

Generation change in family-run enterprises

1. Initial situation

Generation change in family-run enterprises is a challenging and particularly delicate process as three highly complex systems interact in family-run enterprises: The family system, enterprise system and proprietor system, respectively the group of proprietors. To do justice to the dynamics and complexity of family-run enterprises it is helpful, to observe these three social systems from a system-theoretical perspective, guided by the rules of interaction and communication.

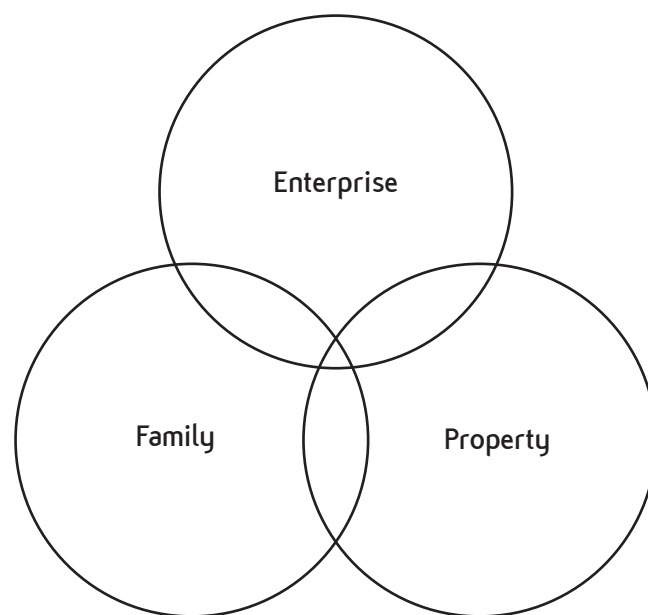


Illustration 1: 3-circle model of family-run enterprise¹

The three overlapping circles emblemise the specific characteristic of family-run enterprises. The differentiation between the three dimensions of “proprietor”, “family” and “enterprise” help to distinctively differentiate the logics of these systems from each other and to better understand their interrelationships. As each of these social entities has its own characteristic momentum, the interaction between these systems can only be properly understood by initially examining their existing diversity.

¹ Simon, F.B. et al. (2005), Mehr-Generationen-Familienunternehmen

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Each of the three systems has its own problems, needs, resources and lifecycles and each system, however reluctant, depends in partial areas on the two other systems. This allows the deduction of several theses:

- Each system differently deals with change. The family system, for example, may object to any risk or any change. The enterprise system and the proprietor system, however, regard change as a constant value. Both systems daily need to accept calculated risk in order to keep the competitive advantage of the enterprise.
- Each system uses different assumptions. An entrepreneurial family for example since generations may have the prevailing assumption, that the eldest male member of the family should manage the enterprise. This person, however, will not always bring along the best skills to do so.
- Any impairment within one of these circles will inevitably affect the other ones.²

The closely coupled systems of the family-run enterprise from the system-theoretical perspective also underline the day-to-day tension which can unfold in the interaction and communication within the enterprise and family. Due to the fact of different rules of the game within the three systems or “playing fields” the individuals play different roles. And they act in each field according to given situations and at the same time see themselves exposed to different expectations.

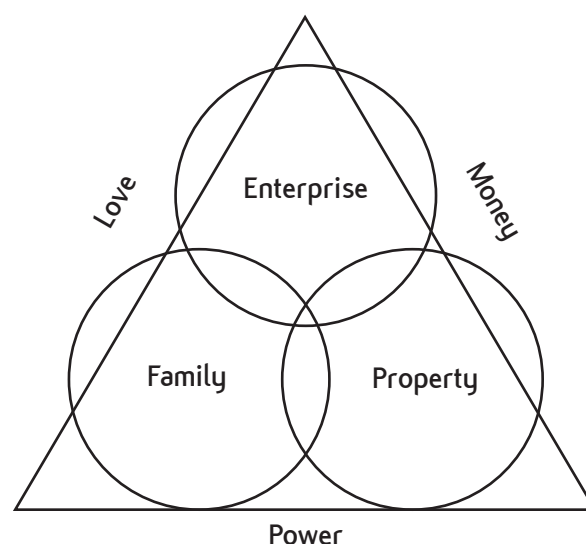


Illustration 2: Roles in family-run enterprises according to Davis³

² Vgl. Brown in Organisationsentwicklung (1999), Spezial 3 – Familienunternehmen

³ Vgl. Gersick, Davis, Hampton a. Lansberg (1997), Generation to Generation, Life Cycles of the Family Business

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Illustration 2 shows these three „stages“ with seven different roles. And it illustrates the fact, that individuals, according to their identification, hold a different status to one, two or all three systems and also have different relations between each other. This results in totally different and partially contradictory role requirements:

- Only member of the family (1)
- Active member of the family without financial participation (2)
- Member of the family and inactive shareholder (3)
- Only (external) minority shareholder (4)
- Active (external) minority shareholder (5)
- Employee of the enterprise only (6)
- Member of the family and managing director and shareholder (7)

If one clearly realises that members of the family take over different roles within different systems and at the same time have to meet varying expectations, then it is easy to understand, what an enormous complexity they have to cope with and also in which kind of conflicts they can get tied up in. This complexity, on the one hand, results in specific psychological requirements to a member of the family, and on the other hand it results in the risks generally connected to the enterprise type of family-run enterprises.

2. Success factors of family-run enterprises

The specific coupling of differing interests in family-run enterprises always is a challenge as the interests of families and of proprietors never really equal the development requirements of an enterprise. In the course of time conflicts between and within the three systems are more likely than consensus. As a rule a massive conflict within the family has an impact on the enterprise and this also applies for example to change in ownership. The lack of an active management within the family or amongst the proprietors makes the end of the enterprise as a family-run enterprise during these developmental crises most likely.

Based on a study of the University Witten/Herdecke⁴ it will be shown, how persistent family-run enterprises have managed to master the paradoxes and conflicts evolving from the interaction of family and enterprise and how to transform them into success factors.

⁴ Wimmer, R. /Groth, T. / Simon, F.B. / (2004): Erfolgsmuster von Mehrgenerationen-Familienunternehmen, Wittener Diskussionspapiere, Sonderheft 2.

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3. Essential pillars for sustainable consulting for successors

During the consulting of family-run enterprises it is a special challenge to form the whole process of consulting in such a manner that all involved systems and their differing logic and needs resulting therefrom are met in a beneficial way. For families it is crucial to structure the operating process in jointly supported property strategy and family strategy. Besides of these family related developmental processes (family and property) it is highly advisable to elaborate a broad strategic orientation for the future of the enterprise.

Lievegoed's model of "development phases" is a great help as it enhances the understanding for occurrent symptoms in the enterprise and broadens freedom of action.

4. Continuative perspectives

The approach of consulting outlined here respects the dimensions of family, ownership, enterprise and leadership by careful analysis of the involved systems. Specific fields of conflict become visible. This enables a careful situation analysis respecting all involved systems.

The generation change in family-run enterprises is one of the most risky phases in the lifecycle of an enterprise. It requires all involved systems (family, property and enterprise) to take care for a deliberate provision, which is rarely achieved. In most cases a sustainable concept is missing. Most cases lack a sustainable concept. The case outlined in the brochure "generation change in family-run enterprises" indicates how families co-ordinate their activities and enterprise in a sustainable way and in a holistic process serving differing logics.

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I look forward to accompanying and supporting you to ensure a successful generation change in your family-run enterprise.

My service:

- Successor arrangements and hand-over agreements
- Strategic orientation – family
- Strategic orientation – enterprise
- Mediation and conflict resolution in family-run enterprises
- Family conferences
- Proprietor consultation
- Counselling of successors