

# The Importance of Investing in “Good Feelings”

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Some people assume family business is inevitably an arrangement that is bad for both the family and the business. Family owned businesses do face the complexity of competing demands regarding family, business and ownership matters because both emotional and financial capital are at risk. Yet, if these dynamics are managed in a way that lead to good feelings among family members, the result can be family relationships that provide a deep level of satisfaction for the family and a competitive advantage for the business. In my experience, some forethought around a few predictable landmines can lead to strong returns on both the financial and emotional investments made.

## The Importance of Trusting One Another’s Intentions

Good feelings in family business don’t just happen. They are developed over time by the cumulative results of interactions with one another on family, business and ownership matters. Creating the right environment for good feelings to develop and flourish starts with trusting one another’s intentions.

Even in the best of relationships, there are so many opportunities for misunderstandings that feelings are sometimes going to get hurt. When there are too many occurrences of hurt feelings, a lack of trust may begin to develop as family members begin to question whether or not others have their best interest at heart.

If not abated, questioning of one another’s intentions can turn into a downward spiral that can destroy trust among family members and render them unable to work together effectively.

## Setting Your Family Up for Good Feelings

An observation from my work with family businesses is that families in which good feelings prevail have developed clarity in the following three inter-related areas:

1. Decision-making rights (DMR), which is about who has what right to make what decisions. When this works well, all family members understand and accept which individual or group has the authority to make decisions on a particular topic.
2. Communication and information flow (CIF), which speaks to the process for sharing information and ideas. Well-functioning families have given thought to what needs to be communicated to whom, as well as considering the timing, the venue and the sequence of who knows what when.
3. Accountability and reward system (ARS), which is the processes by which family members hold one another accountable for results. Individuals in these families have confidence they will be rewarded (with monetary and non-monetary

rewards) when they generate the results to which they commit, and will face consequences for falling short.

*\*Reference Harvard Business Review, The Secrets to Successful Strategy Execution, by Gary L Neilson, Karla L Martin, and Elizabeth Powers, June 2008 edition.*

## Case Scenerios

The following short case examples illustrates how small matters can lead to bad feelings, a serious erosion of trust and jeopardize the ability to collaborate when a family has not gotten aligned on DMR, CIF and ARS.

### **Concepts in Action: Decision Making Rights (DMR)**

Scenario: A sibling partnership, consisting of one sister (Emily) and two brothers (Dan and Roger), is leading a family business with two divisions. Dan's daughter Rachel is distraught about her recent loss of employment outside the family business. In an effort to "take care" of his daughter, Dan makes a commitment (a decision) to Rachel that she can start working in the business within the division he manages. The decision was made without input or consultation from his sibling partners and without having previously developed a process for next generation family members to enter the business. The sister and other brother's feelings are hurt because "We thought we were partners and he didn't even ask us for our opinion ..."

We can see how easily people fall into these sorts of problems. Dan is trying to be a good father and he may not see that his action has led to a significant decision and precedent in the family; in his mind, he is just fixing a short-term problem. Dan is confused by the intensity of his siblings' reaction. Yet, it is not surprising that emotions escalate over the issue because clarity on decision-making rights is particularly tricky in a family business where there are overlapping roles.

What you want as a father vs. what makes sense for the business may frequently come into conflict and, for these conflicts to be addressed fairly, it is important that decision-makers resolve them consistently. In this case, it may be important that the siblings have a discussion (maybe even including their kids) to determine a policy

around how next generation family members can enter the business.

Getting clear on who has the authority to make what decisions and ensuring that all family members understand and abide by these rules is an investment in good feelings and a well-functioning family team.

### **Concepts in Action: Communication and Information Flow (CIF)**

Scenario: A group of five cousins own and operate a multiple enterprise family business with seven fourth-generation family members working in the business from entry level to middle management. One of the cousins, Bruce, is the CEO and chairman of the board. He has two children working in the business; one at an entry-level position and one in a middle management position. Both have aspirations to move up the ladder, as do other fourth-generation family members.

Recently, the family has undertaken major growth initiatives and Bruce is leading this effort. When Bruce becomes aware of an acquisition candidate that he believes fits with the growth initiative, he begins sharing information with his sons about the acquisition opportunity. However, Bruce shares the information with his sons in advance of when he shares it with other members of the board and management team.

Through casual discussions and informal interactions, the other members of the board and management team get the sense that Bruce's children know more about what is going on than they do. The members of the board and the management team's feelings are hurt because important information has been conveyed to them out of sequence. Given their positions in the business and their higher standing, they believe they should have known first.

How information flows is a powerful signal around standing within families and businesses. If family or business leadership conveys important information to one or more persons of (supposed) different standing out of sequence, this can signal that some have favored status. This will likely lead to anger, hurt feelings and an erosion of trust among those who believe they were slighted by not receiving the information. Further, those

who received information or received the information first, may start to believe they are special and entitled to different access, making it difficult to adjust to any requests to change the flow of information going forward without escalating resentments in the system.

Getting communication right requires real effort. In general it is important to be as transparent as possible to build trust, yet some information cannot be widely shared. Sometimes the members of the board need to get information before others in the business or family. Again, this dynamic can be particularly intense in a family business where one family member is in a leadership role in the business, which can often lead to the perception that their kids are better informed or connected than their cousins. Whether the problem is real or not, this perception will lead to a sense of inequity of opportunities that will erode trust and create bad feelings. Families need to clarify a system for actual information flow and work hard to combat appearances of unequal access as well.

### **Concepts in Action: Accountability and Reward System (ARS)**

Scenario: A 50/50 sibling partnership in which two brothers are working together leading and owning the business they inherited from their father. Though their responsibilities differ, ever since they started working at the business their compensation has been equal. Over the past seven years, the business has achieved significant and profitable growth, with one brother, Richard, being the “driver” behind the growth.

Richard’s brother, Jacob, has been content to go along with the growth plans and doesn’t hold the business back. However, he also has not contributed nearly as much effort as Richard to achieve the successful financial results, yet he has been equally sharing in the financial rewards of the success. As the months go by, Richard is starting to experience some feelings of animosity toward Jacob. These feelings are a result of what he perceives as inequities in what he is receiving in return for his contribution relative to his brother, and his brother never acknowledging it.

When a situation like this is left unattended, Richard’s negative feelings will grow deeper and deeper and eventually lead to further resentment for his brother

Jacob. The negative emotions stem from a real or perceived lack of fairness on the part of Richard regarding equal pay for disproportionate generation of results. Of course, finding a solution is challenging because it may be that Jacob feels he was not given the same opportunities to contribute as Richard, or his sense of self may be very threatened if he has to acknowledge that his brother is a stronger contributor.

On the specific case of compensation, we often encourage families to get clear on what comes to family members by virtue of their employment (compensation) vs. what is a return on their investment as shareholders (dividends), as those should be driven by different considerations. Also, adding objectivity by transitioning to market-based pay (instead of “we all get paid the same”) can be helpful, but bear in mind that a significant change of this nature may need to be phased in or written as policy that applies to future generations.

Hard as it may be to clarify what is fair, it is critical to have these conversations to ensure all stakeholders feel the system is balanced. When families avoid confronting these situations, the outcome can be that the most competent contributors become fed up and leave — leaving the business to be handled by those who are objectively less capable. All shareholders will lose with that outcome.

### **Getting It Right**

Developing and maintaining an environment of good feelings is a continuous process. The job is never finished because the family and the business are always evolving. The following are processes that can help your family business build an environment of good feelings:

1. Develop role clarity. Having clearly defined roles within family and business governance will help set appropriate boundaries regarding decision-making rights and expectations as to the flow of information.
2. Map out decision rights: what are family decisions, ownership decisions, board decisions and business management decisions-and then make decisions and communicate within the appropriate venue such as a family council, board of directors meetings and management team meetings.

3. During periods of significant change such as rapid business growth, entry of the next generation into the business as leaders and/or owners, or the death or disability of a family member with significant influence in the family and/or the business; remap your DMR, CIF and ARS to reflect the new realities for the family and the business.
4. As you map or remap DMR, CIF and ARS, cast your net wide to involve the stakeholders that are impacted. Draw them into the mapping exercise because chances are if they have input into the resulting behaviors and processes, they are far more likely to embrace them and abide by them.
5. Recognize and respect the interdependencies among stakeholders and groups of stakeholders and plan for the impact decisions will have on the interdependent stakeholders.
6. Develop and use structured and more formal communication processes, particularly as related to important, sensitive and personal information.
7. When preparing to share important information, think through and visualize the appropriate venue, the best person to convey the information and the sequence and timing. Then execute with a formal roll-out of the information.
8. If you become engaged in discussions about areas that another shares decision-making rights on with you, ensure you transition the conversation to include that person from the outset. If you have no decision-making authority on the topic, refer the other to those who do.
9. Continuously develop more clarity in the linkage between performance and monetary and non-monetary rewards. Use objective criteria and consistent manner of delivering messages on performance.

## Closing Thoughts

Good feelings among family members are foundational to working together effectively. Working together effectively results in a family being more capable of recognizing and capitalizing on opportunities and being able to see their way through troubling times. The more your family members can be in an environment where decision making rights, communication and information flow, and the accountability and reward system are clear, the more skillful your family will be at having conversations and coming to acceptable solutions around the very challenging issues you face as an enterprising family.

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