

Barbara Murray discusses how the much-respected 3-circles model can benefit families collaborating on a brighter future in business together

Travellers in time

By Barbara Murray



WHAT HAPPENS in a family business when a son or daughter joins the firm? How does this common event affect the lives of those who are already working there and what signal does it send to other family members who may aspire to a career in the family's business? What happens when the family business leader transfers the ownership of the business to the next generation? How does this affect the balance of power at the top, and do the new owners view their ownership as an investment to be realised or as a legacy to be preserved? Finally, what occurs when family members become non-working owners and start asking questions about dividends, liquidity policies and employment prospects for their offspring? Should these questions be dealt with from the perspective of family, ownership or business?

These questions are central to discovering what happens when the roles that individuals carry out in family enterprises are subject to change. Nothing is more predictable in family enterprise systems than the changes that come with

the passage of time. Members of the next generation will mature into adulthood and expect to have family, ownership or managerial roles reflecting their experience, achievements and status. Furthermore, members of the senior generation begin to find that people and systems around them are pushing for change. As senior members start to age, their health may deteriorate or they may seek an easier life in retirement. Inevitably, this leads to changes in the roles seniors have in the business, in the family and to their ownership of the business.

Past, present and future

Most people have neither the time nor the opportunity to give serious thought to what these events will mean for everyone involved and what will happen once decisions are implemented.

The approach taken in this article offers families in business a way of learning about past, present and future role changes in your own system. There is a lot to be learnt from looking to the past to examine the circumstances in which people's roles changed and exploring the consequences felt by other people in the system today. Nobody wants to repeat the mistakes of the past. This approach teaches people how to talk about feelings, events, and the lessons to be learnt. Looking ahead to the future then becomes an exciting and engaging prospect.

A new use for the 3-circles model

In its original form the 3-circles model (introduced by R. Tagiuru and J. Davis of Harvard Business School in 1982) offered a useful snapshot of the current structure of the family enterprise system at any given moment in time. If we develop this idea further, we can show that there are eight possible segments in the family enterprise system, and see that each segment corre-

sponds to a specific role in the system (Fig. 1). At any specific moment in time, a person can occupy only one of these eight segments, and therefore has only one particular role, along with the typical view, perspectives and self interests that are associated with that role. Some roles are a blend of family, ownership, business or leadership and have multiple perspectives and interests. In reality, people experience significant role-shifts as they move from one segment to another. People are ageing, ownership transfers take place, people are hired and fired, and businesses have ups and downs. By adding the dimension of time, families can explore and plan for these changes.

The case study that follows illustrates how this approach can be applied to a family business. (The case study is based on some work conducted with a family business in Ireland in 2000. To guarantee anonymity, names have been changed but the events and issues discussed are real.) It aims to prompt readers to conduct an analysis of their own family business system covering the last 15 years, then to speculate ahead to the next 15 years. Although this will encourage 'system-wide' thinking, which has value in itself, additional value comes from comparing notes with family members and others in your system.

The exercise opens up the dialogues that are essential to prepare people for future situations when people will be 'on the move' and their roles change in the family business system. As a result, the exercise will pave the way for a smoother transition.

The exercise is useful for family council programmes or for a family retreat. Families who do not have such governance structures will find that doing the exercise opens the door for much needed family conversations about the issues that ultimately strengthen or weaken family businesses.

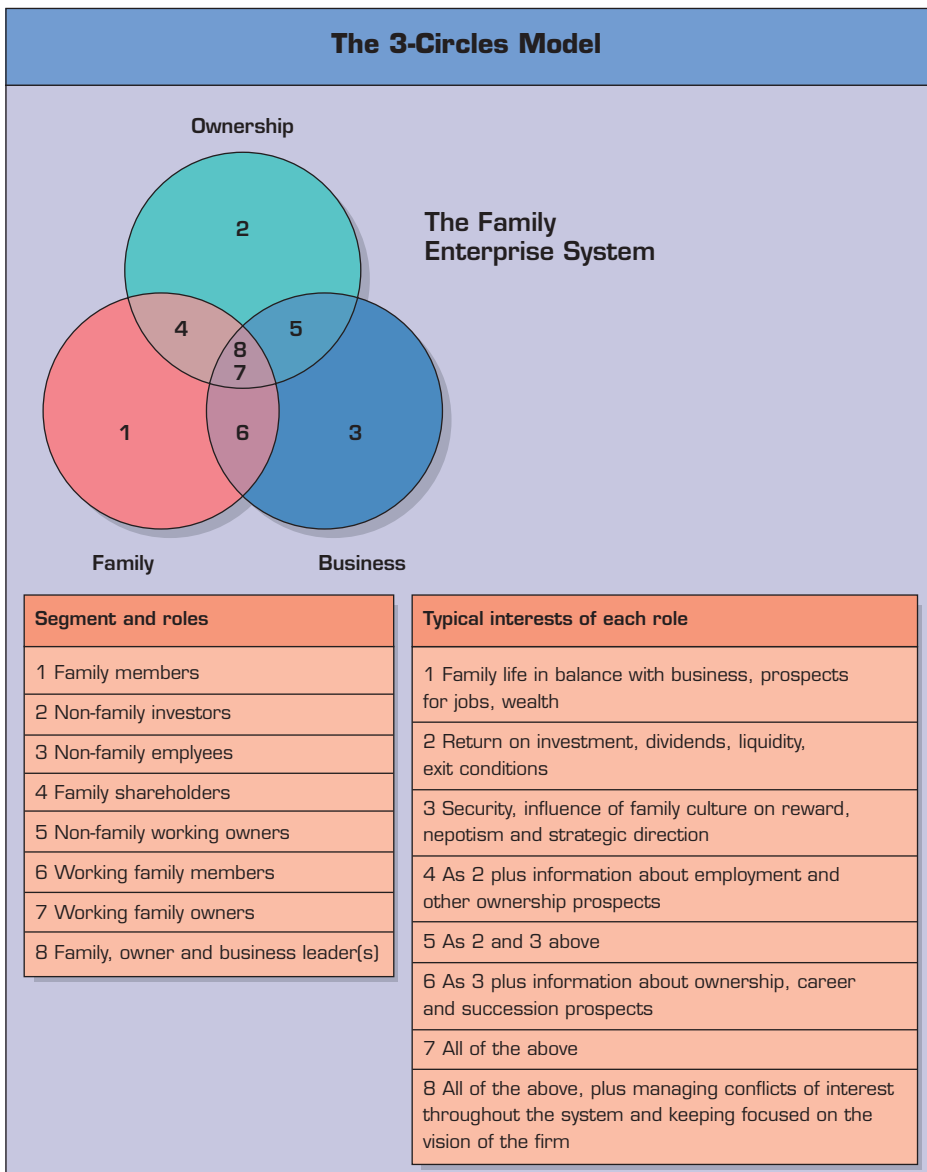


FIGURE 1:

The 3-Circles Model of Family Enterprise Systems. Family enterprise systems are made up of three interlocking sub-systems shown as the family circle, the business circle and the ownership circle.

The past

The 'key moves' and associated roles changes made in 1985 were as follows.

Andrew: (in the model, moved from 6 to 7)
 Andrew was lobbying hard to become Production Director by the age of 30, which he achieved in 1987. To mark his directorship, his parents gave him 10% of the shares in the company just as they had done with Jane. This located him in the ownership circles for the first time, and made Andrew and Jane realise that they would one day share ownership of the business.

Michael (in the model, moved from 1 to 6)
 Michael was happy working in Holland, when Peter, Susan and Jane saw the trend in their industry towards a demand for electronic sub-assemblies. They knew he would be able to manage the technical side of this change if he agreed to join the business.

However, Michael and Andrew were at best ambivalent towards each other, often getting along best when they didn't see much of each other. Despite this, Michael agreed to join the business, implementing changes to production procedures in the factory. This job created a role for him in the business circle for the first time. There were consequences to be managed because Andrew felt threatened by Michael's role.

Peter and Susan (in the model, Peter could move from 8 to 4 or 8 to 1; Susan could move from 7 to 4 or 7 to 1)

Peter and Susan appreciated that the industry was changing, they were getting older and they were being pressured by their accountant to start seriously considering tax-efficient methods for share transfer. These changes forced their first major contemplation of leaving the business circle and possibly the ownership circle, voluntarily or otherwise if illness or sudden death were to force the issue. The prospect of their ownership and leadership roles changing was forcing them to acknowledge the realities of getting older, retirement and decline.

Although their adult children were each respected as capable managers in their own department, everyone knew there were tensions when they got together. As parents, Peter and Susan were forming serious

The Sorensa family business

To illustrate the exercise, we join the Sorensa family in 2000, looking back to the roles each family member occupied 15 years ago. Figure 2 uses the 3-circles model to describe the changes to people's roles and perspectives, and the predicted changes to the Sorensa family enterprise system over a period of 30 years. It shows what the family found when they explored the interests and perspectives people held when they were in their 'controlling ownership' or founding stage of the business between 1985 - 2000, and compared these interests with the present - a transitional phase between controlling ownership and sibling partnership. Finally, it shows the vision they began to form for their future as a sibling partnership, and the likely roles they would hold in 2015.

The family business was established by Peter (aged 58 in 1985), the controlling owner of the business, and his wife Susan who worked with him from the start. The

business produces mechanical sub-assemblies used in the production of motor car dashboards. In 1985 it employed 350 people and enjoyed a good relationship with its industrial customers.

By 2000, the eldest child, Jane, had been working with her parents in the business for six years. She has a MBA and gained experience elsewhere as a contracts manager in the electronics industry before joining the family business. Now the Commercial Director, she is destined to be the successor and is well respected by customers, suppliers and employees. Her parents transferred 10% of the company shares to her when she became a director two years ago.

The middle child, Andrew has been in the business for five years and aspires to be Production Director, in charge of the factory. The youngest child, Michael, has a masters degree in information technology and is training to be an industrial engineer with an electronics firm in Holland.

FEATURE: *Guiding principles*

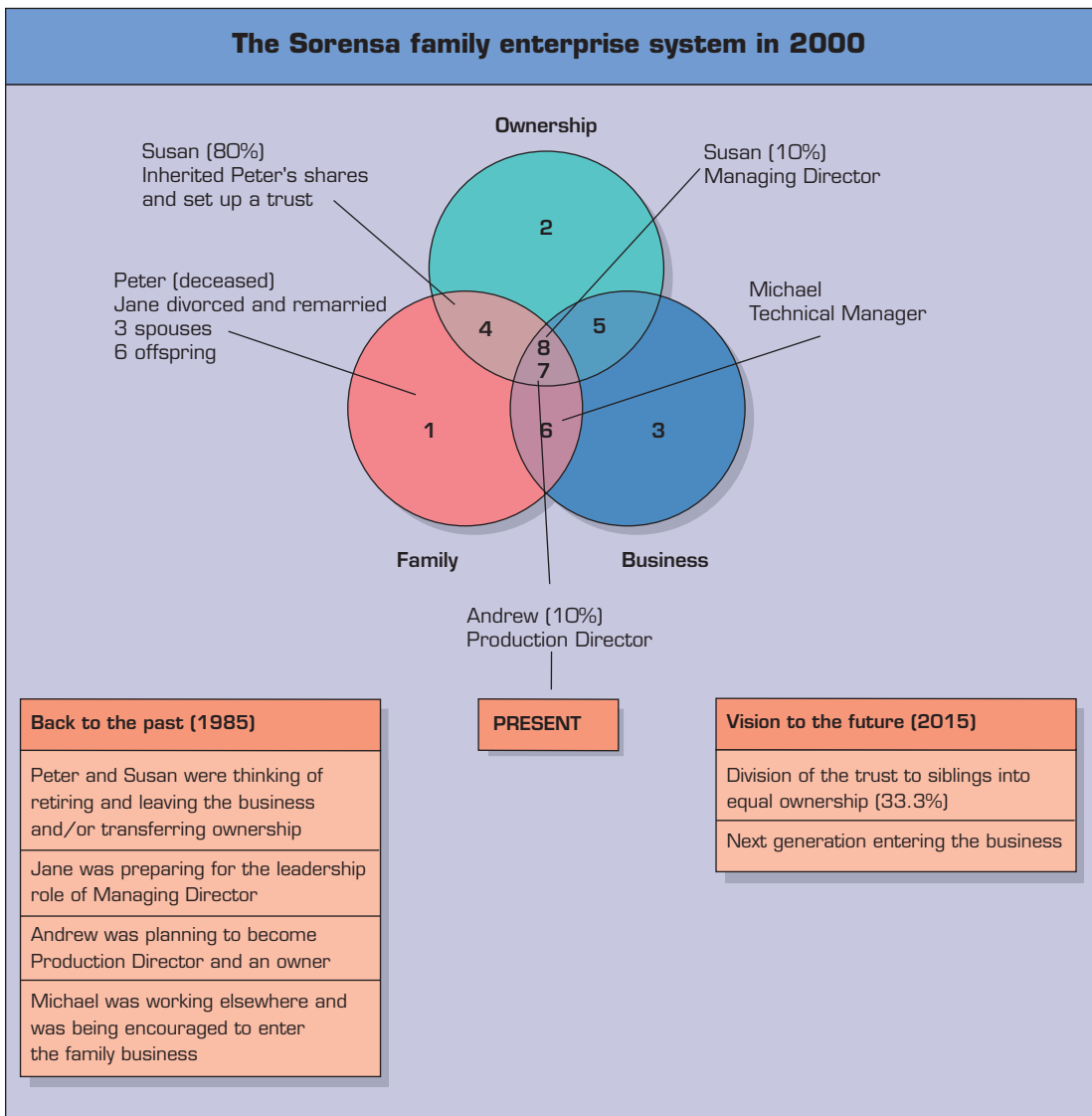


FIGURE 2:
The Sorensa Family Enterprise System in 2000. Throughout their lives, people move from one segment to another, changing their roles in the family enterprise system. New roles bring about different needs, views and expectations of what the role should offer and deliver.

doubts about the feasibility of Jane, Andrew and Michael being able to collaborate as future owners and directors of the business. These concerns confounded their own agenda for retirement and estate planning, which they rationalised on a 'wait and see how things work out' basis.

The present

Peter died unexpectedly in 2000, aged 73. He and Susan never resolved their doubts about the siblings working collaboratively together and had put off making decisions about the transfer of shares because there were always complications. Jane became Managing Director in 1998 and Peter worked as Chairman until his death in 2000. Between 1985 and 2000, Jane's marriage broke down, and after a messy divorce she remarried and gave birth to a daughter when she was 41. Andrew and his wife had two children, and Michael married at 30 and had three children within four years.

Michael and Andrew never got along well in the business. They had an informal pact obliging each to 'keep off the other's patch' in the business, and to stifle private conflicts as far as possible. For this reason, Michael had worked for years as the Technical Manager, but had never pushed to become a director or to have shares in the firm, even though he functioned unofficially at board meetings as the Technical Director.

When the Sorensa family carried out this exercise in 2000, they could see that important role changes were taking place in the system and they started to consider how these changes were going to affect their own perspectives and self-interests.

Susan (in the model, moving from 4 to 1)
Susan stopped working in 1998 when Jane became Managing Director, and therefore left the business circle. After Peter died, she became preoccupied with divesting

her ownership of the business and leaving the ownership circle. She could not decide in what proportion to transfer the shares, and decided to form a Trust that would dissolve in 15 years, leaving the shares equally to each sibling unless they decided otherwise by consensus.

Michael (in the model, moving from 6 to 7)
After his father's death, Michael could see that some big decisions could no longer be avoided. He wanted his 'fair share' in the ownership of the company, but knew it would change things, and he envisaged ongoing battles with Andrew. He also knew that Peter, and now Susan, had functioned as family peace-maker, and that without such a referee the private battles could become more visible in the business. Jane had made it clear she would not take sides and wanted to see new people on the board to bring some objectivity to decisions.

Talking, reflecting, learning

When the Sorensa family looked back 15 years to 1985, they now realised the importance of the role changes taking place when Andrew joined the ownership circle and Michael joined the business circle had not been recognised at the time.

Changing roles: Joining the ownership circle

By asking each person what had changed when someone (in this case, Andrew) joined the ownership circle everyone reflected that a sense of proprietorship and heightened status developed in Andrew, which he explained as his feelings of pride and achievement on joining the board of the family business.

Jane reflected that the trouble began when their father sent out mixed signals when she became a director. Her success in the business was rewarded not only with a market-based salary and other compensatory perks, but also with shares that drew her into the ownership circle. Also, a signal was transmitted from the parents (but never discussed) that privately led each sibling to expect equal sibling ownership to be the end result.

Fearing a row or a walk-out from the business, Andrew and Michael avoided discussing this, and other members of the family also chose to avoid the matter. To avoid dealing with the tricky topic of Michael not yet being an owner, the board elected not to declare a dividend for every year so far.

Changing roles: Joining the business circle

By asking each person what changed when someone (in this case, Michael) joined the business circle everyone reflected on the subtle, and sometimes less than subtle, changes in their everyday working lives.

Andrew felt let down that he was never consulted about the invitation to Michael. Michael felt as if he was being thrown in the deep end of the family business. He said it was like being put in a mine-field with no map – just a matter of time before there would be an explosion and personal injuries.

Susan said she realised that their decision, made in good faith for the business, had been too rapidly executed and that the family and the business had paid a price for this over the years. Peter had not wanted to think about the consequences, she said, and had assumed that Jane would continue to rule along the same lines as he had done.

Jane reflected that perhaps if their parents had invited the siblings to discuss and explore the matter for themselves, it might have led to a different outcome. Susan laughed, saying Peter would never have risked such a democratic solution.

Changing roles: Leaving the circles

By questioning what changes were anticipated by those considering leaving the business and ownership circles (in this case, Peter and Susan) everyone reflected on the avoidance of this move over the years, which had merely stifled the problems that were now surfacing following Peter's death.

Susan said she and Peter felt they were too young to be worrying about share transfers and death. The time never seemed right. Business pressures were always too onerous to start contemplating the handing over of power and control of the business.

The siblings admitted that they had discussed these matters privately with their spouses and with the one sibling to which they felt most intimacy. Jane and Andrew discussed it; Michael and Jane discussed it. However, Jane, Andrew and Michael, as a group, never discussed owning the business together in the future.

'Nothing is more predictable in family enterprise systems than the changes that come with the passage of time'

The future

Reflecting on what had happened over the past 15 years and on the decisions facing the family in the future, the siblings were asked to speculate on what will happen next.

Having started to speak about the changes that happen when people enter and exit from ownership and the business, the siblings were now able to make some predictions. Simply by adding 15 years to everyone's lives, they realised that the following 'key moves' or role shifts were likely.

Michael (in the model, moving from 6 to 7)

Everyone realised that, sadly, Susan would most likely not be available to function as referee (either she would be too old, she wouldn't want to, or she may have passed on) and so they needed to work things out for themselves. Michael was finally going to become an owner when the trust dissolved.

The siblings accepted that their inability to face up to personal and style differ-

ences in the past did not bode well for sharing the ownership equally in the future. They began to discuss using the next six months to explore speaking to other family businesses, privately, about matters of ownership transfer and how they prevented difficult family dynamics spilling over into board meetings and everyday management decisions.

This agreement was the first issue on which a spirit of sibling collaboration was to emerge.

Third generation entering the business (in the model, moving from 1 to 6)

After some quick calculations, it was quickly recognised that Michael's children were most likely to be the first ones among the third generation who, if interested, would be looking for jobs. They were the eldest at 27, 26 and 25. Jane's son, by comparison would be 19. Andrew's children, aged 25 and 23, might also be interested in working in the family business.

Realising the implications for his children's future as owners and/or employees, Michael's mind became more firmly focused on resolving his own ambivalent feelings about ownership.

By reflecting on the feelings Andrew expressed when he said he was not consulted about Michael's offer of a job, back in 1985, it quickly became apparent to all that some guidelines were going to be needed for considering employment for family members.

Conclusion

The process of reflection, communication and speculation helped the Sorensa siblings to build a vision together of a future with more discussion and collaboration and therefore fewer surprises and unwanted consequences than in the past.

Between 2000 and 2001, there was further discussion. There was increased optimism that ownership matters could be settled equitably, that family tensions now had a different place to be resolved than the boardroom or the factory, and a policy was being finalised to guide family involvement in the business. The siblings had, through more open disclosure, learned how to start collaborating on some important matters, and were on the way to creating a system of family business governance. ■

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