

The Advisor's Toolbox for Working With Family Business Clients

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Most professional advisory firms (accountants, lawyers, financial services and consulting firms) will readily admit that almost all their clients in the SME sector are in fact family businesses. Family businesses clients often have a Dream of longevity – an ethos of “stewardship” – meaning they regard themselves merely as guardians of the shares. Family business owners and leaders see their job description as ensuring continuity of the business so they can pass on the wealth (enhanced during their tenure) to future generations. Having a client who intends to be around for generations to come is a welcome prospect for advisors, in this competitive world where businesses rarely change their professional advisors once they have found ones they trust. When new clients are few and far between, it pays to do whatever you can to retain existing clients, especially when you know they are planning for the next generation's ownership of the business.

Then, most professional advisors will most likely go on to say that in fact, family controlled businesses are not easy clients to have. This can be because they seek copious amounts of advice - but rarely implement it. Which of course can tie up a lot of billable hours – often without the reward of concrete instructions. And identifying who the client actually is can be tricky – is it the person who comes to your office? Is it he and his wife? Himself *and* his successor?) What if he has three siblings, each with equal ownership (25%), they are all directors, and they take equal salaries and perks out of the business? Do you advise him to manage his own interests, knowing he is locked into a structure that requires decisions to be made by consensus – at best – and divide and rule – at worst? Where do you draw the line in terms of investing your time in “client relationship management” versus your own work performance and career prospects?

This paper describes the kinds of tools an advisor to family businesses should acquire, borrow or buy-in in order to provide the best possible level of service for family business clients – and improve their prospects of attaining the holy grail – a loyal client who is destined to bring a lot of fascinating, challenging and complicated business into your firm for generations to come. These are not the technical know-how tools for effective business and strategic planning, tax planning or estate planning. Qualified professionals who keep themselves up to date already know how to do these.

When a family business client brings his problem (let's assume it's a “he”) into your office, especially if the business is spiralling into a financial crisis, his antennae are not attuned to judging your technical skills. He is in fact sensing your skills of empathy, your listening skills, and your ability to paraphrase his problem in order to demonstrate that you “get it”. Finally (by now you have given

upon winning the prize this month for the best charge-out rate), he will then start to open up and tell you what the real problem is. And more often than not, underneath all the symptoms dressed up as a business problem lurks an emotional problem - that is – a family problem. Rest assured that once you have all his cards on the table, and the real problem is exposed for what it is (a family problem) the route to a lasting and effective solution becomes clear – through the family. Get their support for a solution and often (much to your chagrin) the elegance of the technical solution is lost on the client. His perception of the solution is measured in terms of family members who are now off his back, or have gone quiet, and that he can attend family functions without fear of another outbreak of hostilities.

So what are the tools you need in your toolkit to understand better the complexity of the problems this type of client brings? And having understood it better, what tools do you need to help the client turn a family problem round in order to liberate the family / owners' commitment needed to implement a technical solution? This is not to say that you have to become a family business consultant or a personal therapist. But you *can* use some of the tools that these experts in their own right use to make progress – albeit in an introductory way. And of course the tools will help you to realise whether, as a professional, you need recognise your limitations in the emotional arena and stick to the technical work. There is no need to fail the client at this point: indeed, you can serve them better by setting up a “multidisciplinary professional team” by referring the client in difficulty to a family business specialist who complements your own work, and does not compete with it.

In this paper I will outline 3 particular Tools for your toolbox when working with family business clients. They should be used in the order shown. If you try to implement the structures of governance (Tool 3) without first having analysed the family business system (Tool 1) and understood its dynamics (Tool 2), you will have at best a weak commitment to the solution and the changes proposed are at best likely to be “quick fixes”. The tools are:

Tool 1: To Understand The Complexity of the Client's Problem:
Learn to Think in Systems Terms

Tool 2: To Engage Commitment by the Family / Owners to a Solution:
Learn to Recognise Family Dynamics

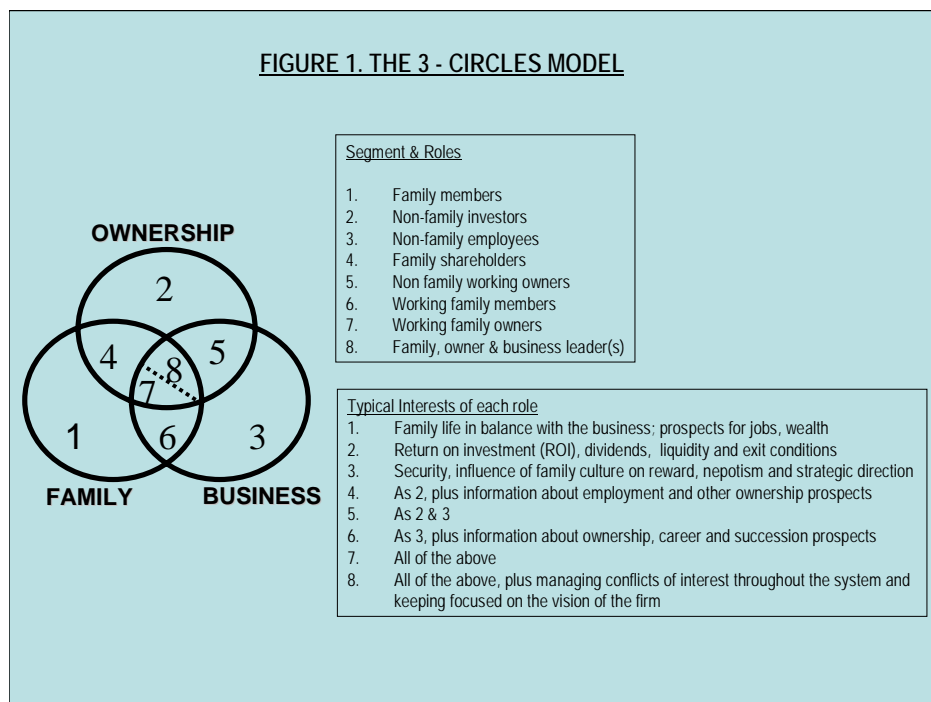
Tool 3: To Create Effective Structures That Sustain Change:
Learn to Implement Family Business Governance

Not all of these tools will be appealing to professional advisors working with family business clients. Each advisor should decide which of the tools he or she can apply within their personal comfort zone, and which are feasible within the

constraints of the organisational structures and performance measurement systems within which they operate. If any of the tools fall outwith these arenas, a good professional will make a referral to a family business specialist and stick to serving the client in the competent manner.

*Tool 1: To Understand The Complexity of the Client's Problem:
Learn to Think in Systems Terms.*

First and foremost, invest in getting to know your “client” – by using a simple tool which tells you “who’s who” and “who’s where” in the family business system. This is called The Three Circles Model” (see figure 1). To apply this, you have to get beyond the idea of the client being just the person in front of you. In order to appreciate the complexity of the problem he brings, and to get him to open up enough to let the real problem surface, you need to think of the client simply as one source of data. Equally valid are all the other potential sources of data in his “system”. To access these data, given that these people are not likely to be in the room with the client, you need to have a framework of questions to ask so that he can see you are being methodical and neutral when you ask questions that get him to say who all the important players are in the system, and to give a little background on how each of these people seem to see the world.



Using Figure1a-d as a template, go through the following process:

- a) Tell me about your family business system: who are the owners, the key family members, and the important people in the business?
 - b) Go through the numbers sequentially in the model, 1-8, slotting the names of the key people into the relevant positions they occupy. Don't miss any segment out, or be distracted for too long by stories.
 - c) Get the client to say whether their system has a bias toward "family – first", "business first" or "owners first" – and give concrete examples of this.
- [Note: an extensive description of this model is provided in the references].

Of course, this takes time. But you have created a factual foundation through a methodical approach in the most effective way possible. And family business clients often end up feeling a sense of relief that at last someone else, other than themselves, gets the big picture. I am always reminded of a tax accountant I know who said "Whenever Jim books a meeting with me I make sure it's in the afternoon and I clear the diary for the rest of the day – 'till about 2 the next morning. Jim says no one knows more about, nor better understands his business and his life more than I do – and he's right."

***Tool 2: To Engage Commitment by the Family / Owners to a Solution:
Learn to Recognise Family Dynamics at Work***

Family therapists sometimes ask family members to fill in reliably-tested questionnaires called "assessment devices" that reveal known types of family dynamics which describe in general – but reliable - terms how families function. These can only be used in depth by qualified therapists. I will describe how they work then explain a method by which advisors can use the tool in an elementary way to get individuals and families to appreciate how they are, and how to change, if they are motivated to do so. Most often, people are not ready to make changes in their lives unless they feel enough discomfort and want rid of the discomfort in the current situation.

Therapists usually have two reasons for using assessment tools.

(i) One is to get *individuals* in families who are experiencing difficulties to thoughtfully answer questions about how their family behaves. This encourages individuals to realise that *each person contributes in some way to the problem that the family (i.e. their family system) has*. We all contribute to situations we encounter, even though we may not be ready to admit it. Recognising this is the first step to unfreezing "stuck" attitudes that can show up in the business as entrenched views, unmoving stances, leading to hung boards and strategic drift.

(ii) By compiling the responses from all family members, a second objective can be achieved which is to get the *family* to understand what kind of functioning (i.e. behaviour) typifies their family. Are they *close* (too close?) or *distant* (too disengaged?) with each other in their relationships? Are their interactions best described as *rigid* (their rules are too inflexible) or *chaotic* (no rules at all)?

What kind of mix of these spectra does the client family have? Are they overly *rigid and close* – which tends to suffocate people and does not bode well for creative strategies or solutions in the family business when these are called for in stressful times? Or equally difficult: are they overly *distant and chaotic* – which makes it hard to get people together in the first place, and even when they do, it is virtually impossible to get agreement on the agenda let alone achieve decisions. Other variations also exist.

Once a family has diagnosed its own particular type of functioning, it can then talk about the strengths this functioning has brought them, and the weaknesses it is incurring for them and for their business. Again, a degree of informed understanding can often begin to unfreeze attitudes, opening people up to trying out alternative behaviours which may be more effective if everyone is committed to making the problem go away. This is the goal when working with family business clients in trouble.

Of course, these behaviours are here described at the extremes, but most families operate in a less extreme manner, somewhere along these spectra, tending to behave somewhat closer to one type than another. Once they have identified which this is, steps can be taken to identify how to move, gently and by small steps, towards the centre of the spectrum. Eg people in families who usually exhibit rigid behaviour can be helped to test out some more flexible approaches to a problem, whilst families who tend towards chaotic behaviour can be helped to take more structured approaches to a problem. A “normal” range is regarded as the absence of extremes of these types. “Normal” is not without its stresses and strains too – but it signifies that the family is likely to have the resources to manage the difficulty (sometimes this needs some facilitation), and to be able to learn from the experience and put that learning to use in the future.

A good example of family behaviour at work is often seen around the attitudes that emerge around a discussion on having a properly functioning board of directors, or bringing in structures of governance in the family business system. For example, rigid family behaviour in the business may be seen when family members refuse to have outsiders on their board, often due to fear of their existing systems being criticised, or fear of any change in the balance of power. Rather than reason why this is “wrong”, it is better to remind the client what they learned about the downside of rigidity, and to try for a more flexible solution. This could take the form of a non-executive person who is asked to give a view on certain matters, whilst other matters initially remain off limits. Once the family have learned that this is feasible, trust increases and they are more receptive to advice on other matters.

Similarly, a lot of family businesses have no board of any description at all – and so you see the same names on the lists for family, owners and directors - so they can find themselves basically managing chaos dressed up as a sometimes

benevolent dictatorship. Rather than insist on the logic (or even the legal requirement) of having a functioning board, it is better to remind the family of the tendency they already identified in themselves of suffering because of their avoidance of structure. This could involve an exploration of what types of strategic meetings would help them and the business, without them fearing a loss of control over the use of their time and their power to make decisions.

Key in all of this is to understand that form of functioning in families is “better” or “worse” – at the extreme, they all lead to behaviours which can lead to high levels of chronic anxiety which grinds the system down, weakening its resilience until symptoms appear such as business crises, illnesses, family cut-offs and unresolved disputes.

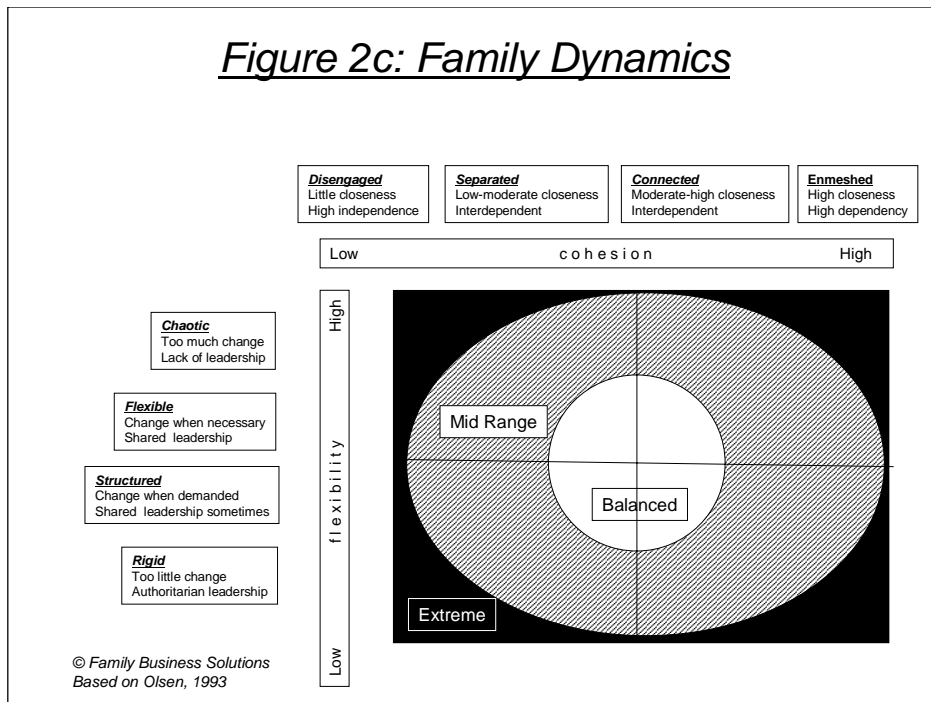
It is not necessary to become a qualified therapist in order to use this tool in an elementary – but useful- way with your family business clients. Here are the steps to apply (see Figure 2a-c)

- a) Using Figure 2a as a guide, ask the client to mark on the horizontal line the point that describes his family’s behaviour as relatively close or relatively distant. Get him to read and articulate the accompanying description of that behaviour.
- b) Using Figure 2b as a guide, ask the client to mark on the vertical line the point that describes his family’s behaviour as relatively rigid or relatively chaotic. Get him to read and articulate the accompanying description of that behaviour.
- c) Using Figure 2c as a guide, put the two axes together and ask the client which direction, and how far, he feels it would benefit himself and the family business to make changes to their current type of functioning. Ask what simple steps could be taken to start that process, finding some areas in the business as a place to try to get a successful result. Don’t be over-ambitious.

This may seem very “soft” in the context of hard business problems. Indeed, any advisor who is not comfortable with this type of approach owes it to him/herself and to the client to refer the client to a family business consultant who can complement the technical advice by working comfortably in the relationships arena.

So why bother with all the “soft” stuff? The reason is that everyone who has ever had to make changes in their lives knows that in order to make effective change, first of all you have to know yourself as an individual and your own behaviour well. Once you have accepted that, and have developed that personal knowledge, you can then decide whether to risk different behaviour.

Figure 2c: Family Dynamics



The same is true in business families. Once they have had the chance to recognise and understand behaviours that may have contributed to problems in the business, they then have the option of trying out different approaches. Not all can achieve this: it may be simply asking too much to change because powerful people do not feel sufficient discomfort with the current situation – and for them it may be a healthy way to start thinking about whether it is better for the family to remain in business together or not. This is a better solution than family feuds, law suits and a failed business with lost jobs. Of course, the reward is that those who learn from the experience once are more likely to know how to manage other problems that arise in the future.

**Tool 3: To Create Effective Structures That Sustain Change:
Learn to Implement Family Business Governance**

Using the 3 Circles model in Tool 1 above forces families in business to begin the process of separating out – to the extent they can be separated out in reality – family issues, business issues, and ownership issues. The next step is to offer the family a more structured approach to institutionalise this process. This can be done by encouraging them to create:

- 1) A Family Council – to manage family matters that relate to the business
- 2) An Owners' Forum – to manage the requirements and expectations of owners
- 3) A Professional Board of Directors.

Setting up 1 & 2 above requires specialist family business consulting skills. They are gatherings of peers around a common interest: a Family Council has the aim of keeping or working towards family harmony and an Owners' Forum aims to develop shareholder commitment. Both are very different objectives and need to be treated as separate meetings with a separate time, place and meeting format. Most importantly, a Family Council and an Owners forum are NOT business or board meetings and should not be linked to these in any way. Above all, the person who has hierarchy, status and seniority in the business is NOT the best person to manage, chair, organise or control a Family Council or Owners' Forum – this soon leads to disaffection from group members because the dynamics of power at play mean they do not feel empowered to speak, contribute or challenge ideas. Nevertheless, in family businesses it is inevitable that the same people are likely to be around the table for each of the meetings in three key structures: board, family council and owners' forum.

Setting up a professional board of directors in a family business – in theory – should be no different to any other business. In reality, though, the family shareholders need to be represented, such as sibling or cousin family branches, or shareholder groups who are not active in the business. This requires help from a family business specialist, because the “default” thinking tends to ignore the

relational dynamics and emotional agendas of the family shareholders. Yes, in the final analysis, if any of these groupings are not in accord with the structures being set up, they will eventually manifest their discontent and engage in behaviour which aims to re-set the balance of power in the direction deemed to be more “fair”. The management will then face the problem of disaffected shareholders threatening to upset the capital base of the business – and that usually happens around a difficult time in the business – poor trading, no dividend, insufficient funds for re-investment, etc. Far better to invest the time and expertise into creating a system of governance architecture that the key players in the system “buy into” – because they were consulted on the process.

Conclusion:

Working with family business clients can be an enigmatic experience for advisors: sometimes you can see great results before your eyes, and other times you have no idea whether they are taking your advice on board or not. Sometimes, your role is simply to listen, and in so doing you are helping them to think more clearly and effectively.

The tools outlined in this paper will allow you to have a more structured approach to working with your family business clients. They will feel better understood, and you will have a richer, more reliable database of information from which to formulate your recommendations. You will then find that you are developing a collaborative relationship with the client – helping him to think through issues and situations more clearly, and working towards solutions that are likely to be feasible and suitable for the family business system in which the client is obliged to love, live and work.

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