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# BALANCING THE EMOTIONAL LEDGER:

AXIOMS AND GUIDELINES FOR COUNSELING  
FAMILIES IN BUSINESS

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BY JOE PAUL

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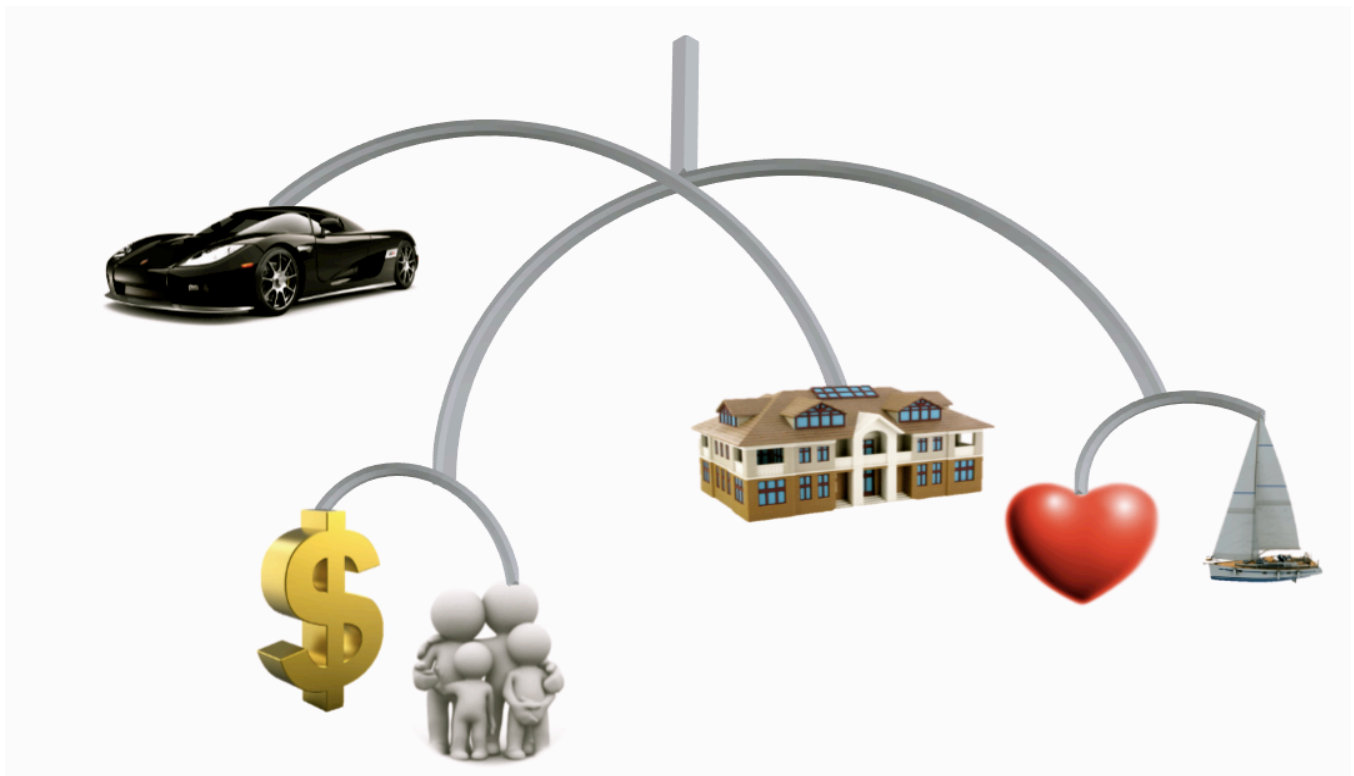


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## BALANCING THE EMOTIONAL LEDGER



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## AXIOMS AND GUIDELINES FOR COUNSELING FAMILIES IN BUSINESS

BY JOE PAUL



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*To my wife, Jane, a Rock of Gibraltar with a smile  
To my children, Hannah, Chris and Silas, who could not fulfill me more*



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### Acknowledgments

*To my partners in the Aspen Family Business Group from whom I have learned so much: Leslie, who can reframe the stripes off a zebra, and Bill, who can enter the labyrinth of family dynamics as well as any financial guy I know. To Kathy Wiseman for stretching my mind. To the Family Firm Institute for creating an environment where I could be what I was becoming. To Ken Kay for creating an intellectual crucible called PDFB. To Kay Abramowitz, my good friend, who has been my intellectual companion since the first steps of our journey. To Haluk Alajakleoglu, who opened the Middle East to me. To the Hoffman Institute, who healed so many of my clients. To Burak Kocer, for being my successor and translating this book into Turkish, so that the axioms can fall onto fertile ground in other lands. To Dennis Jaffe, whose intellect is rivaled only by the size of his heart and social matrix. To Sam Lane, who died before I could get enough of him. To Matt Wesley, who consistently writes essays I wish I had written. To Jim Hutcheson, who is so generous with his ideas and insights. To Judy Green, who nurtured a rendezvous of mountain men and women into a sophisticated interdisciplinary learning community. To David Bork, a force of nature.*

*And to Dove Lee, who gave me a deep sense of family by telling me stories of my ancestors as I would weed their graves.*



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## BALANCING THE EMOTIONAL LEDGER



### THE EMOTIONAL LEDGER

*The concept of the “emotional ledger” was formulated by the trans-generational family systems theorist, Ivan Boszormenyi-Nagy, and is a key idea in contextual theory. Of all the family systems theories, I have found the concepts of trans-generational family systems theorists, Bowen, Framo and Boszormenyi-Nagy, are the most relevant to the dynamics of families in business, with emphasis on the findings of Boszormenyi-Nagy. According to Boszormenyi-Nagy, the emotional ledger of the family is a balance sheet of indebtedness, entitlement and obligations that accrue in the processes of give-and-take between individuals and generations over decades. Families in business together often suffer from the commingling of the financial ledger of tangible assets and the emotional ledger of intangible liabilities. Regardless of our professional discipline, much of our work is in service to balancing the complexities of our client’s emotional ledger. This book is about that process. While it was written with the non-clinical advisor in mind, it will be valuable to anyone who needs to understand the complexities and challenges of being a family in business.*

### WHAT IS AN AXIOM?

This book is written for family business advisors and consultants. It is a collection of ideas about working with families in business that has developed over 35 years of working with families—first as a family therapist, and later as a consultant to families in business. My intent is to introduce you to concepts that enhance your work.

This book is part of an exit strategy, partially motivated by Parkinson’s disease that will cause what I have learned to evaporate, unless I pass on the ideas. When I was a young professional, I was conflicted about how much to share with my colleagues. Insights and knowledge gave one status and referrals, however sharing my ideas would develop the skills of my competitors. I had a tendency to hoard knowledge and disseminate it strategically. Now, all of that has changed, and my fulfillment comes from sharing that knowledge with others.



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Every session with a client is a dynamic ecology of ideas. Their ideas and yours compete for mind space. Just so, as you read these lines you may experience new ideas creeping into your mind. My goal is to introduce you to concepts that will enrich the existing matrix of ideas that define your practice.

The ideas you bring to the client's cognitive ecology vary in their impact and their attractiveness to the client. Some ideas are simply more persuasive and influential. Axioms are the ideas that are most powerful. They are thought of as self-evident. When the client feels the impact and persuasiveness of the axiom, they begin to question their existing matrix of ideas and look for ways to implant the new axiom into their organization and family. Axioms are an organization's most valuable intellectual asset.

These axioms are a collection of ideas that have served me well in my professional journey. They are all concepts that have worked well in maneuvering the situations of my clients. Some are ideas that I have stumbled upon in the face-to-face meetings with clients, while others have clarified themselves in reflections about my work. I would venture to say none of them are original to me, but are the results of stimulations from clients and colleagues. I have indicated the source when I know from whom the idea came.

The concept I have used as the title, *Balancing the Emotional Ledger*, was originally coined by Ivan Boszormenyi-Nagy, who developed the school of family systems theory called contextual theory. The concepts of contextual theory are, I believe, most relevant to the various family systems theories of counseling families in business.

I have grouped the axioms into four categories – Family Patterns, Change, Trust and Practice Issues. While this provides us with a way to categorize the ideas, many of the ideas do not respect the boundaries of the categories.





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### FAMILY PATTERNS

*“The lower the level of differentiation, the more likely the family, when stressed, will regress to selfish, aggressive and avoidance behaviors; [and] cohesiveness, altruism and cooperativeness will break down.”*

Murray Bowen

These axioms deal with the systemic nature of families and organizations. Part of the development of one’s professional expertise is the development of the ability to see past “presenting problems” and recognize systemic patterns that are superordinate to the presenting symptoms of the individuals. The recognition of these patterns of behavior, thinking and feeling will make your work more efficient and contribute to your trustworthiness with the client. When the client thinks you understand them, they become more trusting. Sharing the appropriate axiom with families at the right time reduces the client’s anxiety because it helps the family make sense out of what they are experiencing. Your ability to recognize family patterns will make you appear knowledgeable and wise.

**1. A family is like a mobile hanging from the ceiling. All parts are in a dynamic balance with one another. Any shift in one part requires adaptation from the rest.**

“Systems thinking” is an approach to understanding and working with the complex relationships of families in business. It underlies an approach to counseling and consulting where “presenting problems” are seen as elements of the larger system in which the “problem” serves a covert or overt purpose.

In a simple example, one family member always acts like a clown and keeps everybody laughing whenever the family tries to talk about succession planning. The disruptive behavior, it turns out, was driven by the person’s fear of his family’s anger and sense of injustice. Some things had happened in the past that were swept under the rug to keep the peace. However, he knew his cousins and siblings felt fierce resentments that would erupt when the topics of succession and inheritance were discussed. Families have an array of techniques to avoid the familial consequences of business decisions—among them is the distraction of the family jokester.





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2. It is not a question of whether a family in business is governed or not; the question is, “What are they governed by?”

*“Once there was a wise farmer whose quarrelsome family almost drove him to destruction. He strove in vain to reconcile his bickering children with words of good counsel. Then, one day, he called his children to his room. Before him lay a bundle of sticks, which he had tied together to form a fagot.*

*Each one of his sons, in turn, was commanded by the father to take up the fagot and break it in two. They all tried, but tried in vain. Then, untying the bundle, the father gave them the sticks to break one by one. This, of course, they did with the greatest ease.*

*Then said the father, ‘My sons, by this example you all can see that as long as you remain united, you are a match for all your enemies. But once you quarrel and become separated, then you are destroyed.’”*

Aesop

This parable raises two important questions: “Of what is the cord made?” and, “How does it feel to be part of your family’s bundle?”

The function of governance is to help organizations lead by principles instead of emotions and personalities. The structures and processes of governance hold people, ideas, assets and interests together like the cord in Aesop’s fable. However, the cord that holds everything together does not always fit everyone comfortably. For some families, the cord is a source of strength, purpose and identity, but for others, the cord is like a prison that holds everything and everyone together in painful ways.



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In the first and second generations, family businesses are often held together by the personality of the founder. If the founder is is “the tie that binds,” then the whole system is in crisis when he or she is gone. In the search for that which holds the second and third generation together, the business is more likely to survive if the cord becomes an articulated purpose and set of principles that guide the group.

Thus, the natural course of organizational development is from governance by personality to governance by principles and defined purpose. Each generation needs to take responsibility for articulating that which governs the interaction of their family, management and ownership. Conversely, there also needs to be a way out of the bundle for those who wish to leave. (See Appendix, *Code of Conduct*)

### 3. Resistance to professional recommendations for the business is often based on the fear of unintended consequences for the family.

The typical assessment of a family in business for services such as succession planning often overlooks the intangible liabilities in family relationships. These liabilities include obstacles such as mistrust, a sense of unfairness, entitlement, resentment, withholding information and selfishness. These feelings lead to internal competition, further withholding of information, sabotage and backbiting. Families with these internal relationship challenges often loathe communicating issues to their advisor because they are ashamed or embarrassed about the problems in the first place. When the advisor is also uncomfortable engaging in a conversation about these intangible liabilities, crucial issues remain unaccounted for, and the seeds are sown for future conflict.

### 4. A family’s intangible assets help sustain their tangible assets and give them meaning.

*All that is gold does not glitter  
Not all those who wander are lost  
The old that is strong does not wither  
Deep roots are not reached by the frost...*

J.R.R. Tolkien



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Trust is among the foremost of intangible assets, and is an essential part of doing business and running organizations. Low trust systems, for instance, are much more expensive to maintain than high trust systems. Some other important intangible assets are shared vision, shared sense of purpose, shared values, respect and a sense of fairness. See the Trust segment of this list of axioms for a more in-depth discussion of this asset.

### 5. It is dangerous to use the company as a way to control family problems.

If you try to manage the relationships between relatives or the behavior of individuals via money or employment, these problems will negatively affect the family and the business. In some cases, they lead to the downfall of the business.

A dramatic example of this pattern of behavior was seen in a family who owned several successful funeral homes. The father was distressed because his youngest son told him that if he did not fire his oldest son, he, the younger son, would resign. It came to this because the oldest son was addicted to cocaine, and the father was keeping his son employed to keep track of him. His theory was that if he kept his son busy, he would monitor and moderate his son's drug use and health.

Nevertheless, the addict son was now using drugs at work, creating embarrassing situations that risked their stellar reputation. The father's attempt to use employment to manage his son's addiction was seriously damaging the company.

### 6. Emotional states are analogous to physical postures. Being stuck in either is a form of paralysis that limits what is possible for you.

This idea comes from Karl Tomm, a family therapist and author. When I want to help free a person from excessive anxiety, I say something like this to him or her:



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*“Notice the physical posture you are in at the moment. You are sitting in a chair. This sitting posture is perfectly good for many activities, e.g. reading, surfing the Internet, having a conversation or taking a nap. Now, imagine what would happen if you became stuck in this posture and could only move your wrists and ankles. Suddenly, a perfectly normal posture becomes a profound disability. The list is very long for the activities that you will no longer be able to do. It is just so with chronic emotional states.”*

*“If, for instance, you loathe a person, there are limitations to what can happen in your relationship. If your feelings change toward that person for the better, new possibilities are available to you that were previously unavailable before the change in your emotional posture relative to that person.”*

Consider a man who despises his brother. Whenever he thinks of this sibling, he grits his teeth and feels himself tense up or become irritable. Some things will be impossible for these two to do together. Any attempts to work together quickly become flooded with emotion, while the ability to think clearly together becomes severely compromised. Their relationship itself is a serious liability to the company and toxic to the brothers. In such a case, it is very important to help them reconcile, or to create organizational structures that will manage the effects of their dysfunctional relationship.

### 7. The unfinished relationship issues a family has with the founder will be visited upon the successor.

Ancient wisdom tells us, “The sins of the father will be visited upon his children unto the third and fourth generation.” In families with businesses, the first one to suffer the consequences of the parental “sins” will often be the parent’s successor in the business. The successor becomes a lightning rod for any unfinished business the siblings have with their father or mother. Suppressed negative emotions connected to the CEO-parent will surface



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after their death and be directed toward the successor. This transference of emotions burdens the successor, as they are unfairly held responsible for the injuries inflicted by the parent's past behaviors.

In one case, as with many family businesses, the founder excelled more at running his company than fostering relationships with his family. They all tried to get what they needed from him by working in the company, but they were never able to feel truly connected to him or as if they had his blessing. When the father suddenly passed away, one of his sons assumed the position of CEO. The successor focused on attempting to professionalize the company by implementing new systems of accountability. At a board meeting, he was flabbergasted to hear his siblings confront him saying, "We had to put up with the criticism from Dad all our lives, but we are not going to let you continue doing that under the guise of accountability. You are just a control freak, but you better remember that we own 75% of the company and you own 25%. If you are not happy with our contribution, you are welcome to work somewhere else."

8. When we commit ourselves to being a parent or spouse, the act of commitment releases dormant patterns of behavior we inherited from our parents. Sometimes we manage these patterns by avoiding the commitments.

*Life gives us the same lessons over and over until we "get it," but if we never "get it," our children will repeat these patterns until they "get it."*

Regardless of whether we liked or hated the way our parents behaved as parents and/or spouses, the manner in which they played these roles is programmed into us. When a person rejects or avoids the commitment of being a parent, spouse or CEO, they are usually avoiding the emotional programming they learned from these roles by growing up in their family. They fear becoming the only father they know—their own. They know intuitively that if they make that commitment, they will have to confront their fear of being the kind of parent, spouse or boss that their parent was to them.



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Have you ever noticed that when a couple who has lived happily together for years decides to marry, they are often divorced within a year? How do we account for this?

Often times when we say, “I do,” the unspoken transaction is: “I want your love to heal the wounds I have from growing up in my family.” As time goes by, our spouse’s love usually fails to heal those wounds, which triggers a transfer of the negative emotions we have toward our parents, especially the parent of opposite sex, onto our spouse. In effect, we unfairly hold our spouses accountable for the effects of our parents’ mistakes or shortcomings as parents. (See Appendix, *The Emotional Ledger*)

By avoiding the commitment of marriage, we control our family programming for how to be a spouse. This avoidance typically takes on a pattern of getting into complicated romantic relationships that will never work out, staying in an unsatisfying relationship with limited commitment or becoming a “confirmed bachelor” or an “old maid.” It is a way that we can try to avoid “becoming our parent.” But it often doesn’t work.

This pattern of managing our parental programming can manifest in other roles, such as having children or becoming your parents’ successor in the family business. Something called “elective childlessness” is often behind strongly negative statements about children (e.g. calling them “rug rats”). It is a way of avoiding becoming our parents. Insightful people have more clarity about their motivations when they say, “I am not going to have children because I don’t want to become the parent my parent was to me.”

The way we handle managing people is strongly influenced by how our parents behaved concerning discipline and consequences. When a person was physically abused by their parent, they grow up feeling conflicted about being a boss because they feel as if the rage that influenced their parent is in them. They might become weak leaders or avoid leadership all together to manage their parent within them.

If children live their lives out of their automatic reactivity to their parent’s shortcomings, they will be destined to repeat their parent’s experience. The first step in overcoming these patterns is self-awareness, which usually involves getting in touch with painful memories. One of the benefits of developing this self-awareness is the growing ability to self-regulate behavior, thoughts and feelings with intent and purpose. There are many professional resources to help with the quest for a more conscious life.



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### 9. Power in a family business is often independent of ownership or management position.

If you have ever been stymied by your client's failure to implement your recommendations, you were probably experiencing the frustration of an incomplete assessment process. The following story illustrates how this happens.

A couple in their mid-eighties was dragging their feet concerning the funding of a trust that would be the cornerstone of their estate plan. After a series of cancelled appointments and unanswered phone calls, they finally disclosed to their attorney that their daughter had stopped them in their tracks. She had said, "If you make my brother the next president of the company, you will never see my children again."

Even though this daughter had no job in the business and was not an owner, she was controlling the succession process and preventing her parents from retiring.

Another typical scenario is one in which an 80-year-old founder passes on all of his stock without a position in the company. In spite of this, his children refuse to implement a decision without their father's blessing.

One of the most important differences in family businesses and publically owned companies is that control is not necessarily based on ownership or management position (See Axiom #2). These situations tend to be governed by emotions and personalities instead of principles. The task of the advisor is to help the family create the organizational structures and processes that will channel control appropriately and effectively.

### 10. Some families have memories of their collective past that make it seem like they grew up in different families.

*"Happy families are happy in similar ways, but unhappy families are each unhappy in their own way."*

Leo Tolstoy





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Each member of a family has a story in his or her head about who their family is, what has happened and who did what/when, etc. In most families, the respective stories of the individual members are much the same. However, in some families, there is a *narrative dissonance*, meaning that siblings carry incompatible stories about their family history, themselves and each other.

Narrative dissonance is usually the product of growing up in a chronically anxious family environment. In some of these families, traumatic events occurred growing up that were too much for the children to emotionally process. Each child went away from a traumatizing event with a fragment of what actually happened. The fragment of memory is woven into an imaginary story that accounts for the fragment. This leads to stories that do not fit together with the stories of other family members.

Frequently, these anxious families have unspoken rules like, “Don’t think, don’t feel and don’t talk.” The resulting isolation from one another leaves each family member alone with a story that does not make sense to anyone else.

Narrative dissonance makes it difficult for siblings to share responsibilities, such as ownership or governance. They do not trust one another, which leads to second guessing about each other’s motives.

The resolution of these multi-version stories into one compatible version of the family history has far-reaching effects on the family and its members’ ability to think clearly together. Finding solid footing in the common ground of a singular past creates stability and reduced anxiety among the siblings.

It will be helpful to use a professional to facilitate their process of narrative convergence. There will be a number of issues to sort out, and it will run more smoothly if the process is professionally handled.



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### TRUST

This section deals with issues of trust, mistrust, trustworthiness and the willingness to trust commonly found in family businesses. Your facility in identifying, understanding and resolving trust issues in your client families will serve you well.

In his book, *Trust: The Social Virtues and the Creation of Prosperity*, Francis Fukuyama postulates that all human organizations—from entire countries down to a family—can be compared on the basis of being a high or low trust system. He goes on to contend that low trust organizations are much more expensive to run than high trust organizations. For example, when people do not trust those they work with, they become distracted by their ruminations and are less productive. Agreements are more difficult to make and require the added necessity of contracts rather than mutual understandings.

High trust organizations, on the other hand, are less political, more efficient and therefore cheaper to maintain. Knowledge is shared instead of hoarded, and agreements can be sealed with a handshake. You will find trust issues are often present in families that are in business together. This section should help you learn how to rebuild trust that has been lost, and help the fearful regain the courage to trust judiciously.

#### 11. Among the factors that make a family business work, trust is more important than love.

Imagine a relationship where you love someone you cannot trust. It is often an emotionally demanding relationship that leads to pain. If, on the other hand, you imagine a relationship where you do not love the person, but you trust them completely, it will be a highly valuable, durable relationship.

For example, a man who grew his sandwich cart into a nationally known restaurant brought his ne'er-do-well brother into the business so he could have a chance at success. However, the owner made it clear that there was a code of conduct he expected from all of his senior employees, and that his brother would be no exception. It was not long, however, before his brother's behavior led to a sexual harassment charge by one of his employees. He had carved out a senior position for his brother because he loved him, but fired him because he could not trust his judgment. He wisely acted on the basis of trustworthiness rather than on his love for his brother.



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### 12. The loss of trust usually involves issues of honesty, competence, commitment, leadership or courage.

When a client says he or she does not trust a family member, it is important to clarify the basis of the mistrust. This can be done by asking questions such as:

1. Is the other person honest?
2. Are they the right person for the job?
3. Are they able to successfully balance their own self-interests with the interests of the group they serve?
4. Are they effective leaders?
5. Do they have the courage to make and stick to their decision even when it is unpopular with the other stakeholders?

These questions are based on 5 trust issues. Here are examples of each:

**Honesty:** A Sunday schoolteacher and long-term employee in your church has been discovered embezzling company funds. If the person is dishonest, they need to be dealt with accordingly, including legal consequences.

**Competence:** If, on the other hand, it is an issue of competence, one needs to decide if it is worth investing in the development of the person or immediately replacing them. For example, imagine your father made a job for your brother that was too much for him to handle. You inherit this problem when you subsume the CEO position, and are immediately in ethical bind. If you keep him in the position, you are weakening the company you have the duty to protect. If you let him go, your parents will feel that you have betrayed your family.

**Commitment:** What if you have trouble balancing your own self-interests with the best interests of your family? It is reasonable to confront you, question your values and attempt to bring those values in line with the rest of the family. Here is an example: A father felt like he was not adequately paying his rainmaker son for the wealth he had created for his siblings, who did not work in the company. The father created a small company on the side just for the successful son so he could generate more income. When his siblings found out about it, they were incensed to hear that their brother was moonlighting in a company that was closely related to the larger



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family business. With his father's blessing, he was looking out for his own self-interests at the expense of the family. This caused a crisis of trust in the family that took professional help to mend.

**Clarity:** Just because you are a great CFO, or a professor at a university, does not necessarily translate to the leadership skills needed to run your family's business. This aspect of trust is based on your ability to create a vivid vision of the future that you can make clear and inspiring to others. It may be that your family does not have the courage to trust your ability to lead in spite of your many competencies. Those who are responsible for succession planning need to heed the concerns of the other family members and choose the proper leader.

**Courage:** Fred is the third generation leader of his family's company, which has grown considerably under his guidance. His family has become accustomed to large dividend checks as a result of his decisions. However, he is at a crossroads for the company. Because of market changes, he anticipates he needs to manage the company toward sale in three or four years to preserve the family's wealth. He will propose that the family assets be reallocated to creating a private bank.

To accomplish this, he will need to severely reduce the dividends the family receives. He is sure that some of the more self-indulgent members will raise hell about such a decision, but he needs the stockholders to keep quiet about the long-term strategy of sale. He knows some family members may call for his resignation if he presents such a plan. However, Fred has the courage to bring his case to the shareholders group and quiet the wrath of some of his relatives with the wisdom of his analysis.

### 13. Predictability and reliability help to build and rebuild trust.

Trust determines what is possible in relationships. When trust has been lost for any of the reasons listed in the previous axiom, it can be rebuilt over time if stakeholders keep their commitments, tell the truth and stay emotionally in touch with others. When they do this, things are more predictable and individuals come to be seen as reliable and eventually trustworthy.



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It is important to begin rebuilding trust with simple steps. A family that has dealt with a parent's alcoholism will have lost trust among family members. Recovery requires such a demanding restructuring of family relationships that relapses are common. When a family is at the beginning of recovery, the initial focus needs to be on more easily attained goals, i.e. having dinner on time every day. Creating this zone of predictability in this way is like discovering a garden that was buried beyond recognition in layers of vines. Beginning recovery is about clearing the vines out of a small patch. With the discovery of the hidden garden, the family will begin to realize they must expand the clearing in order to keep growing. If the family stops working, the small patch that has been cleared will overgrow again. Continued recovery is based on the persistence and stamina to widen the circle and not let it be overrun again.

### 14. Having faith in someone is about having the courage to trust him or her.

Sometimes circumstances require a “leap of faith” without the luxury of certainty. It requires extending your trust when you are not sure of the consequences.

When a family engages you to help them with family business issues, they are taking a chance you will understand them enough and are skillful enough to help them. They are beginning the relationship with little or no prior experience with you, or even other family consultants. Until they have worked with you for a while, they are taking a leap of faith in you. It requires the courage to trust and be able to take that leap. To encourage their faith in you as an advisor, it is necessary to convey that you are honest, competent, committed to their best interests, clear in your own purpose and courageous enough to be honest about what is best for the family.

### 15. Sometimes trust issues are based more on a person's fear of trusting rather than on the trustworthiness of another.

A person might be completely trustworthy, but mistrust of him or her by another family member limits what is possible. In these cases, the problem is not a lack of trustworthiness, but rather a fear of trusting others in general.



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The fear of trusting can be as damaging as non-trustworthiness. A chronically suspicious person can limit what is possible. For instance, when a family or a group tries to govern by consensus, the person who is afraid to trust can control the group in unproductive ways.

A paranoid person has messages in their head that underlie their mistrust. They can come in the form of “thinking errors.” These thoughts justify their suspicions and lead them into behaviors that cause reactions in others, which, ironically, tend to reinforce their suspicions. This fear of trusting ranges in severity from being a minor annoyance to a debilitating psychiatric condition.

A classic example of this is the founder who does not trust others to succeed him as he becomes too old to effectively lead the company. He may be 85 and have very competent successors in their 50s, but he still fails to let go of his control. His family can see that he is hurting the company, but they are afraid of his reaction to any suggestion that it is time for younger leadership. In the more serious cases, the person needs professional help.

Usually there are one or more of the following reasons for the elder’s intransigence:

- ◇ Their only sense of self-worth stems from their business competency.
- ◇ They do not have fulfilling family relationships because they neglected and/or alienated their family while devoting themselves to their business.
- ◇ They believe they have knowledge they do not know how to pass onto others.
- ◇ They have no sense of purpose for their lives beyond their work.

It is sad to see, but sometimes one must recognize that a founder has the right to destroy the business he created. This sometimes means the potential successors need to go their own way professionally, or the advisor needs to resign. In some cases, professionally facilitated conversations between stakeholders can clarify underlying assumptions that lead to the mistrust (See Axiom #19 & #25). However, the case of a leader who does not trust anyone with succession is one of the more difficult scenarios for an advisor.



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### CHANGE

*“Change your opinions, keep your principles; change your leaves, keep intact your roots.”*

Victor Hugo

Change brings both opportunities and limitations. It can be both progressive and regressive. It can strengthen or weaken. It is beneficial, and it is destructive. It can be evolutionary, or it can be a function of entropy. It can be predictable, or it can lead to unintended consequences. Too little can lead to stagnation, but too much can create chaos. It can empower some and weaken others. Some people only react to change, while others create it. Leaders and their advisors harness the ever-present currents of change. They are agents of either/both continuity and change. These axioms provide insights that can help the advisor to appropriately create and manage change. (See Appendix, *The Six Challenges of Succession*)

#### 16. Skillful communication is the most influential result of effective consultation.

The medium of our work is communication. When a group of people is skillful at communication, they can usually manage challenges better than a group of poor communicators. Much of our work with families is based in helping them have difficult conversations that are long overdue. When communication has broken down, it is helpful to simplify the interaction about complicated issues. The following exercise shows a way to increase the quality of communication via simplification.

This an exercise for two people, but others can observe. One person finishes the following statement: “Something I really need for you to understand about me is that...” (Let’s assume that they finish the statement with, “...is that I do not trust you.”)

The task of the second person is to ask questions that must be responded to with a “yes” or “no.” The second person’s task while asking these questions is to genuinely try to understand the first person more deeply. The following exchange might ensue:





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“Do you mean you think that I am dishonest?”

-- “No”

Do you mean you think I am honest?

-- “Yes”

“Do you feel you have a good reason to mistrust me?”

-- “Yes”

“Do you think that I might cause you harm?”

-- “Yes”

“Do you trust my judgment?”

-- “No”

“Do you trust my competence?”

-- “No”

“Do you think I am the right person for my job?”

-- “No”

“Do you mistrust the competence of other members of our family?”

-- “Yes”

“Do you think we need outsiders to run our business?”

-- “Yes”

At this point, you might ask the person who posed the questions to summarize what they learned from the other person in a nonjudgmental way. Then, the first person can respond to the summary, and is free to clarify any points.

Next, you have the two participants reverse roles. If there are a number of family members present, you can match up other couples to do the exercise at the same time. Then, have everyone share what they learned about their partners.

### 17. The capacity for change is a requirement for survival.

Evolution is about adapting to changes in the environment so that species are able to survive and reproduce. An organization needs to be able to modify products and services, structures and processes, leadership, asset



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allocation or even the industry itself in order to survive. The intellectual flexibility to make these changes makes survival more likely.

Consider the proverbial coachwhip makers who had two thriving businesses when automobiles were invented. One coachwhip maker thought of himself as being in the “coachwhip manufacturing business.” His business failed. The other coachwhip maker thought of himself as being in the “transportation accessory business,” and switched to making leather steering wheel covers and eventually other leather products for automobiles. He grew a very successful company. Clearly the capacity to change was a crucial factor in the story of these two companies.

### 18. Resistance to change is a requirement for survival.

At first blush, this axiom seems to contradict the previous one. However, the aforementioned quote from Victor Hugo illustrates how both axioms can be true. The ability to change in response to market conditions is obviously an asset. However, the purpose of a company that is based on its values provides an identity for the company that transcends the variation of styles.

### 19. People change when they are hurt enough, learn enough or are inspired enough.

Some clients are so afraid of change they resist it until some crisis forces them to change. In these cases, their pain must become greater than their fear. When this is true, the client often waits too long. Other leaders may not be afraid of change, but know it is demanding. These leaders wait to implement change until they have learned of a remedy.

A third kind of leader does not implement change because they have to—they become so inspired, they actually create change. These leaders tend to be the kind of entrepreneurs that disrupt the status quo in ways that ripple throughout the marketplace. Generally speaking, the leaders in the first two examples do not change any more than their environment requires them to change. The third example is one of a leader in the business of creating change.



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### PRACTICE ISSUES

When an advisor changes the scope of their practice, they sometimes feel like an imposter because they have not “found their voice” in their new professional role. The axioms in this section will help you find that voice.

**20. Dysfunctions can spread from the family into the advisory system just as easily as higher functioning can pass from the advisory system into the family.**

It is important for the members of the advisory system to remain alert to the capacity of the family to co-opt them into the family drama, which would inadvertently neutralize their efforts.

**21. Families, businesses and advisors have coevolved to serve very different purposes in our social ecology.**

Combining these three systems into the hybrid family/business system is like introducing three new, competing species onto an isolated island. The behaviors, ideas and emotions that define the family, the business and the advisors compete for the mind space of the group, just as the three species would compete for the real estate of the island. The self-differentiation of the advisor helps to neutralize the family’s ability to jockey the adviser into contributing to the family dysfunction. (See Appendix, Types of Advisory Systems)

**22. The flow of data, information, knowledge and wisdom is proportional to the level of trust among stakeholders.**

There is a hierarchy of intellectual assets that ranges from data to information to knowledge to wisdom. Data is context-dependent and only makes sense in specific organizational contexts. For instance, the raw data from a restaurant would have little meaning in a gas station. As you progress upward through the hierarchy, the intellectual asset becomes increasingly contextually-independent. Wisdom is equally valid across many contexts.



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Wisdom is built up over time, and is largely based on experience and the resulting capacity to recognize patterns of behavior, thinking and feeling in client families.

While the content consultant focuses on data and information, the domain of consultants to families in business is predominately wisdom and knowledge grounded in trust. With their clients' trust, the consultant can more easily create experiences where clients gain a new perspective on themselves, their family and their business.

Consultants frequently come to this kind of consulting from another discipline, and in the beginning, feel like imposters until they “find their voice.” As they gain confidence, their clients and peers see them as wise and trustworthy.

The quality of a consultant's presence increases the flow of wisdom and knowledge into the client system, while incorporating new ideas and behavioral patterns into the intellectual assets of the clients.

### 23. When you are dealing with an angry person, respond as if you are talking to a frightened person.

People tend to hide their fear behind anger because anger is a safer emotional state than fear, especially when one feels threatened. Speak as if you are talking to a person who is scared, and it will help the other person become more aware of what is actually threatening them.

Brian and his wife, Susan, came into their advisor's office in the midst of an argument. Brian was so angry, the advisor was concerned about Susan's safety. After the advisor inquired about the details, Brian revealed that Susan not only wanted a divorce, but for Brian to also buy her out from their import business.

Instead of responding to the anger directly, the advisor said, “My guess is that you are feeling really scared of the potential consequences.” Brian responded, “You're damned right I do. I have put my life into this business only to be betrayed by my wife and partner.”

Then, in order to reframe the emotion, the advisor asked, “Are you afraid that you will have to sell the business if Susan wants out?”



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With this question, Brian wiped a tear off his cheek. “Yes, I am.”

The advisor responded, “Whether or not you guys decide to end the marriage, I am sure we can structure a buy-out that is workable for both of you. So let’s set aside the question of buying or selling, and find out more about what has led Susan to the emotions she is experiencing about being in business together.”

Shortly there afterward, Susan began to quietly sob. After she had a chance to collect herself, she disclosed to both men that she had recently learned a grim prognosis from a fertility clinic about her chances to get pregnant. Brian’s chin dropped. This was the first time he had heard about the clinic.

Susan went on, “I recently came to terms with the fact that for years, I have defined my life around our dream for our business. We have told ourselves we would be able to have a child one day, but we needed to devote our energy to the business first. Meanwhile, my biological clock was ticking away and now, I am a poor candidate for pregnancy. I know it was my decision too, but the news about not being able to have a child anymore made me feel like I have become a supporting character in ‘The Story of Brian.’ I felt like I had given up my life for this business, and I couldn’t see a way to get it back if I stayed. I wasn’t planning on telling you about going to the clinic because I wanted to do something solely for myself for a change.”

By shifting the emotional focus of the conversation from anger to grief, the advisor took the couple to deeper and more important levels of their relationship. With that, he suggested the couple take a break from their business planning and focus on seeing a good marriage and family therapist to sort out some personal issues.

24. The essence of work with families in business involves the development of two forms of *differentiation*:

- ◇ The differentiation of the leaders
- ◇ The differentiation of subgroups in the larger organizational system



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*“If you can keep your head when all about you  
Are losing theirs and blaming it on you,  
If you can trust yourself when all men doubt you,  
But make allowance for their doubting too...”*

“If” by Rudyard Kipling

In his last book, *A Failure of Nerve*, Murray Bowen delineated the following traits of a differentiated leader. These are:

- ◇ The capacity to take a stand in an intense emotional system
- ◇ The ability to say “I” when others are demanding “we”
- ◇ The ability to contain one’s emotional reactivity to the emotional reactivity of others
- ◇ The ability to avoid being polarized
- ◇ The ability to maintain a non-anxious presence in the face of anxious others
- ◇ Knowing where one ends and the other begins
- ◇ Being able to cease automatically being one of the system’s emotional dominoes
- ◇ Being clear about one’s values and goals
- ◇ Taking maximum responsibility for one’s own emotional being and destiny, rather than blaming it on others

In the unique dynamics of family businesses, individuals are required to move in and out of distinct roles, i.e. family member, manager, owner, director, etc. It appears that a well-differentiated person is able to change roles and stay in the role relevant to the function better than poorly differentiated individuals.

*Subsystem Differentiation* delineates the functional boundaries of internal subsystems and enhances the internal complexity of a system. For instance, a one-man-company must eventually hire others and delegate responsibilities in order for the company to grow.



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It creates the capacity for more and/or better responses to changes in the surrounding ecology of organizational systems. The classic example of poor organizational differentiation is that of a coachwhip manufacturer going out of business when automobiles proliferated. Believing they were in the “coachwhip business” instead of the “transportation accessory business” irrevocably harmed their business.

Increased variation and internal complexity also allows for better analysis, faster organizational transformation, diversification and more adaptive asset allocation. For example, many sixth and seventh generation family businesses are in completely different industries than from which they began.

In both individuals and organizations, low differentiation is characterized by boundary problems, poor self-regulation, a lack of empathy and the tendency to treat others as their parasitic host or prey.

### 25. Agreements and contracts will not control family dynamics that are driven by mistrust and unfairness.

Trusts are challenged, advisors are made into scapegoats, family members enter into litigation with other family members and professional recommendations are not implemented when we assume contracts and covenants on paper will manage dysfunctional family dynamics. Responsible estate plans incorporate realities of the family dynamics into the planning.

An advisor needs to have some kind of assessment process that probes into the client’s family issues. All too often, the advisor is afraid to open the proverbial can of worms. Either the advisor does not feel he or she possesses the skill to work with the issues, or the advisor believes family dynamics can be controlled via some ironclad document. If an advisor does not feel comfortable opening discussions about dysfunctional family behaviors, he or she should develop a relationship with a family systems consultant to assess the family business system early in the engagement, prior to drafting documents.

### 26. Rushing to technical solutions can cause one to miss underlying relationship issues.

There is often a difference between the clients’ “presenting problem” and their real problem. Sometimes the client is unaware of a difference, and even if they are aware, they may not know exactly how to talk about the problem.





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Younger advisors are sometimes so motivated to appear clever to their clients that they mistakenly orient their work around a problem that is actually a decoy for a more fundamental issue.

Rushing to solutions is a trap for the advisor. As we see in the previous example, it is ill advised to ignore family relationships or individual psychological issues when you are serving families in business. If your assessment protocol does not help you probe for those issues behind the presenting problem, you will find your client dragging his or her feet.

### 27. In family businesses, the family relationships are often the greatest source of risk facing the business.

If you are working with a family business leader with family issues that negatively affect business, ask the client the question, “If this issue did not involve a family member, would you know what to do?” The answer is always, “Yes.” And that answer is usually followed by “I would fire them.”

So, in this case, it is not a matter of whether the leader knows how to handle the situation, but rather if he has the will to do it. The leader simply does not have the courage to do what is necessary because they are usually afraid of the unintended consequences in family relationships.

Several thousand years ago, a Taoist general named Sun Tzu wrote *The Art of War*. In it, he described the virtues of a leader. He wrote:

*“Leadership is a matter of intelligence, trustworthiness, humanness, courage and resoluteness. Reliance on **intelligence** alone results in rebelliousness. The fixation on **trust** leads to folly. Exercise of **humanness** alone results in weakness. Dependence on strength of **courage** results in violence. Excessive **resoluteness** results in cruelty. When one has all five virtues together, each appropriate to its function, then one can be a leader.”*

When family business leaders are unwilling to deal with family issues that create risk for the business, they are often overly influenced by humanness and lack resoluteness and courage. This is a serious weakness that needs attention.



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### 28. Misguided estate plans can create unnatural business partners.

An advisor can sow the seed of destructive conflict when siblings are made to be business partners by their parents' estate plan. In many cases, these siblings would never have chosen to be partners on their own. In forcing them to become so, the advisor can precipitate the downfall of the business (See Axiom #2, Aesop's fable).

This liability can be managed by bringing the heirs together long before they are transformed into partners. They should be given meaningful tasks as a group to illuminate their compatibilities and functioning. Taking on philanthropic activities together is one way to assess their collective capacities.

They could also be organized into ad hoc committees serving the board of directors or take on a project for the family council. Executive coaching for both the individuals and the group can help them begin to see if they can work together.

### 29. Succession creates a transition of ownership, management, authority, relationships, knowledge and values.

Traditionally, the focus of succession has been the transition of ownership and management roles. These two aspects of succession, however, do not account for the most difficult challenges of succession. Some examples of the questions to probe these issues are:

- ◇ How will the current leader pass on his or her authority?
- ◇ How will the successor(s) earn real authority in their parents' business?
- ◇ How will successors share authority?
- ◇ Will the successor(s) keep their parents' advisors?
- ◇ Will sibling-next-generation owners be compatible business partners?
- ◇ Will the siblings of the successor support the leadership of the next generation leader?
- ◇ What is the knowledge in the organization that makes a difference?
- ◇ Where is this knowledge kept?



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- ◇ Does this knowledge flow to where it needs to go?
- ◇ Are the family's values in harmony with business values?
- ◇ Do family members share similar values?
- ◇ What are the personal values that govern your life?

### 30. Embracing your client's resistance and affirming its purpose is a strategy to reduce resistance.

Instead of pushing against your client's resistance, affirm it as a source of new and relevant information. For instance, you might say, "While I do not know all of the issues causing you to postpone your estate planning, I assume your reluctance is based on a desire to preserve something important. I think you should continue to protect your family from some negative consequences you are worried about until you are convinced it is safe to go down that road with me. You should not go down that road unless you believe that I am a trustworthy companion."

In addition to accepting the source of the resistance, an advisor can really connect with the resistant client by putting the client's more subtle concerns into words (See Axiom #24).

A new referral grudgingly attended a meeting with his attorney and branding consultant. His two children in the business had been pushing their dad to rebrand the company to keep pace with the market changes. The tension between the founder and his kids was beginning to create a rift between generations. The attorney was hoping the branding consultant could help circumnavigate the impasse.

He had a hunch about what was holding the founder back. He said, "My experience with family businesses has shown me one of the greatest concerns a founder faces during this time. A founder may think his kids want to change the company before they really understand it. Are you feeling anything like that?"

The founder was so relieved to have the underlying problem put into words and accepted as a valid concern. He inquired about the consultant's experience with this kind of situation. The consultant went on to say, "What I have



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also learned from my clients is that concerns are aggravated by the founder realizing he has a kind of knowledge based on years of experience that he does not really know how to share. He knows it is in there (pointing to his head), but he does not know how to begin to get it out.” The founder was now “all ears.”

### 31. A leader’s experience of “now” frequently involves much more than that of those who follow.

Consider a white water rafting guide and a novice rower. In the beginning, the novice rower is so preoccupied with the mechanics of rowing his or her attention (his or her “now”) is only the boat. He or she becomes unconscious of the surroundings, where the current is taking them and where the obstacles are downstream. This small sense of “now” is why a novice is more likely to wrap around a rock or get stuck in an eddy. A novice waits until it is too late to make a change.

In contrast, the “now” of the guide extends downstream as far as they can see and upstream far enough to maintain visual contact with the last boat in the party, while maneuvering their own boat through the rapids. The guide not only responds to obstacles much sooner and with less effort than the novice, but is also developing a plan on where to camp during the night depending on where other rafting parties will likely stay.

Some family disagreements are based on the difference in the size of the “now” of the respective family members. The leader often sees what is coming sooner than the other stakeholders. This sometimes leads to tensions and overt conflict because although these people are tied together, they are having different “realities.” This is why it is so important to foster very skillful communication among family members. Along with this, it is also important to create the space and time just to share ideas. Ask yourself, “What is the typical life cycle of an idea in our organization?” and, “How do we encourage taking the long view?” “Do people in your organization encourage sharing new ideas?” or, “Do you inadvertently reward people to hoard knowledge?”



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### 32. Calm and purposeful attention to what is happening in the moment will increase effectiveness.

Pet theories or a desire to appear clever can prevent an advisor from seeing what is right in front of them. In *The Tao of Leadership*, John Heider advises the leader to “unclutter the mind.” He says:

*“Beginners acquire new theories and techniques until their minds are cluttered with options. Advanced students forget their many options. They allow the theories and techniques they have learned to recede into the background. Learn to unclutter your mind. Learn to simplify your work. As you rely less and less on knowing just what to do, your work will become more direct and more powerful. You will discover the quality of your consciousness is more potent than any technique or theory or interpretation. Learn how fruitful the blocked group or individual suddenly becomes when you give up trying to do just the right thing.”*

I share this passage at the beginning of my relationship with professionals I supervise and mentor. It usually lightens the burden they have of feeling like an imposter in a new professional role. It reduces the need to compensate for inexperience by trying to look brilliant. And, it helps them learn the skill of *creating and holding the space* of the meeting.

### 33. One of the most important skills in leading meetings with clients is the ability to *create and hold the space* of the meeting.

This concept about leading gatherings comes from Harrison Owen, the creator of Open Space Technology. This method of structuring meetings was inspired by the epiphany that the most memorable events in a conference often happen in chance encounters during the breaks between scheduled meetings.

The idea of creating and holding the space is a mindset for leading any kind of meeting, though. It involves structuring the meeting space and schedule in a way that facilitates the most important issues and best thinking from the participants. For instance, if you are having a family meeting, you might choose to have the chairs in a circle with no table, but use a table when the same group is meeting as shareholders. By using these two



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configurations of the furniture for two very different meetings, we help the clients stay in the role relevant to the respective meeting.

### 34. Metaphors, parables and analogies help you to simplify and address complicated issues.

These linguistic tools for drawing comparisons are very useful because they embrace complex topics and provide a simple way of understanding. When used with members of families and organizations, they create conceptual connections between individuals that may not have been present before. They provide common ground upon which to meet.

These tools sometimes help one to embrace seemingly incompatible personal realities when those realities fail to converge (See Axiom #10). Articulating the metaphor, parable or analogy is an art. One must listen for them. They are accessible in three basic ways:

One of the family members comes up with it, e.g.

“Dad is always telling us we need to step up to the plate, but he keeps moving it.”

The advisor creates it, e.g.

“Separating your company into two entities as part of your divorce will be like surgically separating conjoined twins. We need to protect both of you during this complex and painful emotional procedure.”

Or you use the same tool over and over again with different people, e.g.

“My work with families in business is much like stepping onto the stage of a Shakespearean play at the beginning of the last act. Some of the characters have realized the next scene is probably going to be destructive, and they want me to help them change the script to avoid the impending pain. However, the characters are all trapped in the family script and tend to repeat painful scenes over and over. My job is to guide as many actors as possible into letting go of the old script and helping them improvise new lines.”



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Or,

“There is a Sufi saying that when a pickpocket meets a holy man all he sees is his pockets.”

This tells us our mindset will actually shape what we perceive and what we experience. It is important to understand others’ mindsets in order to communicate well (See Axiom #18).

Intellectual capital comes in the form of data, information, knowledge and wisdom. Each form of intellectual capital is progressively less context-independent than the previous one, with data being strongly context-dependent and wisdom being the most context-independent. Metaphors and other literary devices tend to be “words of wisdom” that are context-independent. This means that they are applicable in many unrelated settings. This is why they work with companies of all sizes and from very different market sectors.

### 35. It is normal for you to feel like an imposter when you begin to work in a new professional role.

If you have had children, you may remember how frightening it was to leave the hospital with your two-day-old firstborn. It takes a while for people to “find their voice” in a new professional role and to make the role part of their identity. While we are beginners and searching for our new voice, we often try to deal with the feeling of being an imposter by trying to appear clever (See Axiom #35). This becomes a problem when it leads to a tendency to rush to solutions that are not based on a deeper understanding of what is actually occurring.

When we are experiencing this beginner’s anxiety, we are more likely to fall into patterns of thinking, feeling and behaving rooted in the dynamics of our own family of origin. The patterns we were raised with influence how we respond to power, fear, wealth, commitment, etc. and leak into our relationship with the client.

For this reason, it is very helpful to find a mentor who is already established in the field you intend on pursuing.





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### 36. It is important to know when it is time to “be” and when it is time to “do.”

There are times when it is valuable to just *be* with your clients instead of *doing something* to fix them or their situation. This is especially true when you are in the beginning stages of understanding what is truly going on. Rather than quickly fixing the problem, focus instead on creating your own calm presence where you are clearly in touch with the other person, not reactive to his or her anxiety, while remaining grounded in your personal sense of purpose. During this time, it is helpful to focus on having a deep understanding of what you are being told before you try to be understood.

This kind of time together encourages the person you are helping to take the leap of faith that you are a trustworthy resource who really understands him or her.

### 37. Seek to clarify purpose.

It will make your work more powerful and efficient if you help individuals and groups with shared responsibilities articulate their sense of purpose. With individuals, especially leaders, assist them in articulating a one sentence statement of purpose for their life. It is important that the statement fits with each professional and personal role they have in their lives.

Articulate such a statement of purpose for yourself before you do it with others. Here is an exercise that might help:

1. Assume that during the next three years you live your life in the most fulfilling way you can imagine. And then you die. At your funeral there are four people participating in your eulogy – a specific person from your family, your friends, your work and your community. Write a eulogy for each of the four in which the person focuses only on the last three years of your life and how you affected them in those three years.
2. Look between the lines and see what type of information emerges that is relevant to a sense of purpose. Expect several false starts and frustration as you do this exercise.
3. When you get it, it should be one sentence that is relevant to every role you play, i.e., a parent, a professional, a spouse, a citizen, etc. It should make you feel a little self-conscious or a little



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presumptuous. When you have taken the step of defining the purpose of your life, you are doing something most people never consider. Your defining purpose will act as a compass when you come to important decisions. You can ask yourself, “If I have decided the purpose of my life, what is the decision I must make to fulfill that purpose?”

My statement of purpose is:

*“To create experiences that bring people and ideas together in a way that serves the common good.”*

So there you have it. These are the core ideas with which my practice is coevolving. These ideas have spread through my thinking and practice into the lives of my clients, and now, into your mind like symbiotic bacteria that can, in the right circumstances, give us an evolutionary edge. We do not own these ideas—we are in symbiotic relationships with them.

These coevolving ideas are like the bacteria that live in our digestive system. We provide them a home where they can reproduce, and they provide us with an enhanced ability to digest our food. Just so, these axioms and guidelines are now working their way into you and competing for mind space with the other ideas with which you have made sense of your practice. Some will take root, and you will become a host to the ones that give you an advantage in your work while they proliferate in your practice and your clients’ lives.

I will close by repeating a passage from the *Tao of Leadership* in Axiom #30:

*“You will discover that the quality of your consciousness is more potent than any technique or theory or interpretation.”*



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### GLOSSARY

*The following is a summarization of some key concepts adapted to family businesses from family systems literature. The terms are presented in alphabetical order rather than in a logical order to make them easier to locate.*

**Boundaries** are the interface between systems and subsystems or different individuals (Minuchin & Fishman, 1981). The concept of boundaries in families is used to define alignments within the family business, e.g. alignment of siblings as separate from the older generation, alignments of family members who work in the family's business against those who do not, or alignments of divisions in the company. Boundaries are set by functions of the system, by the implicit rules defining who participates in the system and by the rules that determine how they can participate and/or how they are included. Boundaries and the subsystems that they define in a family business may change over time or in response to a changing situation, e.g. the death of a family member or the opening of a new store. Systemic boundaries are characterized as being *diffuse*, *open* or *closed*.

*Diffuse* boundaries are extremely open with no barriers to entry, while *closed* boundaries strictly define participation and access. *Open* boundaries are described as having the ability to define membership, while extending temporary access to non-members. A family that makes exaggerated claims that all their employees are "like family" is defining a diffuse boundary, while a highly secretive board of directors that does not communicate with any non-board members would be an example of a subsystem with a closed boundary.

Boundaries in a family business can also be categorized as either flexible or rigid. All of these terms describe how easily people (or ideas) come and go across the boundary, that is, whether the boundaries are permeable or impermeable (Minuchin, 1984). Rigid boundaries do not respond to changing situations whereas flexible boundaries do. For example, the willingness to use outside advisors when a company enters a new market would be a sign of flexibility.

The process of succession in a family business tests the capacity of the system to define, redefine and maintain functional boundaries around the subsystems of family, owners and management.

**Closed Systems:** These are systems, which are self-contained as compared to open ones, that utilize free exchange with the external environment to alter internal functions, relationships, etc. A closed family business is



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organized to preserve the status quo and resist change. An example of this would be when new ideas can only come from the founder (Lewis & Beavers, 1976).

**Coalitions:** When two (or more) individuals work together to counteract or exclude the third party. Coalitions may not be stable and often shift to keep power somewhat distributed in the family business. An example of a coalition would be when the influence of an overbearing parent leads the other parent to join with a child to balance the power. This, of course, can be done at the psychological expense of the child.

**Differentiation:** This is a Bowen theory concept that addresses the development of individual maturity within the context of family relationships. It refers to the emerging ability of an individual to simultaneously balance the desire for family closeness with the desire to have emotional independence. Some families are good at raising children to achieve this balance in their adulthood, while some families struggle with facilitating differentiation (Bowen, 1978). When a person works their entire adult life in the business their parents founded or inherited, the struggle to differentiate takes on unique challenges.

Bowen (1966) used the term “undifferentiated ego mass” to describe families that have failed at creating differentiated family members. Poorly differentiated families tend to be chronically anxious. This chronic anxiety can be shown in a wide range of behaviors from dramatic emotional reactivity, where the family goes from one crisis to another, to a very placid family atmosphere where conflict is avoided at all costs. Generally in these families, there is a tendency for emotions to dominate over intellectual functioning instead of balancing it. This is a particular problem for family businesses because they generally must function at an objective level more often than families who are not in business together.

Well-differentiated family business leaders tend to have a calm and nonreactive presence, are able to enjoy close family relationships and have a high degree of clarity about their responsibilities and purpose in the family or the organization. They tend to be seen as “their own” person, fair and when necessary, decisive. They also tend to have a talent for remaining composed in the midst of other people’s anxiety.

**Entitlement:** A psychological attitude toward relationships that results from the balance or imbalance of fairness and trust with a parent early in life. Chronic states of feeling entitled are created in offspring by parents based on their capacity to care for their children. *Constructive entitlement* reflects a willingness to care about others based



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upon the experience of being cared about by one's parents. *Destructive entitlement* is based on the unwillingness to care about others and results from being mistreated, neglected or exploited by parents. Destructive entitlement can also result from “over-giving” of things, or overindulgence in permissiveness by a parent while emotionally neglecting the child (Boszormenyi-Nagy & Krasner, 1986). Having a “chip on their shoulder” or “acting like the world owes them a living” are phrases people use to describe destructive entitlement in others.

Expression of entitlement is not limited to the relationship in which it was engendered. The positive effects of constructive entitlement and the negative effects of destructive entitlement can have long-lasting effects on all significant adult relationships.

Some of the more powerful sources of destructive entitlement arise from emotional, physical or sexual abuse of children by their parents, and/or chronic addiction in parents. Long-standing destructive entitlement is typically the source of litigation between family members, although the focus of the litigation may only be a substitute issue for something more profound in the family's past (Kaslow, 2000).

**Family Systems Theory:** Law, accounting/finance, management science and behavioral science are the four disciplines that have contributed to the family business consulting body of knowledge. Family systems theory is a major division of the behavioral sciences with a well-defined body of knowledge that is distinct from individual psychology, but draws upon developmental psychology and life cycle concepts. Systems theory, which postulates that all parts of the system are interrelated and interdependent, undergirds the multiple schools of family systems thinking.

Within family systems theory, there are many schools of thought that differ from one another in how they conceptualize key constructs in their theoretical base. Among these differences are:

1. History of conceptual precursors of the school of thought
2. The theoretical framework of what constitutes a healthy family and a dysfunctional family
3. The conceptualization of psychopathology
4. The assessment of function and dysfunction
5. How therapeutic goals are set
6. The structure of the intervention process
7. The appropriate role of the agent of change



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8. Clinical techniques

9. The ideas about what leads to change in the client system (Gurman & Kniskern, 1991)

**Ledger of Merits:** This concept reflects the balance of fairness and trust in a relationship between two people. This balance has a strong influence on what is possible in that relationship. High trust relationships are more efficient than low trust ones, where the imbalances resulting from past transactions cause constant vigilance and suspicion of the other's motives.

The basis of relational balance differs in *symmetrical* (brother-sister, husband-wife) and *asymmetrical* (parent-minor child, adult child-elderly parent) relationships. In the former, balance is reached through roughly equal give-and-take over time between the parties. In the latter, balance is based on what is equitable given the imbalance in power (Boszormenyi-Nagy & Spark, 1984).

**Merit:** This refers to the basis of self-validation earned in the process of showing due consideration of others. The desire to earn merit in relationship with one's parent motivates children to earn their parent's pride and respect. The virtues parents recognize and support influence the paths their children have in earning merit. Earning merit in a relationship leads to authority and influence in relationships. The outcome of succession is greatly influenced by the capacity the successor has to earn merit in both *symmetrical* and *asymmetrical* relationships in the business and family (Boszormenyi-Nagy & Krasner, 1986).

**Multidirectional (or Multilateral) Partiality:** A relational posture assumed by a therapist, advisor or consultant that is meant to prevent the outsider from being drawn into the dysfunctional dynamics of the client system. Methodologically, multidirectional partiality takes the form of sequential identification with each member of the family. This is typically done by trying to empathize with and credit each person for their contributions or attempts to contribute to the well being of their family. This is done even if they were misguided or inept. Advisors earn merit and trust in the eyes of family members through successful execution of multidirectional partiality (Boszormenyi-Nagy & Krasner, 1986).

**Narrative Dissonance (A term coined by the author):** Members of a family carry stories in their head about other family members, about the history of the family, about events that have happened in the business,





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about what kind of person they are, etc. In some families, the stories that reside in the minds of individual family members are similar. A high degree of similarity is a reflection of *narrative resonance*. Very different stories about the same events are a reflection of narrative dissonance. High degrees of narrative dissonance may be a reflection of long periods of chronic tension and anxiety in the family. Narrative dissonance interferes with the ability of two people or groups of people to deliberate, make decisions and take effective actions. High dissonance also contributes to mistrust.

**Parentification:** This refers to the process of turning a child (even an adult child) into a functional parent of their own parent. The parentified child is expected to take care of the parent and/or assume adult responsibility. There are situations where this is a normal adaptation to changes in the family, for instance, when a parent becomes incapacitated by illness or old age. Parentification becomes destructive when it is in service of the parent's manipulation of their offspring's natural inclination to be devoted to their parents and a premature abdication of the real parental role. Creating a *split loyalty* (see below) is one way to engender a destructive form of parentification.

**Presenting Problem:** A term used to describe a condition for which a family seeks outside help, but usually is a symptom of a more deeply seated problem the family is ashamed of, or unconscious of (see *scapegoating*). A family business may engage a consultant with a "presenting problem" concerning compensation of key employees, when they actually have a problem with an incompetent successor, but are afraid to mention it.

**Scapegoating:** This refers to the process through which anxiety in the family is reduced by designating one member to be the chronic symptom bearer for the family. The classic example would be a pattern where parents who are near divorce are drawn closer together whenever their child becomes depressed to the point of requiring hospitalization. In this circumstance, it is predictable that a fight between parents results in a hospitalization of the child. Thus, the symptom of the child becomes the glue that holds the parents' marriage together. The symptoms of the scapegoat in the family are often the *presenting problem* of the family, behind which the deeper and more disturbing problems lurk (Satir, 1964; 1967).





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**Split Loyalty:** This refers to a situation created by a parent or grandparent where a child must choose between their loyalties to both parents, or between a parent and a grandparent. It typically takes place when a parent or grandparent tries to manipulate the offspring onto the elder's "side" in a controversial issue with another elder. To choose one is to be disloyal to the other, and this is a very distressing choice for anyone, especially a child. This is a deeply damaging experience to offspring, whether adult or minors, that can lead to serious personality problems, depression or suicide (Boszormenyi-Nagy & Krasner, 1986).

**Triangles:** Emotional triangles are one of the four seminal constructs of Bowen theory (Bowen, 1978).

Triangulation occurs when a third party is drawn into the relationship between two others to balance something in the dyadic relationship. That which is to be balanced usually has to do with:

- ◇ Excessive intimacy or over-connectedness
- ◇ Negative reactivity between the two
- ◇ Emotional distance that distresses other members of the family

Advisors and consultants can be easily triangulated into the emotional drama of two relatives, and are often made a scapegoat as a result.

**Trustworthiness:** This is a form of merit that accrues on the side of any predictable, responsible, competent and considerate partner in a relationship. Trustworthiness is earned over time through the ability of two people to balance the process of give-and-take between reliable partners (Boszormenyi-Nagy & Krasner, 1986).

Trustworthiness is seen as more important than love in family business relationships. A relationship with great love, but without trustworthiness is usually a destructive relationship. In contrast, a trustworthy relationship between two people who do not necessarily love each other can still be very durable and a resource to both parties.

High trust families, organizations and cultures are far more efficient than low trust systems in that members do not need to expend energy to protect themselves from other parts of their own system. Low trust systems are typically more anxious, prone to crisis and less capable of planning, decision-making and implementation.

Written in 1999 by J. Joseph Paul. Revised in March, 2004 with input from Florence Kaslow, PhD.



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### APPENDIX

#### *I. Critical Questions to get to the underlying issues:*

1. What would need to happen today to make you leave with the feeling that this was a very important meeting?
2. Are there any family issues that you feel embarrassed or ashamed to talk about?
3. If the issues you are concerned about did not involve a family member(s), would you do anything differently?
4. If you know what to do, what keeps you from doing it?
5. In your opinion, what is the purpose of money?
6. If an investor bought your company and was only interested in return on investment, how many of your family members would keep their jobs?
7. Do you have faith in the competencies of your successor(s)?
8. Are the values of the family members in the business in harmony with yours?
9. Do you spend an adequate amount of your time working “on your business” instead of “in your business?”
10. Are you worried about the level of trust among any of your family members?
11. The documents we draft will be a message from you to future generations. What do you want them to say about family, being in business, money, the role of your family in the community, power, purpose, mission, etc.?
12. Imagine you had nine adult great-grandchildren and they were having a ceremony to celebrate your 100<sup>th</sup> birthday ten years after you had passed away. Imagine further that each toasted you and said something about the kind of person you were based on the stories about you. What would you like to hear them say?



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### *II. Types of Family Business Owners*

Frank was excited about the upside potential of acquiring a competitor. He had prepared a great presentation to share with the board about this opportunity. The two independent board members had arrived early, but his sister, Karen, as usual, was already 45 minutes late. He was managing his frustration with her pretty well as she arrived, and he could finally call the board meeting to order.

During his presentation, he could see the troubled look on the face of Jane, his other sister.

As he invited questions, Karen was checking emails, while Jane was scowling at the agenda she had in hand. When Frank asked for his sisters' thoughts about the opportunity, Jane said, "All I know is that Dad would never have considered buying a competitor. He was a very wise business man, and I do not feel comfortable doing something he never did." Karen responded with a thumbs-up to Jane.

Frank kept his cool because he knew that he had the votes of the independent board members, but he was sick and tired of his sisters' approach to being an owner and a member of the board. Their behavior was so consistent that he knew what they would say before they opened their mouths.

As we can see, there are a number of types in the board meeting. In our story, Frank was in the role of "the Investor," while Karen was "the Grudge" and Jane was "the Keeper of the Shrine."

The following demonstrates how varied the motivations/types of family business owners can be.

1. **Operating Owner:** This owner manages the family's business. Day-to-day management issues and the requirements of the business are paramount to him or her. There may be tensions between the operating owner and passive owners, who are motivated by income from the business rather than by reinvestment in the business.
2. **Governing Owner:** Board member, but not employed in the business. His or her interest is shareholder return on investment, supporting senior management and holding them accountable for performance.



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3. **Interested Owner:** Actively interested, attentive and supportive, but not employed in the company or as a board member.
4. **The Steward:** One who has a multi-generational perspective. He or she believes his or her responsibility is to enrich the assets and pass them on to the next generation. Long-term stability always trumps short-term return on investment. The purest example might be a trustee or a most trusted family advisor who has no personal ownership of equity, but is dedicated to sustaining the legacy of the family.
5. **Obedient Owner:** Not particularly interested in the business. He or she votes as instructed by the parents or siblings who work in the business. He or she is often driven by the desire to create or maintain family harmony and often does not feel like an owner.
6. **The Investor:** Interested primarily in return on investment. The company is merely an asset that needs to be managed for profit. This owner has no emotional tie to the company.
7. **The Grudge:** This is an owner in name only. He or she does not really feel empowered to act like an owner. He or she may frequently miss meetings and have to be reminded to sign documents, harbor ill will, have a grudge toward other family members and may often express him or herself in a passive-aggressive manner.
8. **Heritage Owner:** This owner sees the company as a civic responsibility and feels a strong sense of responsibility to the community. The business is often seen as a memorial to the founder. This type of owner often resists change to the ways things have historically been done.
9. **Trustee/Owner:** This owner has a fiduciary duty to manage the trust for the best interests of the beneficiaries. He or she must comply with the language of the trust document and be vigilant concerning the demanding ethical and regulatory obligations.
10. **The Chess Player:** This owner's attitude toward the company is based on some injustice in the past. This owner uses ownership as leverage in the ongoing drama of the family. This owner is comfortable being in overt conflict with other owners, and appears to take pleasure in perpetuating a contentious relationship within the family.
11. **Hostage Owner:** One who feels burdened by ownership and would sell if he or she were free to do as such. This owner may have values that are not compatible with the nature of the business.
12. **The Captive Partner:** Siblings or cousins who would never have picked one another as business partners, but have been made so by an elder's estate plan.



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13. **Entitled Owner:** This is someone who has expectations of others that are out of balance with their actual contributions. For instance, this type of owner might expect to be paid much more than they should be just because they are a second-generation owner. They tend to have poor boundaries.
14. **The Social Entrepreneur:** This owner will say that he or she is in business in order to “do good” in the world, and the business is a tool to do this.
15. **The Status Seeker:** This kind of owner uses business ownership to facilitate access to things like membership in exclusive clubs, serving on boards, being appointed to advisory positions or seeking public office.
16. **The Keeper of the Shrine:** For this owner, the business is a living memorial to the founder. They may be too focused on keeping everything just as it was when the founder was in charge. This resistance to change can create significant risk to the business.
17. **The Padrone:** This type of owner is often the founder, and is like a village elder in the way he or she thinks about ownership. This type of owner may have done many things to help the employees of the company out of a sense of indebtedness to them. They are often concerned about whether the successor can sustain these relationships, while coping with the emotional demands of this way of ownership.
18. **The Obsessed Owner:** This type of owner has little or no life outside of the business. They have typically neglected their relationships with their children, and their children often accurately feel that the business is more important to the obsessed owner than they are. Their only source of self-esteem is in the success of the business. These owners have great difficulty in letting go of control to their successors, aiming to “die in the saddle.”

If your client is an owner in a family business, they need to be clear about what type of owner they are and what actually motivates them. Many of their values and behaviors will be predicated on clearly understanding their type and their motivations. This is especially true if they are one of several partners. You might consider a simple exercise. In a leadership meeting, present the list to the group. First, have each individual owner decide which one or two types best describes their leadership, motivation and style. Then, have everyone write down the types of leaders they think the others are and share the conclusions with the group.



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Remember, the owners may be a blend of types and have different, and sometimes internally conflicted, motivations. If you know what motivates the others, you can collaborate with them more effectively. And with this kind of insight about yourself and others, you can predict ahead of time where decision-making processes may get derailed because of fundamental differences in each owner's type and motivations.

Seven things to remember:

1. Seek to understand your partner's motivations before you try to satisfy your own.
2. Never assume that your partner's motivations are just like yours.
3. Your assumptions about your partner's motivations may not be accurate.
4. Do not assume that your partner is necessarily fully aware of their own motivations.
5. Keep in mind that you may not be totally aware of all your own motivations.
6. Your partners (or you) may harbor conflicting motivations in your own mind about an issue.
7. If you and another person have similarly mixed types and motivations about an issue (i.e. you both are conflicted about whether you should be a "Keeper of the Shrine" or an "Investor") you will tend to take a stand with that person by advocating one role and ignoring the other. This will tend to draw out the other conflicting type in your partner. This way of dealing with conflicting ideas artificially creates a polarization with one another. This causes both of you to take a stronger position on one side of the issue than you actually feel. When you find yourself in this kind of polarization, it is best to take a time-out and clarify your complicated ideas and feelings. Then, you can share your insights about yourself with the other person.

### *III. Brief Essays*

#### *The Six Challenges of Succession*

Joe Paul  
Fall 2008

"Rags to riches to rags in three generations" is a saying that exists in various forms throughout the world. Its recognition in so many cultures reflects how hard it is to preserve family wealth for more than two generations.





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Those families that have prospered beyond the third generation have had leaders who answered pivotal questions related to planning for *The Six Challenges of Succession*. Some of those questions are:

### I. Ownership

1. Is our current form of ownership best suited for our future?
2. Are the relationships between owners an asset to the business or a liability?
3. What do we want our shareholder agreement to accomplish?
4. Which family members will be eligible to own stock?

### II. Management

1. What is our employment policy about hiring family members?
2. To what performance standards will family who work in the business be held?
3. Are family managers held to the same level of accountability as other managers?
4. If your company was purchased by an investor, how many family members would keep their jobs?

### III. Authority

1. Does our Board of Directors really hold the CEO accountable for performance?
2. Is there a plan for succession that is understood and supported by the shareholders?
3. How will the elder leader(s) let go of authority?
4. How will successors earn authority?
5. Are we governed by principles or by personalities?
6. How will we govern a multi-generational and multi-branch clan?

### IV. Relationships

1. Would existing shareholders have chosen to be business partners if they had a choice?
2. What is the level of trust among family members?
3. Do members of the successor generation feel that decisions have been fair?
4. Have the complexities of your business and family outgrown the skills of your advisors?

### V. Knowledge

1. What is the knowledge that really makes a difference in your company?
2. Where does that knowledge reside?



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3. How well does that knowledge flow to where it needs to go?
4. Are your employees paid to hoard knowledge within your company?

### VI. Values

1. What are the values that govern your business?
2. What are the values you want your family to be known for?
3. Does your family share the same values?

Do you have satisfying answers to these questions? Would your family members have the same answers as you? What would it be like to discuss each question in a family meeting?

James Hughes has observed that families of affinity survive succession better than families related only by blood. In other words, families that are connected by trust, shared beliefs, values and knowledge are stronger. A family discussion of the questions above will give you a very good idea of the level of affinity there is in your family.

### *Types of Advisory Systems*

Business leaders can often do more to manage and develop the quality of their advisory system. The following advisory system types can help you identify the type you have and the other options available to you:

1. **Disjointed** - the advisors are unknown to each other
2. **Autonomous** - the advisors are known to each other through the client
3. **Partially Aligned** - some advisors are connected through client and others work cooperatively
4. **Collaborative** - advisors are known to each other and led by one; needs of client are superordinate to any advisory competition
5. **The Advisory Team** - interactive team led by client; focuses on interdisciplinary collaboration to meet the needs of the client
6. **Strategic Alliance** - advisors from two or more disciplines with ongoing collaborative relationships
7. **Consulting Firm** - a preexisting interdisciplinary team hired by client



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### *Code of Conduct*

Joe Paul

Our lives are shaped by the commitments we make. Marriage, parenthood, ownership, military service and employment are all examples of these defining commitments. Some of these commitments we make are legally binding. Others are morally binding. The legally binding commitments are contractual, while the morally binding commitments are sometimes known as covenants.

The Code of Conduct below is an example of covenants that were reached by a group of three siblings who are the third generation owners of a family business. In the course of a weekend retreat, they worked very hard to put these ideas and feelings into words, instead of making assumptions about what one another thought. They made this effort because they realized that the long-term stability of their family and their business was, and would increasingly be, based on the quality of their relationships with one another. Here are the promises they made:

#### ***Leadership Covenants***

*In recognition of the challenges of leading a family in business across generations and out of our desire to enrich and pass on the legacy of our parents, we promise:*

*To deal with one another with honesty, trust, integrity, love, respect and maturity.*

*To treat one another as we want to be treated.*

*To share power and authority responsibly by listening to each other, respecting our respective opinions, showing humility, looking at all sides of an issue before making a decision, being open minded, supporting one another in public once decisions have been made, welcoming constructive disagreement among us, but be united in public.*

*To disagree skillfully with civility and without hostility or anger.*

*To develop the skills necessary to diffuse hostile misunderstandings or disagreements.*

*To recognize the unique nature of our relationships with one another and place a priority on clear and skillful communication.*

*To stay positively connected by meeting regularly as a family, as owners and as managers so that each of these parts of our lives gets the attention it needs.*

*To encourage the development of the next generation as stewards of their shared assets, and possibly as leaders of the company.*



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Moral commitments are often made without being spoken or written. At other times, they are made verbally and sealed with a handshake. However, there are points in relationships when these commitments are made even more powerful and binding when they are put into writing. The power of it comes in the thought and conversation that must happen to reach agreement on complicated issues. The necessary discussion to put these ideas and feelings into words brings greater clarity and minimizes the chances that incorrect assumptions will be made.

Here are a few ideas that may help if you think one of the families you work with needs its own covenant:

- ◇ Set aside an extended period of time, such as a weekend.
- ◇ Pick a setting that is relaxing for you all and where you will not be distracted by telephones or too much entertainment and extraneous activity.
- ◇ Set aside at least two breaks from discussions during the day to allow clients to have time alone with their thoughts.
- ◇ Resolve to be open to outcomes without being overly attached to a specific outcome that you have thought of earlier.
- ◇ Create an environment that encourages mutual understanding and dialogue rather than debate.
- ◇ If you are comfortable with technology, use a laptop computer connected to an LCD projector when the time comes to collectively draft the language of the covenants. You may find that it is much more engaging than flipcharts.
- ◇ Expect to be frustrated at times during the process. When you feel stuck, probe to understand each of the underlying values that may not be aligned.
- ◇ Consider using a professional facilitator. This is so that no family member will be burdened with responsibility of leading the process at the expense of being able to be an equal participant with others.

No document, whether contractual or covenantal, can control negative emotional dynamics or the hostile politics of some family businesses. But an early commitment to values and principles can prevent some of these issues from ever developing. The actual process of reaching these agreements as a group and committing them to writing will reduce chances of misunderstandings, hostility, hurt feelings or even litigation.



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### *Knowledge Succession: The Real Transfer of Power*

Joe Paul

I have often heard founders of family businesses say, “I am worried that my successor will try to change the company before they really understand it.” This tells us that there is knowledge in the founder’s head that seems difficult to pass on to their successor. Their concern also tells us that there is more to succession than merely stocks, management and taxes. When planning for succession, it is important to consider four other issues that are often neglected. They are the succession of **authority, relationships, values and knowledge**.

The succession of authority is about transferring the responsibility for final decisions. In family businesses, true authority is often kept in the older generation even after stocks and overt management responsibilities are passed on. Mismanagement of the succession of authority can create the unique leadership complications that are common to family businesses.

The succession of relationships is about the formal and informal grouping of people to think about things, reach decisions and make things happen. This relational aspect of succession involves many questions. A couple of examples are, “Will the existing advisors’ relationships with each other and the outgoing leader survive the succession process?” And, “Will a group of siblings function adequately in a brand new set of relationships (as defined by their parents’ estate plan) that suddenly turns them into business partners?”

Passing on values is something we do daily. Our thoughts, feelings and behaviors are shaped by the values we live by. Our children absorb our values by watching us. There are the operational values that we use every day without really thinking about it and values to which we aspire, but often require personal soul searching and sacrifice. Our values influence what is possible for us, and we convey what our values are as we interact with others. They can be self-indulgent, or they can be altruistic. Most values are not put into words and passed on by default. It is a dramatic crossroads for a family when they decide to articulate the values that guide their lives.

And the fourth neglected aspect of succession concerns knowledge. It is about passing on the ideas that really make things work—the ideas that define the identity of the company, and the ideas that explain why and when you



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do what you do. A brief reflection will quickly reveal that the transfer of knowledge cannot really be separated from consideration of relationships and authority. In this very brief discussion, I want to draw your attention to the succession and continuation of knowledge in your business because it may be what really decides the fate of your succession process.

Ultimately it is someone's ideas that give a company its competitive advantage. Much of the basic knowledge about your company's processes, products or services is available to anyone in your industry. This basic industry knowledge gives you no real competitive advantage in mature markets. Competitive advantage comes from proprietary knowledge and definitive knowledge. Proprietary knowledge is assets such as specialized software, or patents that can be purchased. It creates real advantages, but is often temporary because if they work for you, others will eventually replicate or purchase this knowledge.

Your most durable advantages come from what I refer to as your capacity to create and sustain definitive knowledge. It is the part of what you know that is hard to buy, sell or copy. It is what sets you apart. Definitive knowledge comes from factors like your unique insights into the needs of the customer, the culture you know how to create in your business or the details of your products, processes or services. Whether it is explicit (knowledge you are able to be write down and learn by reading) or tacit (hard to write down and based on experience and intuitions), it is definitive knowledge that gives your company its competitive edge. One way to think about the difference between tacit and explicit knowledge in a company is to imagine that you could somehow make everyone in your company absolutely conform to their job descriptions. If that really happened, most companies would come to a grinding halt in the first day. Explicit knowledge is what they need to know as described in their job description, tacit knowledge is everything else.

Now when you begin to look at your company in terms of managing the succession of knowledge, you need to think about three basic questions: "What is the knowledge that makes a difference?" "Where is the knowledge that makes a difference?" And, "How well does it flow to where it needs to go?" (See Graphics Appendix 2)

The answers to the first two questions can be found in three pools of knowledge:

1. The brains of your individual employees





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2. The subsystems (groups of people and institutionalized structures/processes) of the family business. These subsystems would include family members who work in the company, teams of non-family managers, the board of directors, divisions, branches, departments, etc. (When thinking about these pools of knowledge, do not overlook informal sets of relationships that do not manifest on any organizational chart. People sometimes need to get together to accomplish tasks in unofficial ways that the leader knows little about.)
3. The surrounding environment. This very large pool of knowledge would include customers, suppliers, competitors, related industries, seemingly unrelated industries, trade groups, etc.

The answer to the third question about the flow of knowledge will be found in what goes on between these pools of knowledge. Consider the knowledge your best customer has about your company that stimulates them to make referrals for you. That intangible asset that is so valuable to you is about both what they know, and how smoothly that knowledge flows to others. **An important thing to remember is that the flow of knowledge is directly related to the level of trust between the people.** Low trust relationships are expensive and not very productive (remember the part about the succession of relationships?). One of the most productive things a leader can do to increase the flow of knowledge is to help increase the trust between people.

Can you identify the definitive knowledge about customers, suppliers, products, services or processes that distinguishes your company in the marketplace? Would your key managers give the same answers as you do? Would your successor? Do not be surprised if the answers are not on the tip of your tongue. Sometimes this kind of knowledge falls into the category of things “you do not know that you know” (tacit knowledge). It can be so much a part of who you are that you never put it into words. I can almost guarantee that it will make a difference when you finally can put it into words, though.





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I invite you to do an informal “knowledge inventory.” Use the following questions to identify part of the definitive knowledge that makes your company unique. It is certainly not an exhaustive list, but it is a catalyst for productive conversations. First, write down your own answers. Then, ask your managers, advisors, employees and family members to independently answer the questions. And, perhaps most importantly, ask those who will be or may be your successors to answer them:

1. What knowledge do we have about trends in the marketplace that give our company its competitive advantage?
2. What do we know about people that gives us an edge?
3. What do we know about our own operations that sets us apart from our competitors?
4. What do we know about leadership that attracts smart people to our company?
5. What do we know about strategic alliances that our competitors do not seem to know?

See how your answers compare to those of your managers, advisors or even line staff, for that matter. Do not be surprised if the answers differ. Encourage people to talk about the similarities and differences that arise. These differences will often lead you to new knowledge or useful insights about your company, supplier, customer or competition. A funny thing about intellectual assets is that sharing them in the right context often leads to having more than with what you initially started.

What are you doing to leverage the knowledge in your company? What are you doing to acquire new ideas? Is it realistic to assume that the definitive knowledge of today will still be definitive tomorrow? The shelf life of knowledge differs from one industry to another. What do you know about the expiration date of today’s best ideas? What are you doing to assure that your successor knows how to deal with these questions?

These are all questions that need to be part of your succession planning.

### *The Emotional Ledger*

Joe Paul

**Com-pen-sa-tion** *noun* 1: payment 2: an attempt to make up for an injury, loss or imbalance



## BALANCING THE EMOTIONAL LEDGER



There are two aspects of the word “compensate” that make things complicated in family businesses. The first has to do with a financial ledger. It is simply about money and benefits given in return for work. The second meaning of compensation is subtler, and involves the intangible assets and liabilities of the *emotional ledger* in a family. The emotional ledger accounts for the balance of give-and-take between individuals in the family. While transactions reflected in the emotional ledger can include money, the issues are more about recognition, personal feelings of earned merit, a sense of entitlement, trust, feelings of injustice and the attitudes about the level of fairness that exists among family members. Examples of the kind of issues accounted for in an emotional ledger are:

- ◇ “How can I make up for all those years I was not there for my kids because I was building this company?”
- ◇ “How can I make all of my kids feel equally part of my life when some work with me and others do not?”
- ◇ “I took Dad’s crap for 15 years, but I refuse to take it now from my siblings just because he gave them some stock.”

Balancing both the financial and emotional ledgers can become very complicated, as one founder/father found out a few years ago. As he neared his targeted retirement age, three of his five children were working in the business. His second born son with 20 years in the company was the COO and managed both manufacturing and sales. This son had taken the company from \$3 million in sales to \$9.6 million in the last five years. His second youngest daughter was hired on as Personnel Director seven years ago, while his next youngest daughter was brought on as Office Manager four years earlier. Although he was very ambivalent about it, he and his wife decided that all of his children should be paid the same. As for his other children, most were doing well on their own, including his youngest daughter, who married well, and his firstborn son, who successfully managed another business the founder helped create. The oldest son was the first child to join the company and worked there for ten years. When the current COO son joined the business, there was continuous conflict between the two brothers over business issues. Finally, the father offered to set one of them up in their own business since they clearly were incompatible business partners. Although the oldest son voluntarily left, he had always felt betrayed by his father for not supporting his positions.

Considerable tensions lurked beneath the surface and family gatherings were often tense. The two children who did not work in the business often did not join in on holiday gatherings, relaying they felt obligated to spend the



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time with their spouse's families. While all of the family members prospered, they had to live with a growing tension. This tension erupted shortly after the founder and his spouse began to disclose their estate plans. The one daughter who did not work in the company said that if her parents gave all of the stock in the company to the three children working in the company, her parents would never see her children again. She said that her mother had always favored the three siblings that worked in the company, and that she and her brother, who had left the company, had always felt short-changed by their parents. Their estate plan felt like the "last nail in the coffin" of her relationship with her parents. The founder was shocked at his daughter's profound sense of injustice and depressed over the jealousy among some of his children. As a result, he had taken no further steps toward implementing his estate plans. The issues felt so explosive he failed to find a way to have the conversations with his family that needed to happen.

This story shows how an imbalance of fairness (either perceived or real) in the emotional ledger of the family can easily insinuate itself into all of the thought processes and actions in business management or estate planning.

As you will see elsewhere in this publication, there are rational ways to organize issues of salary, bonuses, dividends and ownership. In family businesses, however, all too often invisible emotional factors from the emotional ledger insert themselves into the formulation of compensation policies. Deliberations within organizational structures like family councils (which you will also read about elsewhere) create a context to make the unspoken spoken. To make the tacit, emotionally based assumptions from the emotional ledger explicit. These emotional ledger issues can only be dealt with effectively if the issues are brought out of the closet and made explicit.

The field of family business consulting is relatively young and there are not many axioms. However, one is:

- ◇ *If you use salaries, dividends, bonuses or ownership to manage family problems, the family problems will eventually control the process and outcomes of business decision-making in negative ways.*

It is natural and very predictable that families in business commingle the assets and liabilities in the financial and emotional ledgers. I hope the ideas we are sharing with you will help you separate these accounts, and allow both the family and business to function at a higher level.



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### *Eight Levels of Charity*

AFGB Spring '06 Newsletter  
Joe Paul

A few years ago, I had back-to-back consulting engagements with families in United Arab Emirates and Nepal. On the flight home from Dubai and Katmandu, I thought about the profound differences between these two countries and the ironic similarities in the issues facing the two family businesses with whom I was working.

The cultures of the two families differed in religion, wealth, education and technology. However, both families were concerned about similar succession issues and the roles their daughters would play in the company. Both were concerned about how secular (Western) some parts of their family were becoming. Among other things, both families were worried about how best to focus their charitable giving. As I was flying home, I reflected on the fact that most cultures seem to encourage the charitable redistribution of wealth. The mechanisms and customs may be very different, but it is typically wealthy families in business who are the source of most charitable giving.

These musings eventually led me to the writings of Maimonides, a 12<sup>th</sup> century philosopher, and his concept of eight levels of charitable giving. I quote below from “Eight Degrees of Giving” at [www.Chabad.org](http://www.Chabad.org).

**Level Eight:** *Giving grudgingly is certainly better than not giving at all, and thus merits the eighth place on Maimonides' list. But this is the lowest of all forms of charity. This form of giving is ironically selfish -- it is not motivated by true caring or love, but rather by a sense of guilt or obligation.*

**Level Seven:** *The benefit of a friendly response is so powerful that it even offsets the sting of an underwhelming donation. Even if you don't feel ready to commit yourself to meeting someone else's needs to the full extent of your capacity, you can express genuine interest and empathy. A sincere expression of caring can satisfy the person emotionally and give him the strength to go on, even if you weren't able or willing to grant his request completely.*

**Level Six:** *While it's certainly preferable to be proactive, at the very least, don't give a cold shoulder to those who approach you for help. You can never know just how laborious and awkward it was for them to ask you for a favor, and how desperately they are counting on you to respond graciously.*



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**Level Five:** *Learn to anticipate the needs of others even before they approach you. Don't wait for the self-destructive behavior or the cry for help before stepping in to lend a hand. Don't limit your involvement to those who appeal to you; seek out opportunities where you can make a difference.*

**Level Four:** *In this form of charity, the giving is done in such a way that the recipient is aware of the identity of his benefactor, but remains anonymous to him. In this case, the donor feels more humble, since he is not aware of to whom he is giving. However, the recipient's feelings are not spared to the same extent, since he knows who gave him the charity.*

**Level Three:** *In this level of charity -- which is the converse of Level Four -- the donor's ego has some room to express itself. Since the giver knows who is receiving his bounty, there is room for some sense of one-upmanship or dominance over the receiver. However, the beneficiary is unaware of who the donor is, and so his dignity is preserved.*

**Level Two:** *Receiving mutually anonymous charity takes much of the sting out of being on the receiving end. It is far better when we lend aid to others unconsciously -- when we give ourselves over to others so completely that our egos merge with theirs, and neither is conscious of being in a superior or inferior position.*

**Level One:** *The most basic need of a human being is to feel needed and capable. Thus, the highest form of charity is to help someone find a job or set them up in business. This preserves their dignity, and at the same time transforms them from being a recipient into one with the capacity to give to others. Similarly, if you are in a position to counsel or give advice to someone, it is important to instill in them confidence in their own ability to find solutions to their dilemmas, and even be a source of strength to others.*

Although written in the Middle Ages, these thoughts still have relevance today. Which level would you say best describes your typical client/family's attitudes about charity?



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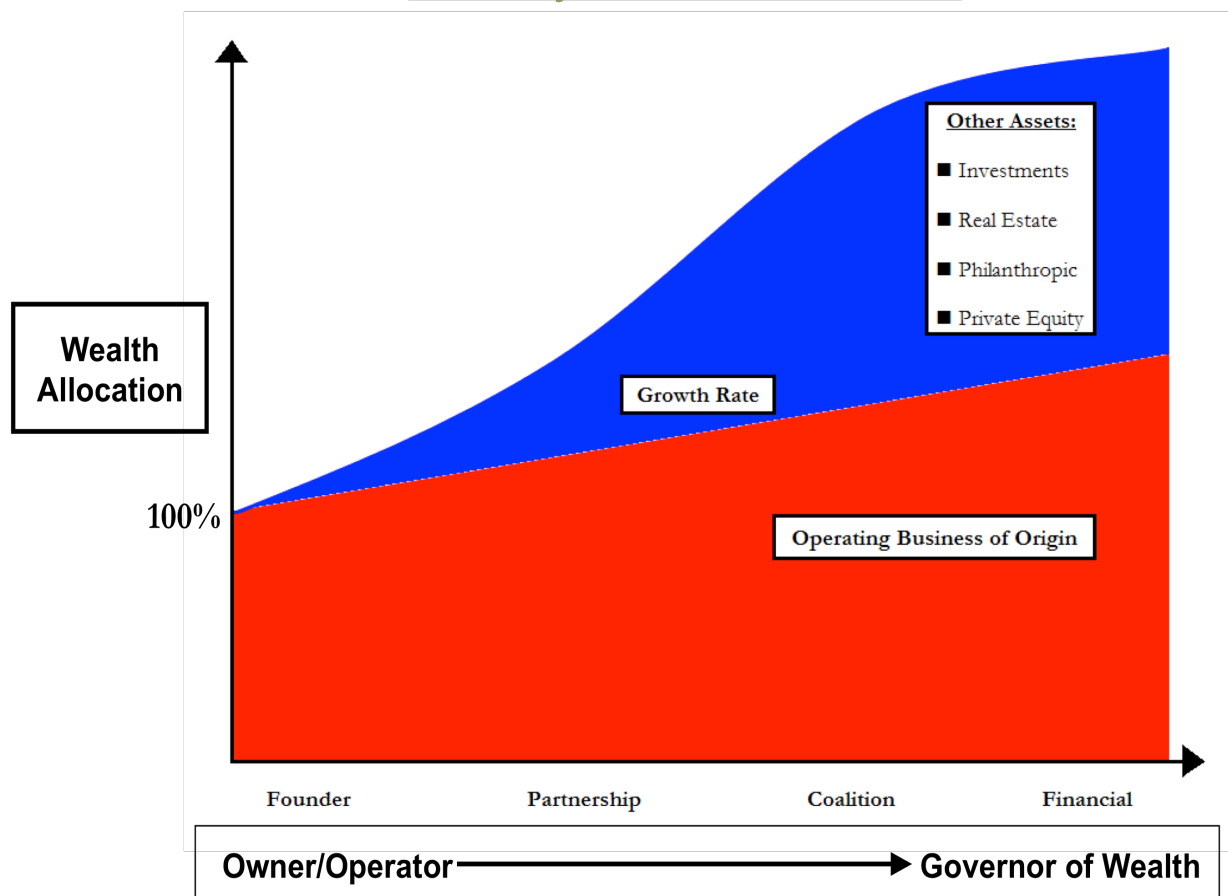
## BALANCING THE EMOTIONAL LEDGER



### IV. Graphics

The following two graphs by Francois de Visscher and Dirk Junge portray two very different approaches to long-term asset allocation. They are very useful in helping one's client begin to develop a vision of the future and to compare the respective visions of shareholders.

### Family Wealth Model 1

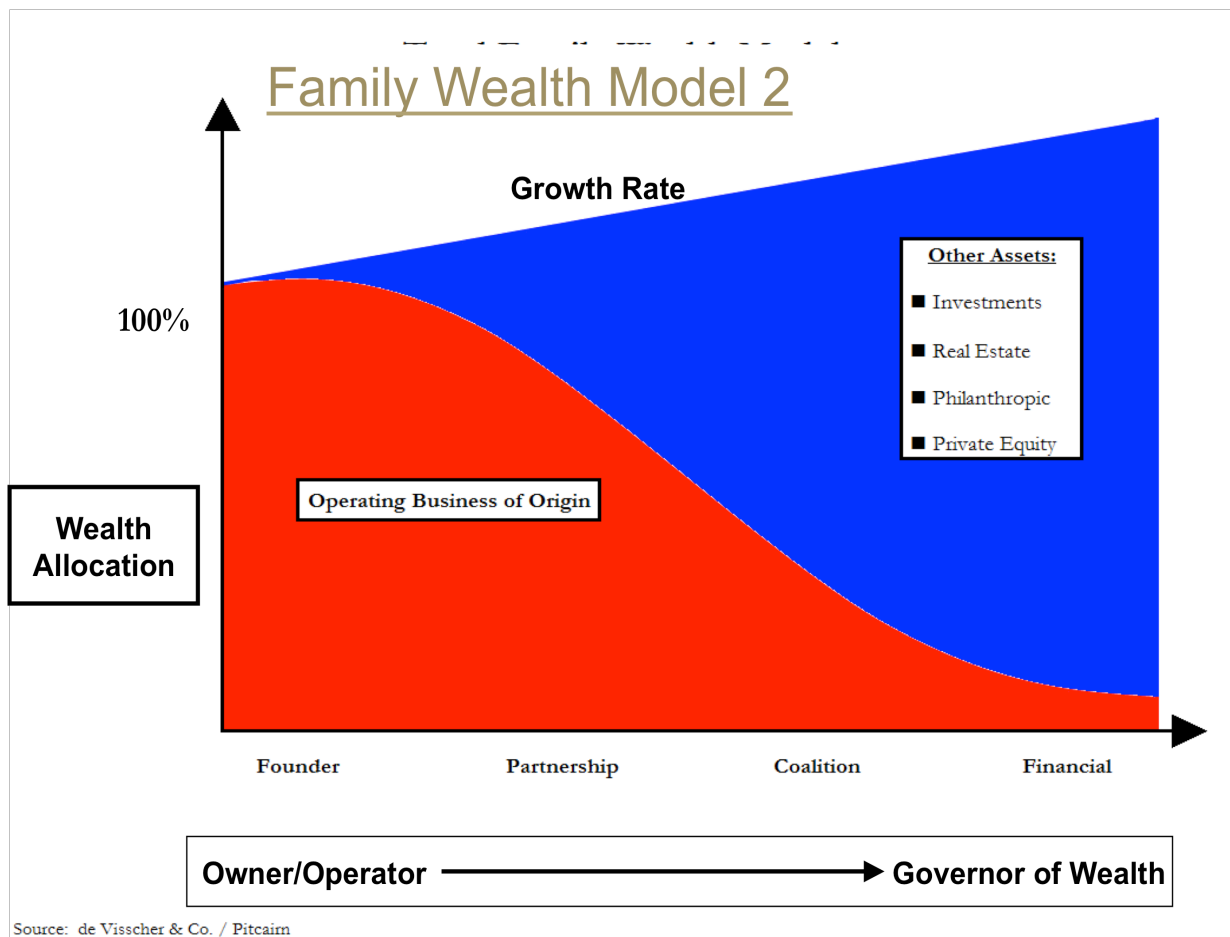


Source: de Visscher & Co. / Pitcairn



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<b>From \ To</b>	<b>Senior Family</b>	<b>Successors</b>	<b>Non-Family Mgrs.</b>
<b>Senior Family</b>			
<b>Successors</b>			
<b>Non-family Managers</b>			

### Mapping the Flow of Information and Knowledge

There are three crucial questions regarding the flow of knowledge within an organization. They are:

1. What is the knowledge that makes a difference?
2. Where is this knowledge?
3. How well does it flow to where it needs to go?

The chart above is used to discover bottlenecks in the flow of information and knowledge in an organization.

Present the chart to the group of stakeholders you are working with and ask them to put a number from one to ten in each box. The number represents the quality of the flow of knowledge between the two groups that intersect in a given box, with one meaning that there is little or no knowledge flowing between the two groups. For instance, if you put an “8” in the upper left box, you would be saying the flow is very good among the senior family members.

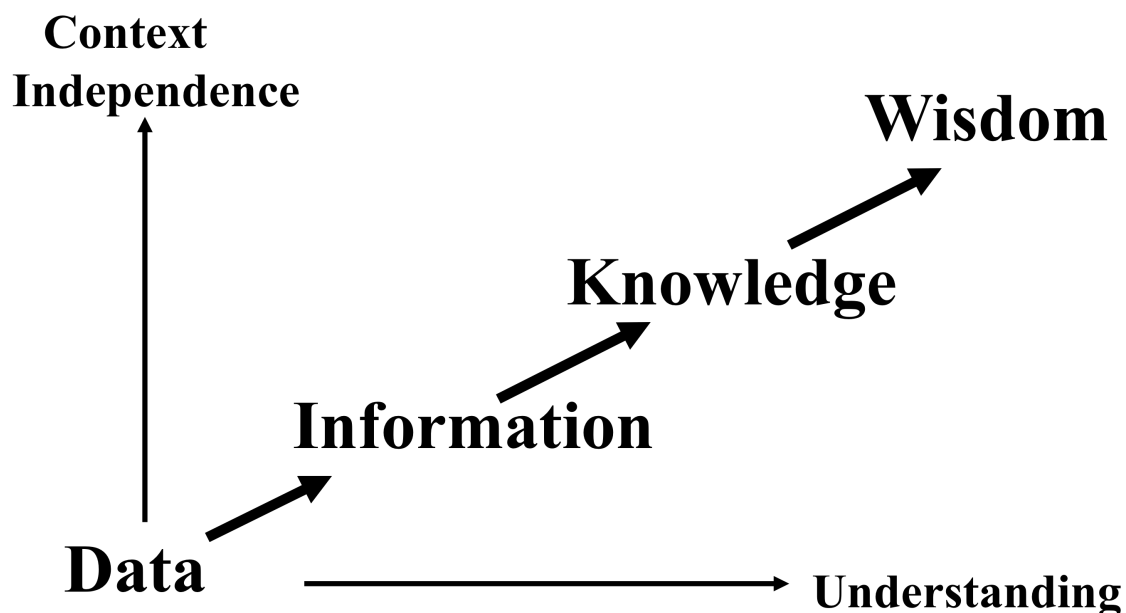


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While, if you put a “2” in the next box to the right, you would be saying that the flow is very poor between the senior family members and the successors. After the participants have filled each box with a number, ask each person to share their numbers. As they do so, document the responses by putting all the numbers in each box on a flip chart representation of the flow chart. You then can discuss differences of opinions, the obvious bottlenecks, speculations about the cause of the bottlenecks and ideas about how to increase the flow.

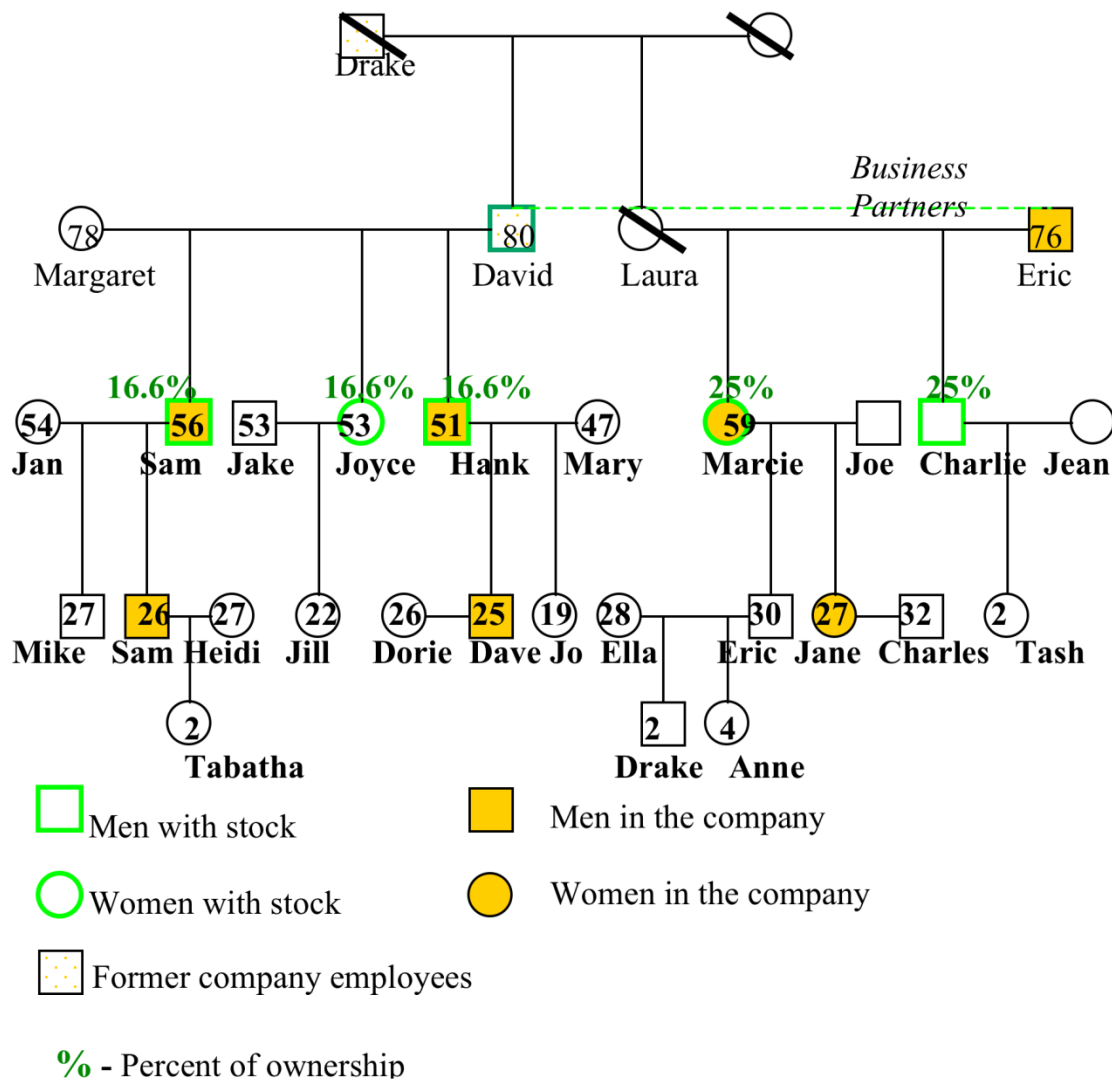
## Levels of *Intellectual Assets*



*Gene Bellinger, [www.outsights.com](http://www.outsights.com)*



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A genogram, such as the one above, organizes and succinctly identifies information.



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Meet Joe Paul, M.S. -- *Joe has worked with families as a clinician and consultant since 1978, specializing in the development, application and transfer of leadership; resolution of family issues that interfere with the development of assets; and, management of intellectual capital and goodwill before, during and after succession. He has written extensively on families in business and is the author of several assessment devices including The Aspen Family Business Inventory, The Wealth Management Inventory, and The Aspen Family Foundation Inventory. He is the co-author of Keys to Family Business Success and author of Axioms and Guidelines for Counseling Families in Business. Joe is a former Director and Fellow of the Family Firm Institute (FFI). He is a partner in The Aspen Family Business Group. In 2011, he received the Interdisciplinary Collaboration Award from FFI.*



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### Praise for *Balancing the Emotional Ledger*

“Joe Paul is the international Zen Master of family enterprise. Joe masterfully combines his deep insight, experience and wisdom in his latest contribution to the field, *Balancing the Emotional Ledger*. Joe’s guidance is original and elegant—powerful yet simple. This little gem stands above the noise of “how-to” books. A must read for advisors and students of family enterprise.”

-James Olan Hutcheson  
CEO, ReGENERATION Partners

“With 37 straightforward, but hard-won insights, Joe Paul distills his many years of experience in working with families in business into a mix of wise and compassionate “axioms” that are as simple as they are profound. This gift to advisors will provide them with the insights they need to aid them in working within the complexities of their clients’ family systems.”

-Matthew Wesley  
CEO, The Wesley Group

“I’ve had the good fortune to work with Joe Paul, both at my firm and through the Aspen Family Business Group. This is a working book of wisdom. To get the most out of it, review it just prior to, during and after your consulting engagements. In doing so, the reality of your client’s circumstances and your role within will be more deeply revealed and your consulting far more effective.”

-Michael Stalker, MCS  
CEO, Family Wealth Advisors

“I have known and worked with Joe for 25 years. From the first day I met Joe, he has been my guide into finding the conceptual context for the work I do as a lawyer. He guides me in assisting owners of family-owned businesses to meet the challenges in their estate planning, business succession and corporate governance. Over my professional career, I’ve had the honor to meet and learn from some of the thought-leaders in the field. I consider Joe to be one of the giants in the field.”

-Kay Abramowitz, JD  
Counsel Trusts and Estates

“Joe has always been one of the pioneering, deep thinkers on the topic of the family dimension of family enterprise. This book is a deep dive into the inner structure, dynamics and interrelationships that are hidden, but define the nature of the family in family enterprise. Every advisor encounters the external effects of these elements, and this book will guide them to understand and make use of their insights to guide their clients. This book can also guide a family dedicated to shared learning on their journey. It is not often that there is a fresh and new piece of work emerging in our field.”

-Dennis Jaffe, PhD  
CEO, Change Works Global

“Like Joe Paul himself, this book is clear, succinct, challenging and encouraging. A beautiful synthesis of core concepts in family business advising from the behavioral science perspective—from one who helped develop them. A must read for family business advisors from all disciplines.”

-Judy Green, PhD  
President, Family Firm Institute

“An essential part of a family business advisor’s role is defining the boundaries of that role. *Balancing the Emotional Ledger* supports professionals in accomplishing this critical task by expanding their understanding of the underlying issues facing the family and its business. Distilled from his counseling to families for almost 40 years, this book is a generous donation by Joe Paul to the field of family business counseling. Joe’s axioms and guidelines allow professionals not only to keep in mind the requirements of their job, but also to act more confidently in deciding where and how to intervene. By presenting the dynamics of families in business in a nutshell, Joe offers his mentorship in a published form that will help practitioners make quality decisions, while working around a set of conflicting interests.”

-Burak Kocer, PhD  
Egeli & Co., Istanbul