

Keeping Family Together: Elements of Dissension/Elements of Cohesion

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Most wealthy families, and most business owning families wish to see their assets perpetuated from one generation to the next. To aid in that goal, professional disciplines have evolved best practices around strategies and structures for business succession planning, for multi generational wealth transfer planning, for developing next generation inheritors and business successors, and for teaching wealth stewardship. But these strategies and structures of business and wealth management, while essential components of long term wealth preservation, overlook a simple fact: That healthy family dynamics and family cohesion are at least as important as any of these other strategies in ensuring long term preservation of family wealth.

This observation was summarized quite succinctly in personal correspondence I recently had with my colleague, attorney John Duncan:

Family disunity and dissension pose the greatest risks to sustaining family wealth, at least over the short term.

In a similar vein, Stuart Lucas (who is both an inheritor and a wealth manager) and I recently wrote an article in which we commented:

All growing families face risks to cohesiveness from increasing numbers, increasingly diverse backgrounds and interests, and a progressive dilution of the affinities that define them as family.

Jay Hughes, another thought leader in this area, has devoted much of his professional career to assisting families in creating strategies for the long-term preservation of family wealth. Jay has written about avoiding “Shirtsleeves to shirtsleeves in three generations”, and more recently about “Entropy to entropy in three generations.”

The “Shirtsleeves” saying refers to the widely observed phenomenon in which the first generation in a family creates wealth, the second generation spends it, and the third generation is required to build it again.

The “Entropy” adage refers to a concept from physics, where the term entropy describes the degree of disorder in a system. Systems tend to go from a state of maximum order (low entropy) to a state of maximum disorder (high entropy); thus, systems tend to become increasingly disorganized over time, and the breakdown of organization is a natural phenomenon. Energy is required to restore a system to a higher level of organization. Entropy explains why the universe is expanding, and why it’s more difficult to put the toothpaste back in the tube than to take it out!

Families are subject to entropy as well: It’s natural for families to tend toward disorganization and distance over time; and it is certainly true that energy is required to keep a family together. Viewed in this way, the disunity

or dissension that may threaten the perpetuation of a family's wealth can be seen as a 'force of nature,' a predictable and natural threat to the effort to keep the family together in the first place!

While we can't control the natural inclination of families toward entropy, we can try to understand — in order to manage — factors that contribute to, or hasten entropy, and we can try to better understand - in order to implement — factors that will mitigate the effects of entropy.

I call the first set of factors “Elements of Dissension” and the second set of factors “Elements of Cohesion.”

I have advised scores of families who have struggled with entropy, dissension and disunity, and I have identified a number of Elements of both Dissension and Cohesion that seem to occur consistently among asset owning families. I do not have an exhaustive list — I am sure there are many factors that I have not identified — and I don't believe that it is possible to prioritize these elements in any absolute manner because their priorities differ depending on the age of a family and other circumstances. Nevertheless, I discuss below a few elements of both classes that I think are particularly consistent, important or interesting.

It is necessary to note that simply being an Element of Dissension does not make something “bad” or “wrong”. Something may contribute to dissension, yet still be an essential component of family or business life.

Elements of Dissension

Money often serves as a catalyst around which differences between family members in their values and priorities are manifest. While dissension might sometimes be attributed to money itself, there are usually underlying disagreements and tensions around things like lifestyle and spending habits.

Biology contributes to dissension in many ways, but in the present context I refer to inherited differences in temperament that characterize people throughout their lives. Some people are more reactive and generally more emotional than others. Family unity can be fractured when emotional impulsivity overrules thoughtful action.

Entitlement in and of itself is not always a bad thing, as when one is entitled to respect for their accomplishments. Entitlement leads to family disunity however, when there is a perception that certain family members expect to receive something (money, respect, status) without a commensurate investment of time, talent or riches. Family members will react to the perception of entitlement by withholding the very objects that others feel entitled to.

Legal structures that create different classes in the family. Pre-nuptial agreements, voting trusts, estate plans, and other plans and directives are intended to accomplish goals usually having to do with legal protections of assets. While these structures may be eminently successful at these tasks, they introduce dissension by creating different levels of access to wealth and different opportunities within the family.

A family culture of judgment, criticism and triangulation. Families differ in their “communication culture”. When there is much “back channel” communication (i.e., triangulation), gossip about family members, and negative judgments without direct conversation, family tensions are high.

Not having a voice and not being listened to. Families with the greatest amount of tension tend to not listen well to each other, and invest insufficient time and energy in assisting individual members to develop and properly express their own voice about family matters. Those who feel the least listened to are often those who seem most discontent.

Elements of Cohesion

Money. It is not a surprise that money can act as an element of cohesion as well as an element of dissension. Many families strive for cohesiveness because there are significant financial incentives for doing so, including economies of scale and shared human and intellectual capital. Money can be an element of cohesion as well when families strive to understand and clarify their values, or when they practice and teach philanthropy.

A healthy family culture. Family unity grows when there is a sincere effort to understand the family's communication culture and to improve it. This may

entail working together to create a culture in which for example, we reduce triangulation, communicate more directly to each other, develop and recognize voice, and engage outliers.

Fair process. I believe that most people can accept most decisions if there is a perception that the decisions have been arrived at fairly. A mutual commitment to fair process can “inoculate” a family against the potentially disruptive impact of controversial decisions. Elements of fair process include: No surprises when a decision is called for, competing agendas that are in the open, and no sense of rush in the decision process.

Meritocracy in families refers to a system of participation in which one’s position or progress is based on ability and talent rather than on inherited privilege. Families who believe in meritocracy teach about the potentially negative impacts of entitlement and strive to develop their members’ skills and talents.

Appreciation. Cohesive families understand that the commitment to overcome the inevitable influence of entropy requires a great deal of energy, often from only a few family members. They recognize that appreciation should be expressed clearly and frequently, and that this nourishes and renews the energy required of family members who actively strive to keep family together.

Forgiveness. I will conclude with this final element of cohesion. No family is perfect. Every family has its flaws, its historical injuries and injustices. Families who acknowledge (not deny) grievances, who encourage open and constructive dialogue, and who offer forgiveness are most likely to remain in harmony despite the natural evolution of dissension and disunity that we have called entropy.

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