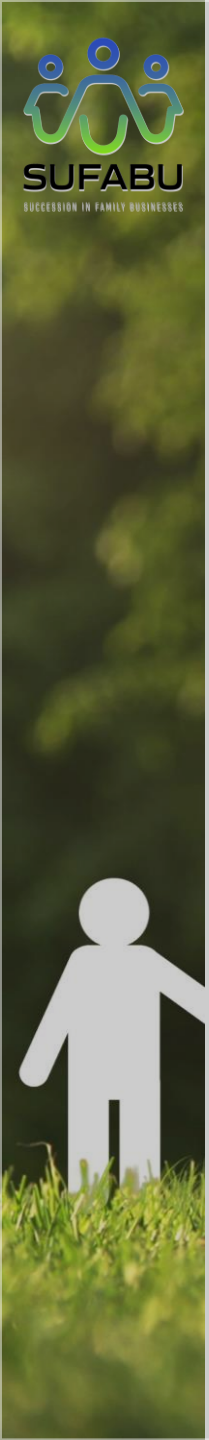
Pleva company

Czech Republic

The family is elaborating a **family constitution**. All kids are encouraged to comment on the wording so that it is a team work of all the family members and the goal is to design the constitution not for the current situation but for future generations.

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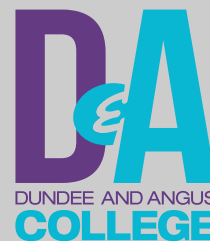
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