The Family Business Advisor

THE FAMILY BUSINESS CONSULTING GROUP

Here's What Happens When You're All In: Part 2

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Welcome to the second part of my series on the value of clients being all in on a consulting engagement. In part one, we saw that when a client family isn't sufficiently engaged with the consulting process, outcomes are often disappointing. Even when engagements begin with solid intentions and focused goals, they may end without the success and resolution that they set out to achieve.

It is our job as consultants to consider what we could have done better to help our clients become more engaged and successful. We know that the ultimate success of the engagement is dependent on the client's ability to be all in on the work.

In this article, we will examine two cases where family members were completely committed to the engagement and the work we were doing. The goals that these family businesses set out to achieve were no different from the cases in part one. The difference came from the way the families showed up; they were focused, aligned and willing to be vulnerable in their work. Rather than trying to force the client to accept the process in order to move forward, I was able to facilitate and guide the process to achieve the desired goals.

Case #1: Restructuring Family Governance

In older, multi-generational companies, things have often been done one way for so long that the business's structure is usually one of tradition and familiarity rather than forethought and functionality. This was the case in a 5th generation family manufacturing business that had been run by a family CEO for the past four generations. The family made the difficult decision of bringing in a non-family CEO after the most recent CEO, Jonathan, a member of the 4th generation, passed away. I was brought in to assist in restructuring their governance and help them come together and rebuild family dynamics after the passing of Jonathan, who was not only the head of the business but the family in its entirety.

There were 20 family shareholders spread across five individual family lines. Although the family business was in its 5th generation, it looked and functioned more like a 3rd generation business. G3 was made up of two siblings, Marcus and his sister Lisa, then G4 of their children, and G5 of their grandchildren. Old, unresolved conflict that originated between Marcus and Lisa had caused a break in the family system. Because of this, the family functioned as two separate bloodlines rather than one cohesive family. Additionally, the family governance structure did not account for the 5th generation; only the Class A voting shareholder group, the 4th generation, was involved in making decisions for the business and family. This left the youngest generation feeling unincluded. One of the factors that set this engagement up for success was the clarity that the entire family had around their goals and the outcomes they wanted from the work. In particular, to be one family system moving forward.

Setting the Goals and Bringing in the Next Generation

One of the primary goals of the engagement was to formalize family governance. Until this point, the Class A shareholders had functioned without clear boundaries on their purview. They handled shareholder decisions for the business as well as family-only conversations, such as entry criteria for family members into the business, shareholder education, and family retreats. This needed to be more clearly defined to find a way to separate shareholder conversations and include the youngest generation in family governance.

Another key goal was to remove the concept of "us vs. them" regarding bloodline representation. Before we started our work together, a core issue that constantly divided the family was tied to whether family members descended from Marcus or Lisa. Marcus really dominated and marginalized his sister even though they were equal owners. As the CEO, he ran the show, and Lisa's voice didn't really carry much influence on the business. Marcus ensured that his bloodline dominance would continue into the next generation by making his son, Jonathan, the next CEO. The deep-rooted conflict prevailed long after Marcus and Lisa's time in the business, causing many family members to act in the best interest of Marcus or Lisa's line rather than in the best interests of the family and the company.

From a shareholder voting perspective, it was equal among G3, with Marcus and Lisa being 50% each, and in G4, as they both had two children, each getting 25% ownership. However, the 5th generation now had five grandchildren on Marcus' side and only three on Lisa's, leaving the bloodlines "unequal" in terms of ownership percentage. The family chose to keep the one person, one vote arrangement (rather than having each shareholder vote their percentage), showing their clear intention toward eliminating the bloodline competition. Outlining these goals and maintaining communication through the process allowed the family to focus on the business's ultimate visions: having the 5th generation more active in the decision-making process and creating one unified family.

Restructuring the Reality

Working through intense generational conflict such as this requires multiple rounds of communication and a level of vulnerability that many families just aren't able to reach. However, this family really committed, sat down together, and did the work necessary to resolve past issues and move forward into the future. Even when the work got particularly challenging, I was able to guide them back to the table by reminding them of the end goal that they were all aiming for.

Through our work together, we were able to completely redefine the responsibilities of the shareholder group, creating a structure that allowed for oversight of the non-family CEO while ensuring that the business would continue to function normally. By creating a new governance structure, the family council, allowing both 4th and 5th generation members to make decisions together, creating policies of family entry into the business and a family handbook. In addition, the family council developed a legacy committee and was responsible for the annual family assembly meeting, where the whole family would gather to discuss the family business together.

In my opinion, this family became a model for what a successful consulting engagement can look like and for what a successful family business can look like. These goals could not have been achieved with halfhearted attempts or noncommittal family members. But because everyone was all in on the work, the family was able to work through the issues plaguing them and restructure the governance to benefit all family members and shareholders equally. The result was a redefined family structure that was no longer tied to which line they were descended from, allowing them to become one family.

Case #2:
Transitioning Leadership While Healing Conflict

Now let's look at a smaller, more intimate case study. The Cook siblings are all equal owners of their family's construction company. Chris and Tony, the two brothers, both manage sales, while their older sister Jessica is the CEO. The other siblings, Sarah and Jules, don't work in the company but are still equal owners. In this business, multiple family narratives were causing conflict within the company. Chris and Tony felt that Jessica wasn't leading the organization as a CEO should. On the other hand, Jessica felt that her brothers were unappreciative of all her decisions as CEO for the past 20 years that set up the business to thrive. Even though they were all working in the same company, they were not on the same team.

Realizing how far off course they had gotten, the Cook family decided to bring me in for a three-part engagement. Jessica had recently decided to step down as CEO, and it left the siblings asking what's next for the business. Phase one of this engagement would involve addressing the family conflict in order to resolve old issues and work to move forward as equal partners. Part two was transitioning to a non-family CEO and outlining his responsibilities. Finally, the third phase of this engagement would involve formalizing the ownership group and creating a board of directors.

Triage First: Resolving Conflict

In many family business engagements, resolving conflict is not only part of the work; it is a fundamental first step. Conflict in a family business can often be emotional. In order to have logical conversations about the future of a company, the emotional side has to be addressed first. In a family such as the Cook's, the conflict was so deep and pervasive that it prevented them from seeing anything clearly, let alone their interpersonal relationships. The deep-seated conflict here came more from family members burying feelings and issues rather than talking about them. As such, years of disagreements and grievances had to be dug up and uncovered in order to address them.

Bringing up old family conflicts is tricky. And painful. Wounds that had long healed, albeit with dense scar tissue, had to be opened back up and rehashed, and this had to happen now. If we had tried to move on to phase two or three of the engagement without resolving these long-buried issues, the siblings would not have been aligned as they needed to be. When working through this part of the engagement, I coached the siblings to stay committed and reminded them that leaving these issues buried might save them short-term pain but would continue to negatively affect their relationships in the long run.

It wasn't easy or quick. Working through this conflict took months, but the Cook siblings stayed with it. They put in the time and the emotional energy to revisit old conflicts and work through them. They also put considerable effort into learning new communication skills and changing how they spoke with each other. This type of personal development was crucial in order to ensure that old patterns did not start to repeat themselves as the engagement progressed. Once the old conflicts had finally been put to rest, it was like a weight lifted off the siblings' shoulders. They could breathe again and finally have a clear, unified vision for their family's business.

Letting Go and Bringing in a Non-Family CEO

With their sibling partnership reunified and energized, the family was able to turn their attention to the new CEO, Leo. As Jessica's former right-hand man and chief of operations, Leo was the logical choice for a non-family CEO. Neither of the brothers wanted to leave their roles in sales. At the same time, Sarah and Jules, the only siblings who didn't work in the business, were happy to maintain their owner status without transitioning into the business.

A big test of the siblings' reconciled relationship was sitting down together to define Leo's transition into the CEO role. How would his responsibilities change, whom would he report to, and what would the oversight look like? All of this was a collaborative conversation between the siblings that they participated in with attention and determination. The fact that it wasn't simply Jessica bringing in her former right hand to replace her but instead working with her siblings to discuss the transition as an ownership group spoke to how far the siblings had come over the course of the engagement.

Formalizing Ownership and Building a Board of Directions

With the family dynamics in a better place, the Cook siblings were now in a place where they could have focused conversations about the business as equal owners. During quarterly ownership meetings, the siblings would now discuss the health of the business and distributions as well as its strategy for growth, risk, profitability, and liquidity. The ownership group put all Cook siblings on equal footing, thus being able to discuss their wishes for their company while seeking alignment as a group.

The second part of phase three was to establish a board of directors. Consisting of the three Cook siblings who had worked in the business along with two other independent board members, the board will respond to the wishes of the ownership group and provide direct oversight for the new non-family CEO. This clear chain of command, starting with the ownership group, then the board of directors, and finally the CEO, provided clarity and structure for the governance of the family business.

The result of this multi-phase engagement was that the Cook family business was able to successfully transition leadership to a non-family CEO, build and formalize an ownership structure and board of directors, and work through their intense family conflict. Without that initial phase one work of resolving old conflict, none of the subsequent work would have been possible. And if the Cook siblings hadn't been willing to be all in, it simply wouldn't have happened. This engagement was not just a success story for the business but for the family as a whole. The Cook siblings are now spending time together outside of the office and boardroom, working together as owners of the family business and also reforming their relationship as siblings.

Summary

So, why did these cases succeed when the ones in part one failed? It was not that these engagements were any simpler or teed up for success (in fact, in many ways, the conflict of these engagements was much more complex than that in part one). The difference really came from the ways that the families chose to commit to the work. Not one family member in either of these engagements was noncommittal or halfhearted in their desire to get the work done.

That is not to say that there weren't hard days throughout the process. All consulting engagements, especially those dealing with deep-seated family conflict, will come with their share of difficulties. Family members will feel a wide array of emotions as old conversations they thought were put to rest are brought up again. But inevitably, when the conflicts are properly addressed and resolved, the family always feels better than when the conflicts were simply hidden under the rug and left unresolved.

When I think back on clear success stories, these two engagements always come to mind. Seeing the result of the work we did in the way the families now communicate and bond with each other reminds me of why I do what I do. And it's why whenever I work with a family business, no matter the size of the engagement, I always encourage them to be "all in!"

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