

The Generational Push and Pull of Defining Today's Family

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As family business consultants, one of the first things we do with new clients is to create a family genogram outlining how those involved are related by birth, adoption or marriage. However, we also ask if there are other people included in family functions who are treated like family even though they are not “legally” family. This gives us the total picture of the family in operation.

How the family is defined becomes even more relevant when creating your family council, writing your value statements, deciding who can and cannot be shareholders and determining who can serve on boards for your business entities. When I teach other advisors about working with family businesses, I always tell them to have the clients define who is “family” to them. Sometimes I get weird looks because everyone knows the definition of family, right?

Well, maybe. Let's review.

Evolution of the Modern Family

The Webster Dictionary defines family as: “The basic unit in society traditionally consisting of two parents rearing their children; spouse and children.” According to the Family Dictionary, a family is: “A specific group of people that may be made up of partners, children, parents, aunts, uncles, cousins, and grandparents.” The U.S. Census Bureau classifies family as “a group of two people or more (one of whom is the householder) related by birth, marriage, or adoption and residing together.”

As an American society, we are in the rapid evolution of the definition of family. The good news is that for the first time in decades, divorce rates are falling. However, the reason divorce rates are down is that marriage statistics are plummeting. The Millennial generation is less likely

to enter marriage than any other age in history.¹ This same generation is cohabitating, having children, buying property together and jointly running businesses. While they look like a family and act as a family, these couples do not have the same legal protections and obligations of married couples.

In my tenure of helping clients plan for the transfer of ownership and governance of their family business, I have encountered many unique definitions of family. One example is a couple who owned three businesses and had seven children ranging in age from 47 to 15. Some of these children were foster children they had adopted. It was not until I was working with the family for seven months that they remembered to tell me that they had never adopted their oldest son, who they fostered. All the members of the family considered him family. But for the purposes of inheritance tax, he would not meet the definition of family and his inheritance would be taxed at the state level. We did determine that they could adopt him as an adult and avoid this taxation, so they made it official.

The Reality of Family: A Case Study

Here is a more typical case of an interview with a new family that illustrates how complicated the definition of family can become. The family business is currently owned by the first and second generation. The first generation wants to pass their ownership to the third generation.

On the first call, I meet Jane (80) and Joe (84) who started the metal stamping business in 1958 in rural Iowa. Joe owns 60% of the company. Joe and Jane are devoted, hard-working Lutherans and still live in the house Joe grew up in. In their day, you married out of high school, had as many children as God granted you,

and stuck it out through thick and thin with your spouse.

Joe and Jane have four children: Bill (61), Randy (56), Stan (50), and Susan (46). They each own 10% of the stock. Jane and Joe inform you that Bill is the CEO of the company. He has four children ranging from 22 to 10 and is divorcing for the second time. Bill has two children Amy (22) and Ginny (19) with his first wife Nancy. Unfortunately, Joe and Jane have not seen Amy and Ginny for 15 years since they moved to Oklahoma to be near Nancy's folks. It breaks their hearts, but they understand that Nancy was devastated after Bill left her for Candice who worked at the factory.

Bill and Candice have two sons: Josh (15) and Joe Jr. (10). Bill lives five miles from his parents and the boys are over to visit quite frequently. Joe grunts in disgust as he tells you that Candice just left Bill for a guy she met at the local bar and they are going to have a "friendly divorce and co-parent their children."

Jane then tells me about Randy who oversees maintenance and repairs at the factory. He has never been married but has lived with his friend James for 35 years. James is a great roommate and is at all the family parties. He even helps care for Jane and Joe by taking them to doctor appointments when no one else is around to do it. It is at this juncture that Joe clicks his tongue and lets out a heavy sigh.

Joe explains that Stan is a professor at a local community college. Stan is married to Martha and they have two adult children who are 23 and 21. Martha and Stan also have a foster child named Juan who they will adopt in January. He is a lovely 12-year-old boy who has already had a difficult life resulting in significant health and behavior problems. Joe and Jane worry that Stan and Martha will probably have to take care of this boy for the rest of his life in one way or another.

I next learn that Susan is the CFO of the company. Susan has never been married because she "does not have time to take care of a husband." She will have her first child in June through invitro fertilization. Jane says it is embarrassing to talk about Susan having a child on her own at 46. What will the women at church think? Jane sighs and says this is what happens when all women do is work and travel. Joe expresses concern about Susan being viewed as too progressive by the community for having a child while not married and is unsure if she will be able to work full time and raise a child by herself.

When asked if there are any others they regard as part of their family and want to be included in the planning, Jane tells me about Linda who lived with them during her adolescent years after her parents were killed in a car accident. She has been a third-shift manager at the plant for 25 years and is included in all the family functions. They refer to her as a daughter and Linda's four children call Joe and Jane Grandma and Grandpa.

What Should the Modern Family Do?

At FBCG, we consistently work with business-owning families to create alignment through a combination of family education and structures such as family councils, family meetings and family constitutions. The process includes defining who is included in family, how the family will be incorporated into family ownership, and when the family can become family employees and family managers. Having this structure in place allows the family to effectively influence the strategic plans of their company.

Organizing the family through this process can be a place where a family business consultant can add neutrality, education and skills in building consensus. Or you can begin this process on your own by gathering your clan together to start the conversation. Keep in mind, that this is not a one meeting or one conversation process. Here are some fundamental questions to discuss with your stakeholders:

1) Who is family?

Does our definition of family include only those within our blood line, or will we expand those parameters? If we expand the meaning, when and how will the expansion occur? Are in-laws/legal domestic partners part of the family for the purpose of family council and ownership? What do you do if other generations do not define family in the same way? When and where do the law and tax regulations become part of the discussion? Do you include non-blood relatives in your definition of family? Does your definition change depend upon the context?

Having a process in place that allows a voice and method for discussion is almost more important than the actual decisions made. If your stakeholders are excluded or not heard, the results may not be adopted and utilized by the family or the business.

2) Are we a business-first family, family-first family or a combination of the two?

3) What are the core values we want our future-owning generations to carry forward? How will they be reflected in our business ownership and social capital? Should each generation be able to amend the core value statement? If yes, then define a process for amendments to be made.

4) How do we want to educate the family on the following items:

- Family history
- Business history
- Core value principles of the family
- Fundamental skills for business ownership
- Essential skills for the governance of both the family systems and the business systems
- Career development and guidance of all members of the next generation
- Stewardship of ownership and the wealth it creates

Whether you do this yourself or you work with one of our consultants, those invited to be part of the conversation will need to understand the purpose of the meeting, have an agenda, have a voice, and feel included in the process. I highly suggest a person be assigned to take notes and be tasked with listing the action items and next steps created out of the first meeting.

The case of Jane and Joe is an example of families grappling with in today's world. Family is messy, grey and complicated. The questions of morality, inclusion and exclusion always ebb and flow for each family

differently. Generations challenge past definitions and structures of the family at every turn. Facilitating these conversations is fascinating because each family approaches this subject with similar, but unique family dynamics.

What steps did Jane and Joe take? First, they brought their adult children to their home for a private brunch. Joe and Jane explained their desire to work with an FBCG consultant to help the family and the business prepare for a transfer of their ownership to the those interested in third generation. Bill, Sandy, Joe and Randy were relieved. They were invested in defining family, outlining core values for their family and their business and determining how their role in ownership and management may expand or contract. The siblings wanted to create a governance board with outside directors and begin having family meetings so they could start envisioning their retirement.

What was discovered in their brunch meeting was that generation one and generation two were very aligned with the desire to create a plan that would assist not only the business, but also their unique definition of who was "family." After a year of monthly meetings and planning, Joe and Jane began to implement a carefully designed exit from ownership of their family business and rested better at night.

¹*University of Virginia Magazine: "The Marriage Crisis: How marriage has changed in the last 50 years and why it continues to decline"*

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