

# **FAMILY BUSINESS**

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# **ON THE COUCH**

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**A Psychological Perspective**

**Manfred F. R. Kets de Vries**  
**and**  
**Randel S. Carlock**  
**with**  
**Elizabeth Florent-Treacy**



John Wiley & Sons, Ltd



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This book is dedicated to business families around the world:  
over the years we probably learned more from them  
than they did from us.





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## PREFACE

As the twenty-first-century global economic model rapidly replaces the old industrial model, government policy makers, economists, and academics now recognize that entrepreneurial and family enterprises—the oldest form of commercial organizations—are a prime source of wealth creation and employment in both developed and emerging economies. Families control 95% of the businesses in Asia, the Middle East, Italy, and Spain. In mature industrial economies such as France and Germany, over 80% of the companies are family controlled. In the United States, with its strong public stock markets, families control 60–70% of the country’s commercial organizations. (These figures are based on the definition of a family business as being any business organization where decisions and leadership are influenced by a family or families.)

The rise in interest in family businesses has also been a result of many social and economic forces: generational transitions; downsizing in the large corporate world; a heavily mediatized anti-globalization movement; a search for a more balanced lifestyle through self-employment; and the dramatic growth of Asian and other developing markets. Family businesses also represent an important untapped market for private banking, mergers and acquisitions, and recapitalizations, as well as sources of funding (for example, the investment of assets from family holding companies) for private equity and hedge funds.

As the traditional psychological contract between individual and organization has been broken, corporate loyalty has become a relic of the past. The ‘organization man’, the one-time mainstay of the large corporation, is rapidly becoming extinct. As a reaction to the lack of security offered by large organizations, many individuals—among them potential employees and other

stakeholders—are attracted by the corporate values espoused in family-controlled firms.

In this context, a growing number of younger members of business-owning families, concerned about their own careers, are taking a second look at the job options in their father's (or mother's) company. One obvious career path for someone from a business family is to join a firm he or she already has a stake in—thereby making a kind of emotional investment that is quite different than they would make in joining a public corporation.

The career options in family firms can be interesting, for both family and non-family professionals. One-third of the companies included in the US Fortune 500 list are family controlled [1], as are some of the world's most successful firms, including Michelin, Peugeot, LVMH, Monoprix, Wendel and Carrefour in France; Tetrapak and IKEA in Sweden; Roche in Switzerland; BMW and Henkel in Germany; Barilla and Benetton in Italy; C&A, SHV, and Heineken in the Netherlands; Associated British Foods and Sainsbury in the United Kingdom; Power Corporation and Bombardier in Canada; Cargill, Koch Industries, GAP, Mars, Bechtel, and Wal-Mart in the United States; and Hutchinson Whampoa, Suntory, the Swire Group Toyota, and Hyundai in Asia. Even in large organizations such as these, the idea of family may be firmly anchored in the minds of key stakeholders, with a significant impact on prevailing leadership style and corporate culture.

Those working with family businesses in a financial or legal capacity—management consultants, bankers, accountants, lawyers, investment counselors, and other professionals—often realize that family businesses have certain unique qualities, problems, and challenges. In fact, most business issues facing family-controlled firms are similar to those faced by equivalent publicly or widely owned firms, but the challenge for the adviser working in this context lies in finding explanations for often seemingly irrational behaviour and decisions of the family about these issues. What makes many family business issues seem intractable is not the business aspects, but the emotional issues that compound them. In a family enterprise, issues like hiring, dividend payment, or succession—difficult though they may be—are really just ordinary business tasks, requiring planning and decision making. But this planning and decision-making process can be made extra-



ordinarily complex by the dynamics of the controlling family. Personal differences in the values, motivations, and needs of different family members lead to conflict in the family's business. The ability of family leaders to adapt to the changing needs and requirements of individual family members is therefore critical, particularly when dealing with succession or other transitions.

Interview any business family and they will explain that their family's issues are particular to their family's situation. They will give examples: the senior generation will not share power with their adult children; there are family members in management positions for which they are not qualified; the owners lack influence in the business; it is impossible to have a professional relationship with Dad/Mom/Uncle Bill/the cousins; and so on. Or they'll mention the vexing issue of differences in intergenerational goals: 'They don't trust us, understand our thinking, or recognize how the world is changing.' 'They don't seem to value our experience; they want to change everything too quickly.'

So, what factors enable certain family businesses to succeed while others fail? And why are family businesses so different from other businesses? We believe in large part it is because, in a family enterprise, there is a coming together of two different systems—the business and the family. For this reason we believe it is necessary to use both economic and psychological approaches to understanding the workings of family businesses. Established means of measuring and understanding business performance can only explain so much in the family business. The rest of the story can only be uncovered by exploring the conscious or unconscious motivations that drive individuals in the business family. However, since these individuals' motivations are being acted out within a family context, it is also necessary to understand more than just the personal psychology of each family member: the way the family works as a system, and how this affects the individual psychology of each of its members, must also be looked at.

## **A PSYCHOLOGICAL PERSPECTIVE ON FAMILY BUSINESS**

Along with using established means of measuring and understanding business performance, there is a powerful rationale for

using a psychological perspective, taken from both a psychodynamic and family systemic orientation, to explore and understand business families. The motivations and drives that shape individual behaviour tell part of the story. The way a family interacts around the dinner table tells another. When insight into individual behaviour is combined with a family systemic view, we arrive at a rich understanding of what makes business families such powerful creative and destructive forces. It has been said—and we agree—that a study of the family should be included in organizational research because families ‘influence behaviour at the individual, group and organizational levels of analysis’ [2].

### **Love and Work**

Sigmund Freud, the founder of psychoanalysis, argued that *lieben und arbeiten* (love and work), are ‘the cornerstones of our humanness’. By this he meant that love (a feeling of affinity and connectedness) and work (a sense that one’s efforts are useful) are the main sources of self-esteem and pleasure in life, and only when both are balanced do we achieve satisfaction [3].

Many family businesses experience a conflict between love (family) and work (the business) because the business is not adequately separated from the family. It has often become an extension of the family system, assuming its rules and behaviour patterns. If a family’s pattern of functioning encourages clear boundaries and effective decision-making practices, it will foster sound business processes. Equally, if the family–business boundaries are blurred and family functioning is ineffective or conflicted, management processes will be adversely affected—often for no easily discernible reasons. On an individual level, the strong identification of family members with the business itself, and the intensity of emotions among the participants because of what the business represents to each one of them, may be additional sources of interpersonal conflict.

Sustaining a business over time is not an easy task even for large publicly traded companies. A simple check of the US Fortune 500 list demonstrates the point: only 77 companies have stayed on the list in their original form since 1955. More than

80% have gone bankrupt, or have been sold or acquired over the past 50 years [4]. Family business statistics offer a similar picture, with only 3 out of 10 family businesses surviving into the second generation, and only 1 out of 10 handed down to a third. The average life span of family firms (after a successful start-up) is 24 years, which coincides with the average time the founder is associated with the company [5].

What explains these rather discouraging statistics? Family enterprises face serious challenges on two fronts. There are the business issues all companies face and then there are the complex emotional and relationship issues mentioned earlier. Although they are usually experienced on the business side, many executives and family business owners need help, often in the form of outside intervention, to break ongoing stalemates in the business caused by interpersonal conflict. All too often they fail to recognize that these problems stem from the family side, or, if they do understand this, may not know where to turn for appropriate help. However, if the family can, nonetheless, survive the difficult transition to the fourth generation of family ownership, the chances are far higher that the family will continue to remain involved with the business in some form.

## THE PSYCHODYNAMIC PARADIGM

The family business is pulled in several directions. Individual family members involved with it will strive to create opportunities for themselves, as well as financial gain and rewarding relationships. Their desires and motivations will affect the company. Then there are structural conflicts between the operating principles of a family and their business. However, the two systems are interdependent: the family's values and behavior affect the company's policies and decisions; and the company influences family members' careers, relationships, and finances. The mingling of family and business systems in a family enterprise explains why drawing on both psychodynamic and family systems concepts has proved to be extremely helpful in addressing family business issues that fall outside the boundaries of traditional management theory.

The psychodynamic perspective focuses on how present individual thinking and behaviour are shaped by experience and past events. The individual works towards answering some basic questions: *How do I see myself? How do I see the world around me? Is it a safe or a threatening place? How can I build on my past experience to create a better future? How can I avoid repeating past mistakes?* Because we are products of our experiences and our origins, the psychoanalyst or psychotherapist seeks to discover how these early influences affect the way we interact with others as adults. Clinical insights can help to provide a rational explanation for seemingly irrational behaviour. These insights become the building blocks for new beginnings.

The family systemic approach (which partially evolved from psychoanalytic insights, and in particular object relations theory) looks at how the family interacts *now*, and emphasizes the process of changing behaviour to create more effective relationships. The family systemic model recognizes the importance of past experiences, but focuses its intervention more on the requirements of the present situation, paying great attention to all the significant players. This is particularly useful in situations in which people must interact on emotional and cognitive levels in both family and business systems.

The advantage of these two psychological perspectives in a family business context is that they consider both the behavioral problems and the more enduring belief systems that underpin behavior at individual, interpersonal and family levels. Using these two perspectives will provide insights into the cognitive, emotional, interpersonal, and social spheres. Using these two perspectives as conceptual tools, academics, consultants, coaches, and therapists are able to address the unique human and organizational challenges experienced by family businesses. To illustrate with a business metaphor: companies use income statements to show the firm's financial trends and patterns over time, and balance sheets to show assets controlled on a certain date. The family systemic model is like a balance sheet: *This is where we are today, and here is the way we will deal with what we have.* The psychodynamic model is more like an income statement: *Here's the overview of the last 10 years; it shows where we're coming from and helps us to be more effective in predicting future trends.*

The challenge for business families, and their stakeholders, is to recognize the issues that family businesses face, understand how to develop strategies to address them, and more importantly, to create narratives, or family stories, that explain the emotional dimension of the issues to the family. It cannot be repeated too often: the most intractable family business issues are not the business problems the organization faces, but the emotional issues that compound them. Applying psychodynamic and systemic concepts will help to explain behavior and will enable the family to prepare for life cycle transitions and other issues that may arise. Examples of the psychological issues that many family businesses face include: deciphering roles and responsibilities within the family and business systems; exploring the motivations of individual protagonists and their family; and developing organizational structures and processes that support decision-making processes in the larger family business system.

Unfortunately, when analyzing organizations (including family businesses), too many people take a ‘rational actor’ approach, concentrating on structures and systems instead of paying attention to the human dynamics. Even when people are taken into consideration, however, most theories of individual motivation, decision making, and group behavior tend to be oversimplified. Many of these theories appear to be one-dimensional and static. Usually, differences in personality are ignored [6], and very little attention is given to the unique aspects of an individual’s character: specific motives, needs, defences, fantasies, symptoms, fears, and anxieties. Completely absent from the literature of family business is any consideration of the family system’s influence on individual behavior, a critical element in family firms [7].

In this book we will show that there are limitations to logical decision making. Non-rational forces can strongly influence leadership, interpersonal relations, group functioning, organizational strategy and structure, and corporate culture [8]. Our challenge is to apply both psychodynamic and family systemic perspectives to bring the human and family dimension back into our thinking about organizations.

Because the psychological forces that make up individual personality are fundamental to understanding the psychody-

namics of the family firm, we will explore psychodynamic constructs such as the role of unconscious motivation, the effect of intrapsychic reality, defense mechanisms, and the impact of childhood experiences on adult behavior. We'll also look briefly at human development, and explore how life cycle transitions can affect a business family. In addition, we will apply family systemic constructs such as interpersonal relationships, family functioning, and structures and hierarchies. These concepts will support a deeper understanding of how to improve functioning and strengthen relationships in the family. They are applied to real family businesses, through case studies.

Ideas from the psychodynamic and family systemic approaches are integrated with an existing body of literature on leadership, executive behavior, decision making, group dynamics, organizational stress, power and politics, organizational design, organizational culture, strategy, and organizational development and consultation, to offer new perspectives on family business functioning. The application of concepts derived from these psychological paradigms to more traditional management theory discloses patterns that can be woven into a unified *gestalt*, helping us to explain the psychodynamics of life in family businesses.

## OUR INTENDED AUDIENCE

We hope that a book offering a broader perspective on family business by addressing the human dynamics of such firms will be useful to a number of audiences.

Our most important readers will be business families themselves and their stakeholders, some of whose experiences and issues we will be sharing and exploring in this book. We hope that family executives, owners and directors, and non-family directors and executives will all find this book deepens their understanding of the unique challenges associated with a family enterprise.

Another aim is to provide business students taking a family business, strategy or organizational behavior course with a new resource to understand better the challenges and opportunities created for consultants working with family businesses. The book should also be of interest in executive seminars, and we hope,

management consultants, executive coaches and other professional advisers will find it useful in their organizational diagnoses and interventions.

For the venture capitalist, investment banker, lawyer, accountant, estate planner, or tax adviser, this book should provide help in judging the stability and potential of business leaders, owners, and their companies. The case studies should also be useful in evaluating the kind of interpersonal issues that are usually not discussed in publicly owned businesses.

For the academic and research community, we hope this book will provide an in-depth understanding of human motivation and family dynamics in a business setting. It should also help in developing more realistic models of organizational functioning and enhance understanding of the influence of family concerns on individual careers.

## **A ROADMAP**

Immersing yourself in the non-rational world of family dynamics can be a baptism by fire. The learning-by-doing experience is there, but without sound theory the understanding of the various interdependencies may come too late. The case method can prevent some costly mistakes. Rich case descriptions allow students to assume the role of the protagonists, trying to find options that improve performance and make sense of complex situations. Empathy, applied new thinking, and reflection are ideal vehicles for personal learning.

As indicated before, we offer two complementary frameworks (psychodynamic and family systemic) to help to make sense of family-run organizations. Although this book includes many conceptual models, it is first and foremost a practical book about the real world issues faced by business families. It includes many case stories, most of which we have developed from our consulting and research and use regularly in the classroom. Although the cases provide factual narrative, they are susceptible to human error and bias. For many, we offer some of our reflections on what we think is happening—but those reflections only represent our perspective. Readers should examine each case carefully and

draw their own conclusions, identifying the problems or dilemmas faced, and the options for improved business performance and family relationships. They should ask what they might have done in the given situation and what new insight into individual or family behavior the case offers.

## THE STRUCTURE OF THE BOOK

### Part I: Questions and Observations

*Introduction* We begin with a story about Steinberg, Inc., a once-successful Canadian family company that was sold and later went bankrupt, primarily due to conflict in the third generation. This case study presents the kind of family business psychodynamic processes that we question and explore in subsequent chapters.

*Chapter 1* A Psychological Perspective on Business Families proposes that understanding individual and family behavior is a useful framework for families, advisers, students and academics. It explains in greater depth the psychodynamic and family systems approaches, and life cycle stages in human development.

*Chapter 2* The Challenges of Love and Work is based on our research and interviews with many stakeholders in family enterprises. It looks at the business and human challenges that are particularly applicable to family firms.

*Chapter 3* Family Business Practices: Assessing Strengths and Weaknesses looks at the strengths and weaknesses of family businesses from a psychological perspective. We explore some of the advantages in working for a family firm and the particular challenges that family firms face.

### Part II: Reflection and Learning

*Chapter 4* The Life Cycle as an Organizing Construct is a way of understanding the different stages in human development. The life cycle highlights the biological aspects of psychosexual development while recognizing the impact of society, history, and culture on personality. These life stages need to be taken into consideration when dealing with the protagonists in family firms.



*Chapter 5* Narcissism, Envy, and Myths in Family Firms starts with a discussion of psychodynamic perspectives on individual development. The origin and dynamics of a reactive form of narcissism, which is quite common among people in family businesses, are explored. We also examine separation-individuation—the process of becoming a person and differentiating oneself from one’s family—sibling rivalry, and Oedipal problems. The chapter ends with a discussion of envy and how it colors generational and intergenerational dynamics.

*Chapter 6* The Entrepreneur: Alone at the Top. All family firms begin with an entrepreneurial act. In this chapter, we examine some of the themes that preoccupy entrepreneurs and how they affect their behavior, and address the difficulties in working with entrepreneurs.

*Chapter 7* Leadership Transition: Replacing a Parent as CEO examines the psychological pressures that leaders of organizations face, and provides insight into why some leaders fail when they reach the top.

*Chapter 8* A Systemic View of the Business Family places the overall family system under the microscope. We highlight how what happens in a family business is strongly influenced by the family system’s structure and matrix of relationships.

*Chapter 9* Diagnosing Family Entanglements introduces two conceptual instruments that will help the reader to decipher the entanglements that occur in families and family business. In this chapter we discuss the genogram—a tool that gives a quick snapshot of family relationships. Another conceptual tool that will be dealt with in this chapter is the Circumplex model—a framework that provides information about degrees of family cohesion and flexibility.

### **Part III: Integration and Action**

*Chapter 10* Addressing Transitions and Change explores how change affects individuals, families, and their enterprises. This chapter includes a review of tools and techniques for assessing and understanding change in individuals, families and organizations.

*Chapter 11* The Vicissitudes of Family Business is an in-depth study of the Steinberg family, first introduced at the beginning of the book, with full commentary and analysis, and describes the way an imaginary intervention might evolve.

*Chapter 12* Putting Family Business Intervention into Practice closes the book with an application of psychological thinking in a real-world situation, with examples and advice on using the techniques we present in the earlier chapters. We share our insights the ways in which coaches, consultants or counselors may help family businesses to manage interpersonal and group relationships for sustaining business performance and family harmony.

## **ENDNOTES**

1. The term 'family controlled' is difficult to define. In many companies, the family may have a minority stake, but for historic or other reasons, they may also retain a great deal of influence in the company and in the community. We define family-controlled firms as organizations where family members retain significant decision-making power concerning strategic direction and the making of key appointments. See Carlock, R.S., Kets de Vries, M.F.R. and Florent-Treacy, E. (2007) 'Family Business' entry in the *International Encyclopedia of Organization Studies*, Thousand Oaks, CA: Sage.
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**PART I**  
.....

# **QUESTIONS AND OBSERVATIONS**

