

## Managing Unsolvable Problems: Understanding Paradox

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A paradox is a special kind of problem that has no solution. Paradoxes can only be managed, they can't be solved.\* Family businesses — like all systems — wrestle with tough challenges that, upon closer examination, prove to be "complementary opposites" or paradoxes. Some examples:

- Family AND Business
- Harvest AND Invest
- Tradition AND Change

The wisest response to these paradoxes is to find ways to value and pursue BOTH values, even though it may appear — and feel — impossible.

Paradoxes are made up of two desirable values that appear to be in conflict but, in fact, are complementary. Choosing one to the exclusion of the other will yield predictable difficulties, but finding ways to pursue BOTH will yield superior outcomes, stronger relationships and more effective communication.

What's the difference between a paradox and a problem? A problem can be solved, decided, put to bed. For example: Should I hire my daughter, yes or no? Should I invest this year's profits into the business rather than paying a dividend, yes or no? Should we introduce a new product this year, yes or no? These problems may be difficult, but once decided and solved, we move on.

In contrast, a paradox can't be solved, it can't be put to bed. With the paradox of "Family and Business," which would you choose? Which side of "Harvest and Invest" is superior? Which value would you select for "Tradition and Change?"

Hopefully, your choice in all of these examples is: "Yes, both!" The key to paradox management is recognizing that choosing one, to the exclusion of the other, will bring predictable problems. As you recognize the paradox, you know the necessity is to support both.

What paradoxes do you encounter in your family firm? How do you find the both/and solution?

Recognizing the presence of a paradox is the first step. Managing the paradox with skill is the next step.

"We need a new way of thinking about our problems and our futures. My suggestion is the management of paradox, in that paradox can only be 'managed' in the sense of coping with...Paradox I now see to be inevitable, endemic and perpetual. The more turbulent the times, the more complex the world, the more paradoxes there are. We can, and should, reduce the starkness of some of the contradictions, minimize the inconsistencies, understand the puzzles in the paradoxes, but we cannot make them disappear, or solve them completely, or escape from them. Paradoxes are like the weather, something to be lived with, not solved, the worst aspects mitigated, the best enjoyed and used as clues to the way forward. Paradox has to be accepted, coped with and made sense of, in life, work and in the community and among nations."

Which to choose: Family first or business first?

Those who recognize the presence of a paradox would say: "Yes, both!" However, many families feel compelled to make a choice.

Let's look at one case where this paradox was not managed well. The fictional Smith family often worried about the family interfering with the business, and over the years, set out to pursue business-first decision making. A merit-based employment policy required family members to work outside the company for five years and earn their MBA before applying for employment at Smithco. Family members were expected to be more qualified than non-family applicants, and could only apply to the company when an open, existing position matched their skills and experience.

On the five-person Board, two slots were designated for family directors. To qualify for consideration, the family member had to have at least 10 years of demonstrated success in a top business leadership role and at least five years of experience on a Board of Directors in a related field. No family meetings or family council was felt to be needed.

Now entering its fourth generation of family ownership, only one G3 family member was working in the business and she was nearing retirement. No G4s had expressed interest in the business because most were pursuing careers in other fields and other cities. The two current G3 family directors were nearing their retirement age, and serious doubts existed as to whether any G4s would qualify as Directors.

The current owners of Smithco, while proud of the non-family management and directors that had been so important to its continued success, were quite disconnected from the business they owned. Outside of dividends, they experienced no benefits from their family ownership and knew very little about the business. Because of these factors, a committee of the board has begun exploring sale of the business.

A sale is not necessarily a negative outcome, but if the goal of the family was to remain a family business, balancing their business-first approaches with some attention to family-first actions might have led to a different outcome. Family-first actions such as educational family meetings for family owners not working in the business, tours of facilities or summer internships for younger family members could have yielded vastly different results.

The Smith family worried that unqualified family influence on the family business would bring about its destruction. Paradoxically, keeping family away from their business may well have created the very conditions they most feared.

Taking one side of a paradox to the exclusion of the other, always leads to suboptimal results.

We have talked about the need for "both/and" responses to paradox. Easy to say, but how to put into practice?

Let's take a fictional example based on actual situations. Bizco is a 35 year old real estate company, growing and profitable, moving from G1 to G2. From the beginning, mom and dad, along with their son and daughter, have set a goal of building BOTH a strong family AND a strong business. And, they have succeeded!

How? They started early! While the children were young, the family actively participated together in volunteer activities and travelled together, building strong relationships and open communication. The parents spoke openly with their children about the growing business, its contribution to the community, and the values that guided the business' growth and decision-making. Although the parents encouraged the siblings to consider a career in the family business, they were clear that employment would be based on qualifications and skills, not family status. At the same time, they encouraged the siblings to explore their individual interests and passions with no pressure or requirement to come work in the family firm. The parents also demonstrated through their actions the power of a strong, mutually supportive family.

As the siblings entered college, the sister participated in the business' summer internship and began to develop an affinity to real estate. Brother was more interested in animal medicine and found summer employment in a local vet's office.

These different interests reached their logical conclusion, and the decision to employ the sister but not the brother in the family business came logically and without drama. The brother pursued his interest in veterinary medicine, but remained an active and supportive family member to his sister and parents. They continued to travel and volunteer together, now including in-laws and grandchildren. Employment of one sibling and not the other had no negative impact on the family, which continued on its supportive and loving way. And, since ownership of the business will pass to both siblings, they have begun meeting as owners to learn and plan for the future.

The family's emphasis on family AND business started very early. As the years went on, the two were proven to be compatible — not in conflict.

## Using the Paradox Model to Unstick a Stuck Situation

Recently, I presented to a very engaged, thoughtful and curious group of family businesses and their advisors at the High Center for Family Business at Elizabethtown College in Pennsylvania. They quickly grasped the importance of managing paradoxes for both/and outcomes. But they kept pushing me to explain more specifically how they might apply these concepts, so I told them I'd use

this article to explore some practical applications of the paradox insight.

Let's take a very common paradox in family business: Harvest and invest.

Many business owners — especially founders — believe that every earned dollar should be invested back in the business. Funds deployed within the enterprise outperform every other possible investment. Investing dollars in any other way appears foolish, almost crazy. Keeping all the eggs in one, closely controlled basket is the only approach that makes sense. Besides, it is often argued, individual family members have plenty of funds and rarely have a real need for more money.

However many folks — especially in G2 or G3 — disagree. They believe that a harvest event, i.e. a dividend or distribution, is essential to give them some measure of independence and self-determination. They recognize that their financial return on investment may be smaller outside the family enterprise, but they value other, non-financial returns. For example, the opportunity to move some eggs into a variety of baskets and diversify their assets, or to engage in a project all their own.

Why is it so hard for the investors to see the advantages of an appropriate harvest? Can an appreciation of paradox help them see that harvesting is not a threat to investment, in fact it generates support for investment? Paradoxically, a modest harvest to owners is probably the most powerful

force for building support for future investment which will be necessary for creating future harvests.

And what about the harvesters? They must appreciate the importance of expressing support for investment as the source of their past, present and future distributions. The classic need to "protect the goose that lays the golden egg" must be made crystal clear to those who are tempted to overemphasize the benefits of harvests.

How do you unstick a situation where folks are tussling over two desirable approaches? Paradoxically, start by helping each side embrace, support and even advocate the position of the other side.

It is part of how the paradox works: Expressing staunch support for your "complementary opposite" actually creates stronger conditions for the implementation of your preferred approach. In the same way, any action you take in support of your less preferred option will help create more stability and trust in the larger system.

Many family businesses do this instinctively with great success. Now that you've heard these ideas, give them a try — they work! Let us know what happens.

*\*My deep thanks to Dr. Barry Johnson for his pioneering work and inspiration in this field. Please see [www.polaritypartnerships.com](http://www.polaritypartnerships.com) for more on polarities and paradox.*

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