

# The Paradox of Family Dynamics

**Family business is a unique combination of two diverse systems – family and business. Family requires stability, business demands change; family fosters equality, business needs to promote competence; family is an emotion based system, business works on rationality.**

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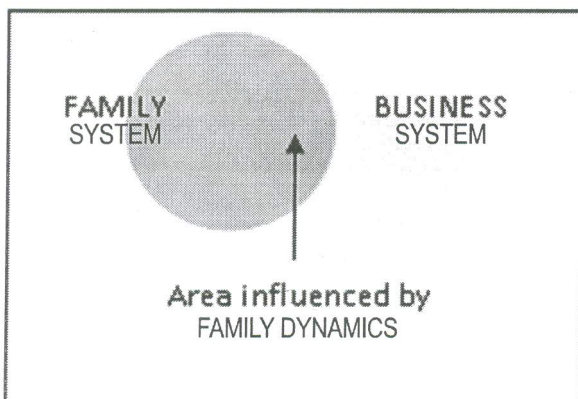
Observe the language of the two systems :

| FAMILY   | BUSINESS   |
|--|--|
| 'Divide the cake equally'                      | 'Give the most competent one the largest piece'                      |
| 'Don't judge your children'<br>'Selfless love' | 'Evaluate performance'<br>Killer instinct/ 'Dog-eat-dog competition' |
| 'Follow the tradition'                         | 'Embrace change'   |
| Father says,<br>"respect me".                  | Son says, "I'm your colleague, consult with me.                      |
| 'Lifelong membership'                          | 'Hire and fire'  |

The above table seeks to clarify the contradictions of the world of family business.

When these two systems overlap, relations get affected. Judgment suffers as business issues become tainted by family matters and family issues are tainted by business motives. If not managed properly, both systems become inefficient due to blurred vision and fuzzy boundaries.

## What is Family dynamics



The overlapping of the family system over business system is known as family dynamics.

Families have culture and values. Many of the cultural elements are negative. They get carried over to business and may prove to be devastating both for the business and to the family. However, there are many positive values. Their impact on business definitely strengthens the business.

Areas affected by Family Dynamics

Some situations when the overlap is the maximum are :

**Deciding compensation:** Family fosters equality, business needs to reward performance.

**Ownership:** Family passes ownership equally to all; business needs powerful managers. The most contributing family member needs to have more rights.

**Choosing successor :** Families generally treat the eldest son as the leader; business requires the most competent to be the leader.

**Retirement :** Families have leaders for life; business needs leaders who are tuned with the present realities and suitable for future.

**Professionalizing :** Family tries to provide career opportunity to all members; business needs the fittest for the job.

**Control :** Family needs to protect its investment by having control and direct supervision; business needs commitment and competence, family or otherwise.

**Communication :** Family members find it difficult not to carry over family experiences to business or vice versa. The way family members address one another also reflects this carry over. 'Dad' may be boss, but is still called 'Dad'. Sibling rivalry and generational conflicts affect the quality of communication.

**Relationships :** Family members find it difficult to act

in unbiased manner even in business settings. Many conflict of interest situations arise as a result. The son-in-law may get preference over other competitive vendors.

**Speed:** Family reacts slow, takes time and acts with patience. Business requires fast solutions. When actions are dragged due to family influence, business suffers.

**Values :** Most family businesses adopt the value system followed by the owning families. For example, many families expect total obedience from juniors. When carried over to business, this may deprive the business from participation and creativity.

Business needs to adapt fast to changing environment. Business has global exposure. In the process, many values are picked up which go against family life, e.g., drinking, bribery, etc.

#### Sources

Family dynamics result from many sources including self-interest and past perceptions. A youngster with track record of poor health may be regarded as weak and someone with wild childhood may be labeled as irresponsible despite no manifestation of the past traits. Parents fail to see their children as grown-ups. For them, the adult child remains a teenager who constantly needs their guidance.

#### Where do you stand?

Hypothetically, a family firm can be totally business focused, thus not allowing family to have any influence over the management of the firm. On the other extreme, a firm can be totally family focused. In real life, it is difficult to find a firm that lies at the extreme. Most firms fall somewhere in between depending on the degree of blending of the influence of the two systems.

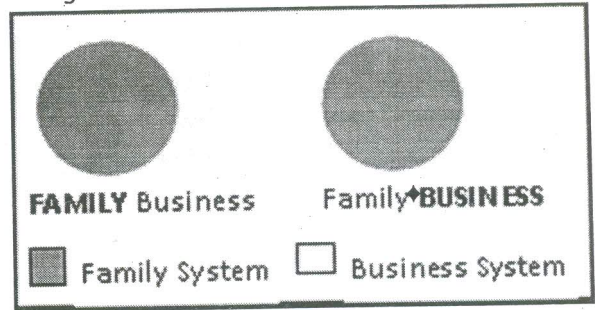


On the basis of the influence family and business have on one another, different family firms can be classified differently as shown below:

#### 'FAMILY Business' OR 'Family BUSINESS'

When '**FAMILY**' has very strong influence on business, '**Business**' becomes weaker. However, when '**Family**' is having nominal influence only, '**BUSINESS**' becomes

stronger.

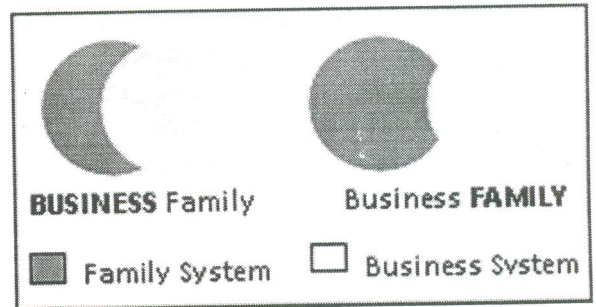


'**FAMILY Business**' treats business as a threat to family and family as a strength to business.

'Family **BUSINESS**' treats family as a threat to business and business as a strength to family.

#### 'BUSINESS Family' OR 'Business FAMILY'

On the other hand, when '**BUSINESS**' has very strong influence on family, '**Family**' becomes weaker. However, when '**Business**' is having nominal influence only, '**FAMILY**' becomes stronger.

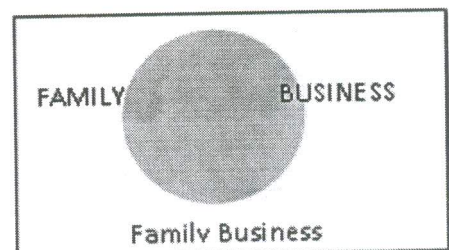


This analysis helps in recognizing where a family firm lies between the two extremes. No situation is perfect. Any extreme situation, when either only financial considerations or when only emotions drive the decision-making process is not ideal.

#### CONSEQUENCES

Scenario I

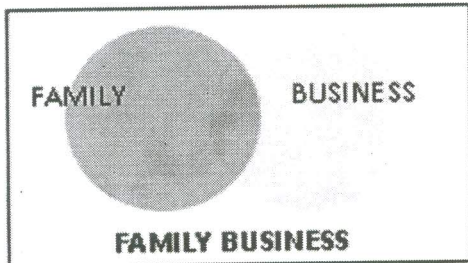
'FAMILY Business + 'BUSINESS Family' = 'Family Business'



Strong family influence on business and strong business influence on family make a weak 'Family Business'.

Scenario II

'Family BUSINESS' + 'Business FAMILY'  
=



'FAMILY BUSINESS'

Nominal family influence on business and nominal business influence on family make a strong 'FAMILY BUSINESS'.

**"The lighter you are, the higher you climb."**

If family dynamics issues are not handled properly, they cause great tension. The carryover of the baggage of family emotions to business compromises business efficiency. One thing's for sure:

"Too much personal freight in the baggage car makes a bumpy ride for the passengers. When things come to head and the train



hits an emotional sharp curve, the whole business can be left blowing steam on a sidetrack." *Keep The Family Baggage Out Of The Family Business*, Quentin J. Fleming, Fireside, 2000

### The paradox

The ideal approach to deal with the problem of overlap is to separate business and family issues. But the paradox is that it is almost impossible to achieve such ideal situation.

#### PARADOX OF FAMILY BUSINESS

1. "Business Issues" and "Family Issues" must be separated.
2. It is too much to ask for and is nearly impossible to achieve.

Stages for being 'FAMILY Business' or 'Family BUSINESS'  
Entrepreneurs generally have business first approach.

As the second generation takes over, issues like sibling rivalry blow up in full form. The business has always been there and assumptions are made that it will continue to serve the family. Youngsters grow up and keep on joining the family business. At home front also, sibling families are busy moving away from parental home. The founders never allowed the affluence to influence the lifestyle. Now various nucleus families allow the long suppressed desire for indulgence, consumption, luxury and extravagance to blossom in full force. There is an internal competition to get maximum resources to fulfil such desires. All these affect the approach of business owners and they become a 'FAMILY business' with family first approach.

In such situation, many conflicts occur and eventually business suffers. By the time the third generation takes over, there are high chances of some form of family split already happening.

*1Keep The Family Baggage Out Of The Family Business, Quentin J. Fleming, Fireside, 2000*

The agony and pain of going through the traumatic experiences of family conflicts force family members to rethink about their approach to life and business. The growing family necessitates that some systems and structures are put in place. Cousins do not have the emotional bonding of founders and siblings. Formality gives way to informality. Business might have stagnated due to negligence spreading over a generation. As such, the third generation has a business first approach. They become a 'family BUSINESS'.

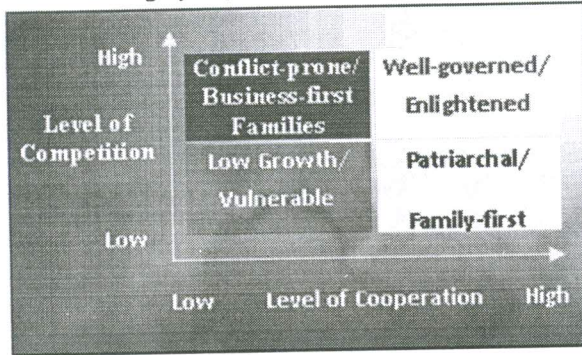
Beyond this stage, the approach to family business gets dictated by maturity level of the cousin generation, number of players involved, desire for continuing the legacy and quality of governance mechanism put in place.

Inevitably, successors who have experienced family divisions tend to be more inclined to be business focused and do not allow family to affect business. They professionalize fast and try to separate ownership from management. On the other hand, families, who have suffered due to business, tend to be more family-focused. For example, if a youngster gets into addiction due to negligence by the father who was too busy growing the business and careless about the growth of his children, such families will be more caring of

the family in future and may even sacrifice business interests also, if need be.

The approach

The approach that a family business adopts towards itself thus largely depends on its own history and the



experiences that it has gone through. Such experiences affect its value system, which in turn affects governance mechanism including family constitution and policies.

Family firms assume different roles depending on level of cooperation and level of competition amongst various family members. Healthy families not only promote cooperation, they also encourage a healthy competition amongst family members.

However, the health of the firm depends on proper blending of the two factors. If a family encourages competition amongst members and fails to foster team spirit, conflicts are bound to occur.

Similarly, if family members worry only about cooperation and harmony, productivity goes down. Under-performers can easily get away since accountability is lacking.

It may sound paradoxical, but most successful family firms encourage high level of competition amongst family members. This makes the organization aggressive. They balance this aggression by following practices that foster harmony and by adopting proper governance structure and processes.

In fact, happy healthy families use the family features to balance extremities of the business system. For example, extreme task orientation makes the business system ruthless. A touch of emotive responsiveness emerging from the influence of family culture gives the business system a human look.

Guideline for dealing with Family Dynamics

1. Organize regular family meetings
2. Bring independent directors on the board of your company
3. Draft policies before the problems occur..

#### Some important policies

1. Statement of Core Values
  2. Conflict Resolution Policy
  3. Decision-making Procedure
  4. Communication Policy
  5. Family Council & Board Rules
  6. Mentoring Policy for Youngsters
  7. Philanthropic Activities Related Policies
  8. Family Office, Family Investment and Venture Fund
  9. Policy on Rights & Obligations of Owners
  10. Buy/sell Agreement
  11. Entry & Exit Policy for Family Managers
  12. Compensation Policy
  13. Performance Evaluation Policy
  14. Financial Discipline and Liquidity
  15. Conflict of Interest Policy
4. Appoint the best person for the job – family or non-family.
  5. Have well understood business and succession plan.
  6. Never tell your child – “It is all yours”.
  7. Have evaluation process for entry and promotion of family members.
  8. Communicate, don't assume, and don't wait for the other person to take the initiative.
  9. Be accountable and demand accountability.
  10. When with family, behave like a family.
  11. Have a lot of fun together.

Conclusion

Understanding family dynamics is the first step towards knowing why we are what we are and why we do what we do. The article might have sometimes been confusing, but no more than the confusion we go through being a family business owner. In the end, if you apply your mind consciously, clarity will emerge. ■



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