FFI Practitioner, Vol. 7 Issue 1, March 18, 2011

Tips for Those Difficult Family Business Conversations

By: Jeff Savlov

For professional advisors who work with enterprising families, having direct, matter-of-fact conversations about problematic family dynamics can be daunting. Most advisors have a good deal of insight into the dynamics of the family and are able to anticipate pitfalls involving family relationships. But in some cases, advisors either feel that a situation is outside of their area of expertise or they find they have qualms over whether discussion is worthwhile or will “open up a can of worms” that might cause more harm than good. It is not unusual for advisors to feel caught between a desire to warn clients of these dangers (many of which they might have seen before) and the fear of creating a "train wreck" for which they will be blamed.

Stressing the importance of helping families have these conversations, Williams and Preisser, in their 2003 book Preparing Heirs: Five Steps to a Successful Transition of Family Wealth and Values, discuss their research of 3,250 families transitioning wealth, some of whom had operating businesses and others who shared complex assets without an actual operating business. As is often quoted in the literature, they found a 70% failure rate. However, their research went further and looked carefully at underlying causes and found that 85% of all failures were accounted for by:

- Breakdown of communication and trust in the family (60%).
- Inadequate preparation of heirs (25% - they found this to be a consequence of communication/trust breakdown in the family).

Also, they found less than 3% of failures were due to errors made by financial professionals. These professionals (lawyers, accountants and financial planners) are very proficient with "technical" solutions and strategies. As these professionals are often the primary, front-line advisors to enterprising families, they are in a unique position to start and continue the kinds of conversations that are essential for successful transitions of family and enterprise.

These conversations need not be dangerous or difficult, though they do require some appreciation of and knowledge about the most effective ways of approaching them, and they are most effective when the professional has found a style that is as genuine and comfortable as possible. When conducted carefully and appropriately these conversations often have the effect of strengthening relationships regardless of whether the client wants to dip a toe in the conversation, dive right in, or hold off for the moment.
Conversation Starters - Open-ended Questions

Opening the door for this kind of conversation is best done with general, open-ended questions. This allows the client to decide how deeply to venture into the topic. The advisor, by listening carefully, can get a sense of the client's comfort level and regulate the conversation accordingly. While some attempts to open discussion will be met with resistance (handling this situation effectively will be addressed later), often, once the conversation has begun and the client starts to open up, the rest unfolds naturally.

When famous comedians are interviewed, they uniformly refer to the preparation and practice required to look spontaneous and natural when performing. While this may seem a contradiction, sometimes a carefully crafted sentence or two can get things started and relieve any discomfort the advisor might have so that things do come across more naturally. Also, quoting a statistic (like Williams and Preisser above) or personal anecdotal experience can help to prime the pump.

Here are some examples, including both formal and informal language. It is essential that the language feel natural and genuine for the advisor, so may be varied as needed.

- "What do you find are the benefits and pleasures related to having a family-owned business?" Follow up with, "What are the challenges?"

- "In my experience working with families around business/financial issues, it is quite normal for family relationships to affect the business and vice versa. There are beneficial effects as well as more problematic ones. What has your experience been with this interplay of family and business?"

- "Family life can be pretty intense in my experience. My siblings and I never ran a business (ran a foundation, shared ownership of complicated assets, etc.) together. Just based on what I remember from when we were kids, and thinking even about the challenges we have trying to plan Thanksgiving now, I have a sense of how tricky it can get. I can easily imagine some of the challenges we would have faced owning a business together. What goes on with your family in terms of relationships and how they affect business life?"

- "Let's face it, mixing family and business can get downright hairy at times. We've known each other for only a few months and I've gotten a good sense of your family and the business you run together. The business has been successful and the tensions are also pretty palpable, especially between your kids. How are you handling it?"

Client reactions - Dip (a toe), Dive (right in), or Don’t (go there)

Soon after starting this conversation the advisor will likely have a sense if the client is feeling relief and appreciation, dread and anxiety, or is somewhere in the middle. Some clients will be somewhat apprehensive but open to the discussion, while others will dive right in. And then there are some who may want to stop the conversation completely – if this happens it should be accepted. However, this would be an unusual outcome if the advisor conveys genuine interest and sensitivity.
Here are some examples of these different reactions and how they might be dealt with:

- **Dip (a toe) –**

    - Sam (client): "It is pretty tough actually. My wife has pretty strong feelings about how the kids should be treated and I agree with only some of them. I barely have enough time to keep the business going let alone deal with the family issues. What were you saying about earnings a few minutes ago?"

    - {This would be considered a dip of the toe, as Sam is willing to speak openly about how tough he finds the situation and about his disagreement with his wife over the kids. However, he quickly tries to steer the conversation back to business. The advisor should reflect his hesitation, normalize his feelings and express how important it is to address these issues.}

    - Advisor: "Sam, you seem a bit hesitant to speak about these family issues. They certainly are complex. It's normal to feel this way, especially since this is the first time we've gone there. I do want to let you know that I deeply believe these issues are important to talk about and deal with as they can make a huge difference in terms of success and failure for family businesses. Are you willing to continue this chat in spite of some discomfort?"

- **Dive (right in) -**

    - Kate (client): "Dad still comes into the office frequently and often undercuts my decisions. He is clear that he wants me to run the place and take full ownership yet he can be a real pain. You've known him since I was a kid; how do you suggest I deal with this?"

    - {Kate "dives right in" describing her father's specific, difficult behaviors that frustrate her. She directly acknowledges the long-term relationship the advisor has with her father and asks for the advisor's involvement. The advisor should give Kate credit for taking the step, describe the conversation as new and different, reflect her feelings, ask for more information with an open-ended question and offer their support.}

    - Advisor: "Kate, this is a different kind of conversation for us as we usually tend to focus on more technical issues related to the business. I give you credit for your openness. I really believe, and research shows, that open communication between family members about the business and its future is helpful for all involved. I'm glad you are willing to be open with me and I understand how undercut you must feel. Tell me more about what's going on and we'll put our heads together. The fact that I've known your dad so long may enable me to support you in having this conversation with him."

- **Don't (go there) -**

    - Frank (client): "I really want to focus on my tax situation as it is the end of the year. The family stuff is complicated and the more I think about it, the messier it gets."

    - {Clearly, the client does not want to move in this direction and believes it will only make things worse. The advisor should directly communicate respect for the decision not to discuss the issue "at this time," planting a seed for the future. They should also empathize with the difficult nature of a discussion about family issues and include their heartfelt belief about the importance of leaving the option open for the sake of both family and enterprise. Finally, the advisor should offer a standing invitation to discuss this another time.}

    - Advisor: "Frank, I absolutely respect that this is a conversation you hesitate to have right now. It can be difficult. I believe the family issues in play in your situation are likely to have a significant impact on business performance and family harmony, and I'd be willing to discuss this any time in the future should you decide you would like to speak about it further. I'll follow your lead on this."

Help Is Out There

Inevitably, there will be situations involving family-business interplay that need more attention than the advisor may have the time, desire or training/experience to tackle. In these instances, referral to a family business consultant specializing in this area can be helpful. When making this type of referral, some professionals are concerned their clients will think they are being told they need a shrink and have psychological problems. Another concern that might arise is that clients will question why the professional cannot handle this for them. All concerns (imagined and actual) can be handled with some education coupled with direct and empathic language.

It is helpful to understand who these "soft-side" family business/wealth consultants are in order to better facilitate referrals when needed. Many come from family businesses or financial families themselves. Also, many have psychotherapy training in the fields of social work, psychology and psychiatry which often includes training in family systems theory/family therapy and group dynamics. However, many family business consultants have neither of these background experiences and are excellent. Others might have more of a business bent (M.B.A.) or an organizational development background; a great many have graduate work and research experience under their belt.

It is difficult to succinctly describe the wide array of quality experiences that bring people to this work, but it is essential that the advisor know the experience and training of the professional to whom they are referring and that they trust them and their work. Also, clear communication regarding the nature of the consultation, which will involve facilitation, education, mediation and a focus on family dynamics and the interplay with business is in order.

The Specialist

Family practice physicians refer patients to specialists all the time. Though they are perfectly capable of handling most of what is presented to them, occasionally they see something that is outside of their expertise and experience. What we're considering here is quite similar.

The referring professional needs to describe the following:

- An understanding of the situation in the enterprising family system
- The importance of addressing the issue (possible outcomes if not addressed)
- The specialist consultant and their qualifications
- That the referral is being made because the current professional does not have the training/experience or time (or both) to devote to the project

Making the Referral

Here's an example of how an advisor might comprehensively summarize the situation and clearly emphasize the need for a specialist's involvement:

- Advisor: "Pat, the tensions between you and your sister have grown considerably. While your dad meant the best for you both when he gave you each 50% ownership of the business, it has led to a stalemate in several areas of disagreement over the future of the business. If this is not dealt with soon, the business may cease to exist as you know it and as your dad knew it before he passed. Mia Lowe is an experienced family business consultant and I'd like you to consider having a consultation with her. We work closely together in situations such as yours. She will meet with you and your sister for an hour or so to see if there is a good fit. She is an expert in helping families sharing assets to manage the interplay between family and business. She will help you have the necessary conversations in order to make decisions you can both stick to. While I see situations like you and your sister are experiencing in my practice, Mia as a specialist is in a much better position to help you and your sister navigate through this with a positive outcome. I really trust her; please consider a meeting."

In Summary

Professionals serving enterprising families have an excellent opportunity to open conversations with their clients about the interplay of family and business. These discussions are crucial to the multi-generational success of both the family and the business. The advisor's awareness of their own relating style will help them be a more genuine and effective resource in having these discussions. And, when a specialist is necessary, skills can be developed in order to improve the advisor's ability to comfortably facilitate an effective referral.

About the Author

Jeff Savlov is a consultant to enterprising families and the advisors who serve them. He is the founding principal of Blum & Savlov, LLP, and his experiences include working in his family's commercial printing business, a career in sales and marketing (consumer products and technology) prior to training as a family therapist and certified psychoanalyst. His key areas of interest: Sustainability of family wealth, values led family and business, family business governance, development of the next generation and raising children of character.

Jeff can be reached at jsavlov@blumandsavlov.com or www.blumandsavlov.com.