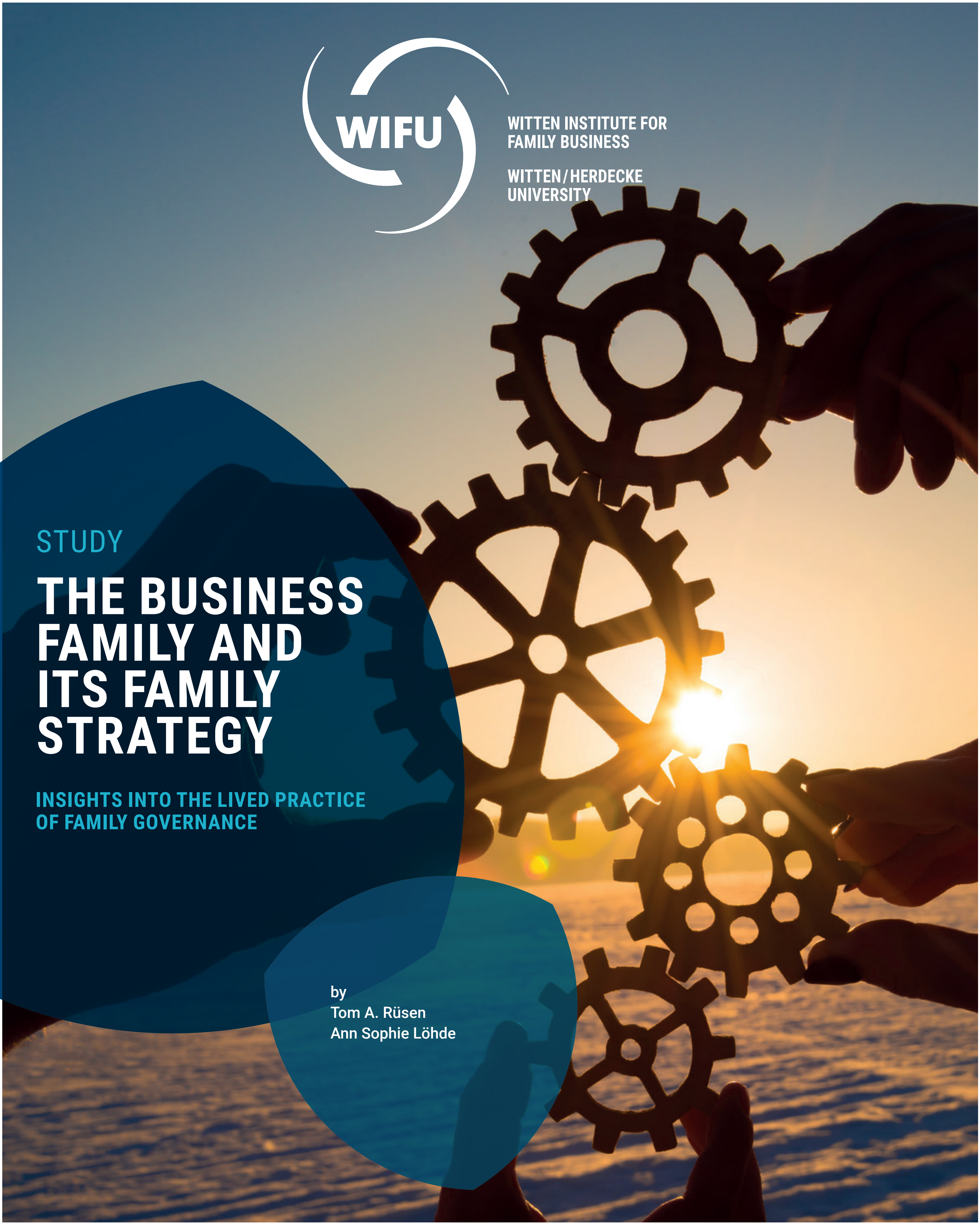

WITTEN INSTITUTE FOR FAMILY BUSINESS

WITTEN/HERDECKE UNIVERSITY

STUDY

THE BUSINESS FAMILY AND ITS FAMILY STRATEGY

INSIGHTS INTO THE LIVED PRACTICE OF FAMILY GOVERNANCE

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IMPRINT

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CONTENTS

FOREWORD

It is quite astonishing that the term 'family strategy' has only recently become the focus of attention in the literature on family businesses to the extent it is now. This is because it is not something all that new. Implicitly, the term 'has always' been used. Not just recently, but in fact for a long time. In the past, the questions of how ownership and positions could be passed on within the family were considered so important that firm social structures were developed involving the individual actors. In these parts of the world, succession naturally ran towards one figure in the family: the eldest son. Alongside the estate, the business or even the kingdom, he also inherited the function of continual operation of the business. Especially in early forms of business, in the craft trades, this privilege was also a duty. The guilds clearly regulated that one could not become a bricklayer, carpenter or goldsmith simply because one felt like it. The path of the eldest son was already marked out from birth.

These 'family-strategic' mechanisms did not develop by chance. They are structural solutions that societies developed for problems they considered so serious that they had to be regulated. They had the advantage of keeping some potential for conflict out of the family. However at the same time the rigidity of the regulations disadvantaged many family members, sometimes even those who were apparently favoured. After all, you don't always want to become a carpenter or goldsmith, especially when you have no choice in the matter. And, as we know, these rules often did not work. It is, therefore, to be welcomed that previously rigid structures are now softening and that those involved have more leeway to shape their circumstances in the way that seems best to them.

However, this raises the issue of family strategy as a completely new task, becoming a personal mission and challenge. Today, it can be said that family strategy begins at the moment when a founder, a father or a mother spends sleepless nights preoccupied with the question of how the company will continue. And the moment when they conclude not to sell it is when what we now call family strategy begins. This is when the idea is pursued that it would be good if the company were to continue to be run by a family member, or that the family would at least participate in managing the company.

This idea, once thought, has concrete consequences, and it entails a sequence of actions: Conversations are held, conditions are formulated and arguments are developed as to how the family can understand the solutions found. Why this particular solution? Why should just one family member and not another come into this or that position? In these conversations, one thing often becomes very clear: The problems are not easy and their solutions do not arise by themselves. Things look very different from the family's point of view than from the company's, and different again when it comes to questions of securing ownership. Above all, however, they affect the people involved very personally and often lead to highly emotional conflicts. Sometimes talks are then avoided, but this is not a solution either. A glance at the history of many companies shows that it is by no means self-evident that family strategy works. Companies can fail at this task. Sometimes it is also apparent that solutions found in one generation are not sustainable because they do not take sufficient account of the increase in complexity over the generations. But there are also many positive examples. Evidently, there are many ways for family and business to exist successfully together across the generations for their mutual benefit.

Since its foundation in 1998, the Witten Institute for Family Business (WIFU) has been dealing with this question: What do the sustainable solutions found by business families actually look like? How do they manage, in their different ways, to maintain the complicated balance between thinking in the logic of the family and the logic of the company? Apparently, successful companies do not gravitate towards quick-fix solutions. They often find very interesting solutions which combine business and family interests. A key finding of WIFU's research is that although the solutions vary widely, there is a set of questions for which answers must be found. This is common to all long-term successful companies: they have dealt with these very concrete questions and found solutions to them that are individually tailored to the conditions of the respective family. It is therefore not possible to put together a canon of correct solutions that is equally valid for all companies. However, it is quite possible to get an overview of the specific issues facing a company of a certain size and family constellation. For a long-term successful company, it is not what answers were found, but, rather, whether these issues are taken on board and addressed.

From this insight, it is a small step on to the questions that are dealt with in this study. The question is: which of the family strategy issues that have proven to be important are being dealt with by business families today? The 214 family businesses surveyed provide a very detailed insight into whether they have asked themselves certain questions – in other words, the focus lay less on what a conflict management system looks like in terms of content (as mentioned, there is no 'right' or 'wrong'), but whether such a system was conceived or installed. The results are both encouraging and, at times, alarming. They are encouraging because they show the extent to which business families are consciously engaging with family strategy and working to develop structures that significantly improve the chances of longevity. They are alarming because a considerable number of families continue to turn a blind eye to the structural risk that they carry if they do not address, or at least have not yet addressed certain key issues. But it is always easier to take such steps when you get along reasonably well rather than working on them when relationships have already soured.

With this in mind, I hope that what follows is a stimulating, interesting and perhaps sometimes even rousing read.

Witten, April 2021
Prof. Dr. Arist von Schlippe

EXECUTIVE SUMMARY

A WIFU STUDY ON THE DISSEMINATION, DEVELOPMENT AND CHALLENGES OF AN EXPLICIT FAMILY STRATEGY

How do German family businesses actually shape the relationships between themselves as family businesses and business families? This is an issue that has gained in importance, especially over the past two decades. In the research and advisory literature, numerous approaches can now be found, ranging from individual governance mechanisms to elaborate family constitutions. But what is the situation in the actual common practice of business families? What family strategy elements can be found in German business families and what purpose do they serve? In April 2018, the Witten Institute for Family Business (WIFU) conducted a study on the status quo of 'family strategies in business families'. The aim of this research project was, on the one hand, to find out which family strategy elements are being used by the 214 participants, as well as when and by whom they were introduced, but, above all, what purpose they primarily serve. On the other hand, the study also aims to shed light on the form in which existing family governance is being implemented and lived by the business family and whether it is fulfilling its intended purpose.[1]

THE WITTEN PERSPECTIVE ON FAMILY STRATEGY DEVELOPMENT

For more than twenty years, WIFU has been intensively engaged in the topic of family strategy and the '(self-)management' of the business family based on it. Similar to a corporate strategy, a family strategy aims to develop a long-term vision of the future and to define behaviour patterns for family members that correspond to this vision.

In this way, the business family reflects its self-image as a family and its relationship to the company, and how it can maintain this as a resource in the future. This must be done from the perspective of the entire family, on the one hand, and from the perspective of the individual family member, on the other. To ensure this, a successful family strategy also includes systematically created opportunities for regular communication within the family.

'Family strategy is a key tool for organising the business family. It is one of the essential measures for securing the future of a family business.' (Prof. Dr. Frank Stangenberg-Haverkamp, Chairman of the Executive Board and Family Council of E. Merck KG)

[1] The authors would like to thank Arist von Schlippe and Monika Nadler for their valuable advice and suggestions during the preparation of the study.

THE GOVERNANCE MECHANISMS

To further illuminate the topic of family strategy and to formulate recommendations for action, it was first necessary to gain an overview of the current distribution of family governance mechanisms. For this reason, the first step was to investigate which regulations and structures already existed in the families surveyed. The following mechanisms were queried:

- Existence of an explicit family strategy that is referred to as such
- Existence of a family constitution/codex
- Contents of the shareholder agreement, which outlines the good conduct of the family members
- Measures and activities of a family academy or programmes for the professional ownership development (POD)
- Existence of a family body / 'welfare officer'
- Existence of a family office
- Existing conflict management systems
- Lived forms of family meetings ('family days')
- Existence of a family intranet / other communication channels for the family
- Formats for the future generation (NextGen formats)

KEY FINDINGS OF THE STUDY

Our study first of all makes clear that the participants were well aware that the relationship between family business and business family should be purposefully designed. More than half of them (57 %) have a social contract that additionally defines certain desirable family behaviours. In many cases, family days (59 %) are also considered very important as a way to strengthen family cohesion in the business. A total of 45 per cent of the business family members surveyed already have an explicit family strategy.[2] Figure 1 provides an overview of the results.

[2] However, this high number could also be explained by the study participants possibly having been drawn from the WIFU network and working on this topic within their families for some time. It was not possible to present a 'representative' sample, which would have allowed conclusions to be drawn about the population of all family businesses in Germany.

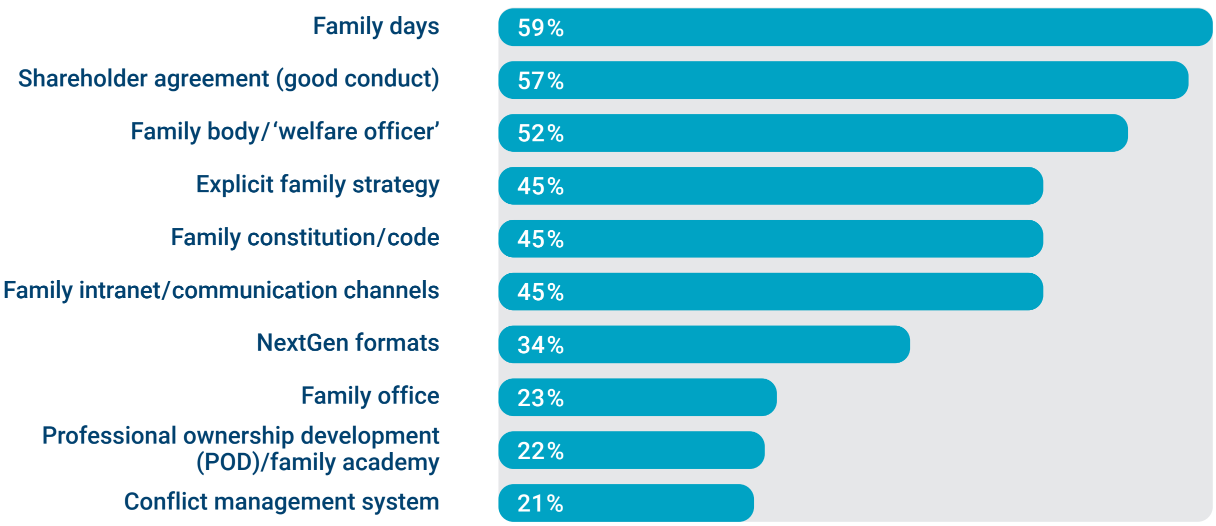


Figure 1: Distribution of family governance mechanisms

A further aim of the study was to find out what motivates business families to develop an explicit family strategy, what they expect from it and which areas are the most challenging. The key findings listed below provide information on which family governance mechanisms are most frequently present, which of them are considered most important, which motivations have led to adopting a family strategy and which challenges have to be overcome by the business family when implementing a family strategy.

1 | OVERVIEW OF THE STUDY'S KEY FINDINGS

The following overview illustrates the responses of the participants on the topic of family strategy in order of highest to lowest feedback:

Most common governance mechanisms

I. Family days (59%)
II. Shareholder agreement (with good conduct) (57%)
III. Family body/a 'welfare officer' (53%)

Family governance mechanisms considered most important for the family

I. Family constitution/code (78%)
II. Shareholder agreement (with good conduct) (74%)
III. Family academy/professional ownership development (POD) (72%)

Motives for a family strategy

I. Future-proofing the company (93%)
II. Increasing complexity of the business family (82%)
III. Concern for the cohesion of the business family (81%)

Challenges for the implementation of a family strategy

I. Integrating the rights and duties of all members of the business family into everyday life (50%)
II. Communication within the business family (45%)
III. Recognition of a binding set of rules which guides the actions of each shareholder (42%)

Why there is no family strategy yet

I. So far not necessary (46%)
II. Business family too small (39%)
III. No agreement among the shareholders (22%)

In the following chapters, in addition to theoretical foundations on the topic of family strategy and management of the business family, the individual results of the survey are evaluated, interpretations and hypotheses are derived, and starting points for the use of these findings for family entrepreneurs, members of business families and their companions and consultants are described.

2 | THE FAMILY STRATEGY

The economic importance of family businesses worldwide is now undisputed.[3] It is, therefore, not surprising that a wealth of knowledge and recommendations about and for this type of company, both in research and practice, have been produced in recent decades. A central aspect of these results is the recognition of the great importance of family business governance mechanisms when it comes to ensuring a successful long-term connection between the company and the controlling family. This family governance contrasts with business governance and aims to manage the complex relationship between family and company in family businesses.[4] The most familiar forms here are the establishment of a separate body of the business family or circle of shareholders (often referred to as a family council or a shareholders' committee) or a family office or offices.[5] These separate organisational units then function as a separate structure of the business family, sometimes with a very different range of tasks. In practice, the following family business governance instruments are frequently found for which there is now a more or less uniform understanding: written family constitution/codex and value mission statements, conflict management systems, family days, a family intranet or a shareholder competence development programme.[6] However, there is as yet no uniform definition of what the term 'family strategy' is, since the relevant literature has not yet established how one should be drawn up and regularly updated.[7] There is also as yet no generally valid definition in research since the term is used in completely different contexts, particularly in the Anglo-American world. Below, we build on the existing WIFU research results and use the introduced definition of a family strategy. This also served as the basis for the questionnaire used in this study.

2.1 | RELEVANCE OF A FAMILY STRATEGY

The term strategy (from the ancient Greek stratēgía – 'office of general'[8]) is nowadays mainly used in a business context. The primary purpose of a strategy is to ensure that a company achieves its goals in the long term by defining certain behavioural patterns.[9] In the context of family, this term is at first glance rather strange to many. This is because a family does not primarily strive to achieve predefined goals, but represents, especially today, 'a protective retreat from the demands of society'.[10] So why is a strategy needed in this context?

If we shift the focus from the small family in the private sphere to the business family, a somewhat different picture emerges. When speaking of a business family, we refer to a delimited group of people who are related to one another (in relation to a concrete original couple, usually the founders, who determine the boundaries of the family)[11], whose development is still significantly shaped by a company owned by a single, several or all family members. The business family is characterised, above all, by the passing on of ownership within the family association. It is not the form of the solution that is decisive here, but the will to keep the ownership in the family for generations. It is from this standpoint that the need for a family strategy arises. Even before modern entrepreneurship

[3] See IfM Bonn (2018); Stiftung Familienunternehmen (2018); BDI study (2018).
[4] The demand by Carlock and Ward, 2001, that there should be a 'parallel planning process' between family and business could be taken as a starting point for raising awareness of the issue, particularly in Germany. Among others, Baus (2000); Kormann (2011); Kormann (2017); and v. Schlippe et al. (2021). The Family Governance Code, developed by May (2007), deals with this topic in detail.
[5] Cf. v. Schlippe (2017), p. 29.
[6] Cf. INTES study (2015): *'Eine Untersuchung zu Einsatz und Wirkung von Family-Governance-Mechanismen in Familienunternehmen'* (A Study on the Use and Effects of Family Governance Mechanisms in Family Businesses).
[7] A first step towards approaching and systematising the topic on the basis of a scientific study can be found in v. Schlippe et al. (2021) especially in Chapter 9.
[8] Cf. v. Schlippe et al. (2021).
[9] See May (2007); Nagel and Wimmer (2014); Plate et al. (2011); Zellweger (2017).
[10] Cf. v. Schlippe et al. (2021), p. 3.
[11] Cf. ibid. p. 28.

emerged, there were many examples of family-strategic considerations, for example, in agriculture and in aristocratic houses, where the primary concern was to preserve land, houses and titles. History offers many examples of failed as well as successful forms of family strategies, especially with regard to succession arrangements in the transfer of ownership.[12]

However, the definition and living conditions of families have changed considerably since then. Today it is no longer a matter of course that family members define themselves through blood relations or marriage. Modern lifestyles make a uniform definition of family difficult – for outsiders as well as for the family itself. This often does not pose a challenge for 'classical' families, as they are not confronted with the necessity of finding a clear answer to the question of who exactly 'belongs' in each case. For business families, however, there is a need to find an answer to these questions and to create a self-image within the business family of how the boundaries within the family are differentiated: the respective memberships of the family, the business family and the extended family are often defined very differently. Having clarity here and to leave as few 'grey areas' (adoption, civil partnerships, children born out of wedlock etc.) as possible where fierce conflicts break out is a basic prerequisite to ensuring the survival of the family business over generations. And it is an important step towards a successful family strategy.

2.2 | WITTEN DEFINITION AND MODEL OF FAMILY STRATEGY DEVELOPMENT

Analogous to a corporate strategy, the family strategy pursues the goal of developing a long-term vision of the future and defining behavioural patterns for family members which correspond to this vision.

The business family thus reflects on its self-image as a family and its relationship to the company, or rather the question of how it can and wants to maintain this as a source of strength in the future. At the heart of this process is the recognition that a family business is 'a complex construction made up of three very different social systems'.[13] Each of these three systems (business, owner, family) is characterised by a communicative logic that is incompatible with those of the other systems. A high potential for conflict can arise at the respective 'breaking points', for example, when a company topic is understood in family communication.[14] Many questions look different from the business, owner and family perspective, and require different answers. It is these paradoxes that need to be balanced out by an explicit family strategy, on the one hand, from the perspective of the entire family, and, on the other hand, from the perspective of the individual. To ensure this, a successful family strategy includes, above all, opportunities for regular communication. To summarise these remarks, the term 'family strategy' is defined as follows, based on earlier WIFU definitions:[15]

[12] See in detail v. Schlippe et al. (2021).
[13] Cf. ibid. p. 30.
[14] See in detail v. Schlippe (2014).
[15] Taken and slightly modified from v. Schlippe et al. (2021), p. 12.

'A family strategy is about developing a medium and long-term vision of the interaction between family businesses and the business family. A well-formulated family strategy, therefore, comprises the result of a process of reflection by a business family on its self-image as a family and on the question of how it can and wants to remain a resource for the company in the long term. Due to this, the positioning of the business family should be carried out from a family, business and ownership perspective.

But how does a business family come up with a family strategy in the first place, and which issues should always be considered and clarified despite the individuality of each family? In general, one can say that every business family has a family strategy, at least an implicit one. It begins as soon as the founder starts to think about how to continue with the family and the company and how to deal with inheritance. Many even larger business families have such emergent strategies, which have developed over decades without being preceded by a guided process. In many cases, they are quite successful. At least as often, however, yesterday's solutions turn out to be today's problems because the medium- and long-term consequences of some decisions may not become apparent until one or two generations later.[16] This study, therefore, focuses on the explicit family strategy which is deliberately developed within the circle of the business family.

Based on its twenty years of research, WIFU has developed a model that can be understood as an ideal-typical process for developing a family strategy. Business families can use this model as a guideline, but it is not a blueprint for success. The process requires a high degree of commitment from all family members, that is, the willingness for self-reflection, communication and mindful handling of old insults and injuries. The purpose of this process is, on the one hand, to identify and reflect on previous implicit strategies and translate them into explicit measures. On the other hand, the process is also intended to draw attention to current and potential sources of conflict of which the business family may not yet be aware.

2.3 | TWELVE STEPS TO A FAMILY STRATEGY

The *Witten process model of family strategy development* is divided into twelve topic areas (Figure 2). These topic areas build on each other in terms of content and should be dealt with in this order. Ideally, the result is an explicit family strategy that is supported by all family members and set out in writing.

[16] Simon et al. (2005).

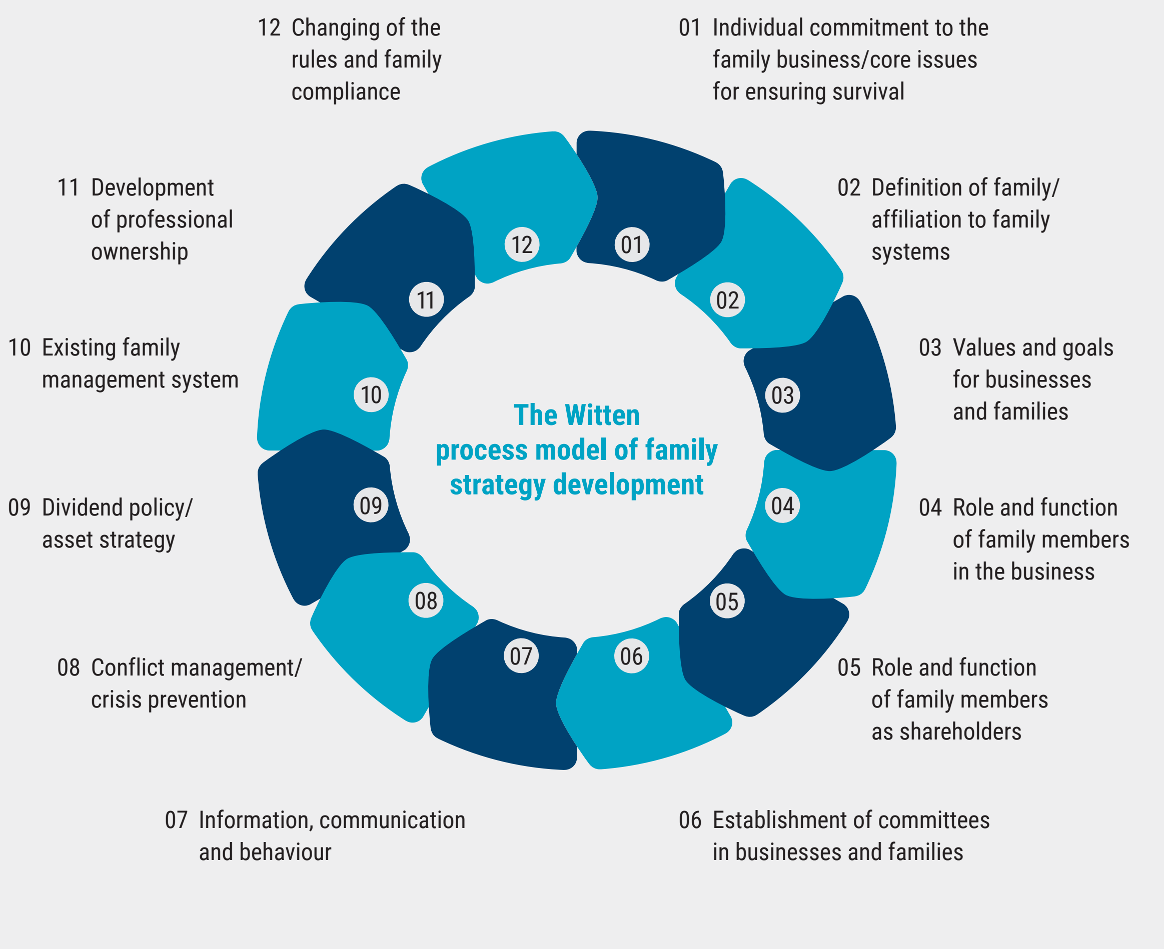


Figure 2: Witten Model for Family Strategy Development

In the following sections, we provide a brief overview of the individual topics, which should help to develop a deeper understanding of the contents of a family strategy and to present its totality in comparison to individual governance mechanisms. Topic areas 1 to 3 deal with the general basic questions of the self-image of the family as a business family and with the lived understanding of values. Topic areas 4 to 6 and 9 clarify the central aspects of the relationship between business and family. Interactions within the business family, that is, the behaviour of family members towards each other, are dealt with in topic areas 7 and 8 as well as 11 and 12.

Topic area 1: Commitment to the family business

In this first topic area, the basic attitude of the family towards the company and entrepreneurship is discussed. The primary aim is to develop an understanding of how the individual family members see themselves in their roles as family members, as owners and as actual or potential employees of the company. Finally, what ideas exist about the mental model of the business family?[17] Working through this first topic often provides a rough overview of how the family strategy process will be structured, as conflicting issues and the formation of fronts often become apparent in this first step.

Topic area 2: Definition of family

Following the introduction to the topic of family strategy, the aim is to define what is meant by the term 'family' and whether all participants have the same understanding of how the differences between the family, the shareholder family and the business family are understood or where there is a need for clarification. For example, there may be questions on who belongs to the shareholder or business family, whether spouses may acquire shares and how to deal with adoption, civil partnerships and non-marital children etc. What form does membership of the business family take? Who is able and who should be allowed to access which committees, tasks and activities of the company and family – and who should not? The second topic addresses these questions.

Topic area 3: Values and goals for company and family

What values prevail within the business family, how can these be transferred to the company and what code of conduct does this result in for the business family members? Topic 3 seeks to answer these questions. First, the central values for the family are defined here and, in the second step, it is determined which of these values should also apply to the company and in what way. In a third step, the values are linked to concrete instructions for the members of the business family and rules are defined on how non-compliance is to be identified and dealt with.

Topic area 4: Role and function of family members in the company

In this – often the most contentious – topic area, the question is whether and in what form family members may or should take on an operative function in the family business. First, whether operative cooperation should be possible for family members at all must be determined. If this is affirmed, the framework conditions of these operational activities, as well as the barriers to entry, must be defined, that is, who should have the opportunity to do so while fulfilling which (plausible) criteria, as well as how and, above all, by whom are decisions made? This framework should also specify how to deal with underperformance from family members who work with the family. In the event of a structural refusal to cooperate by family members or if the entry requirements are not met, it must be determined how the business family will position itself regarding management outside the family.

[17] See Rüsen et al. (2020) and Gimeno et al. (2010). A practice-oriented summary can also be found in the WIFU practical guide, 'Mental Models of Family Enterprises – How Business Families Think about Themselves and their Connection to the Family Business'.

Topic area 5: Role and function of family members as shareholders

Having defined the potential roles for family members in the company, the next step is to discuss the family's function as shareholders. The primary objective is to shed light on the previous owner management in order to be aware of the legal consequences resulting from the shareholder agreement and to adapt or set up processes accordingly. Core aspects of this topic area are decision-making processes, share subscription rights, integration of new shareholders, dealing with divorces, internationalisation issues of the business family, and sale and fungibility of shares, as well as regulations for dealing with external shareholders.

Topic area 6: Installation of committees

The installation of committees is a central aspect of the relationship between the business family and the company, but pure family bodies have also gained popularity in recent years. On the one hand, with regard to the company, it is a matter of setting up advisory and control bodies through which the business family influences the fate of the family business without being actively involved in operations. Where the rights and duties of these committees lie and how they are to be filled must be clearly defined. On the other hand, committee installation is about looking at the family itself: While the application of a 'welfare officer role' may be sufficient for smaller business families, it is recommended for larger business families (>15 persons) to set up family bodies to ensure the organisation of family cohesion. Family events, for example, which are within the remit of this body, can actively promote the integration of the new generation and new members of the business family. With such a body, the family creates a kind of contact point for itself, to which general questions or conflicts can be addressed and which organises and resolves them.

Topic area 7: Information, communication and behaviour

The information about the company and the family which should be distributed to its members and in what format is defined in Topic 7. This is about much more than the information duties prescribed in the shareholder agreement because careful handling of information secures one of the central resources which arises from the family, namely trust. It is necessary to define which information is processed and distributed when, in what form and by whom, and what other possibilities there are for obtaining information, making enquiries or registering a need for communication. This applies to the interests of the company, but also to the interests of the family. To adequately moderate this distribution of information as well as any subsequent discussions, rules of communication should be defined which regulate the practical means of communication (e. g., personal, family chats, family intranet), on the one hand, but also the rights and duties of all family members with regard to the content and form of expression of opinions, on the other. Furthermore, this topic area defines the desired behaviour in public – especially on social media – for all family members.

Topic area 8: Crisis prevention and conflict management

Dealing with existing conflicts and anticipating possible conflicts are the core elements of this topic area. The aim is to find ways and means of preventing or overcoming conflicts and crises without causing long-term damage to the company or the family. On the one hand, this includes defining coping mechanisms for dealing with such situations. On the other hand, however, it is possible to take precautions in advance to prevent the conflict or crisis itself. Frequently it is a lack of regulations for extreme cases, such as unexpected death/coma, which can put the family in an unanticipated situation and are a great emotional and organisational burden. Without clearly defined procedures, a crisis may already be pre-programmed to happen.

Topic area 9: Dividend policy and asset strategy

In this conflict-prone, complex set of issues, the first thing to do is to define the basic attitude of the business family towards their total assets. Three pillars of the business family's wealth are, therefore, discussed in this topic area: the assets tied up in the company (profits as well as company value), the scope and handling of dividends and the management of assets not tied up in the company. Detailed rules are required to control how these three pillars should be dealt with, what basic attitude to assets exists within the business family as a whole, who decides on these issues (above all, dividend policy), whether and how changes to the established rules are possible, and what the special rules for exceptional situations should look like. In the context of this discussion, it is necessary to use all the topics already defined as a guide for the discussion to create a coherent framework.

Topic area 10: Existing family management system

The point in time when a family strategy is developed is, of course, always during a period in which the business family as such has already long existed. Accordingly, there are already explicit and implicit forms that the family uses to meet its expectations and tasks as a business family. Topic area 10 conducts a reality check on the extent to which the newly defined rules and obligations can be implemented. To this end, the ideas and approaches developed are at this point translated into concrete institutions and a management system for the family with a firm timetable. Concrete instruments that are frequently used here are family days, which aim to create emotional ties between all members of the business family, and a family calendar, in which all important dates are entered and which everyone can access.

Topic area 11: Development of professional ownership

For the implementation of the jointly developed regulations, competent partners are needed, especially from the younger generations. In large families, they usually have no daily connection to the company at all. Too often, it is left to the shareholders to educate themselves to be able to fulfil their rights and duties as business family members. However, this leads to family members whose interests lie primarily in non-entrepreneurial areas or who come from family branches which have no contact with the operative business sooner or later losing touch. To prevent this, all members of the business family should go through a shareholder competence development programme, which takes the following topics into account: getting to know the company from the inside, obtaining abilities to assess and lead managers, understanding the strategy and the interaction of individual elements of the company, understanding the role of a family shareholder (system competence) and building personal communication skills.

Topic area 12: Rules for compliance and modification of rules

The family strategy which has now developed is a snapshot of the current business family – as a rule, it is written down in a family constitution. It leaves some room for adaptation in many areas, but it would be dangerous to believe that it could claim permanent universal validity for future generations. Rather, it is a continuous process of reflection that the family is now entering into, and the 'fixed' result must, therefore, always be considered provisional. Changes to the family, company or other circumstances may require new reflections, as well as changes in family strategy. How often a critical review of the family strategy should be carried out, who is responsible for it and under which circumstances changes are permissible must be clarified in this last topic area. Furthermore, mechanisms must be developed to deal with violations of the constitution by individual family members despite their signing of the constitution.

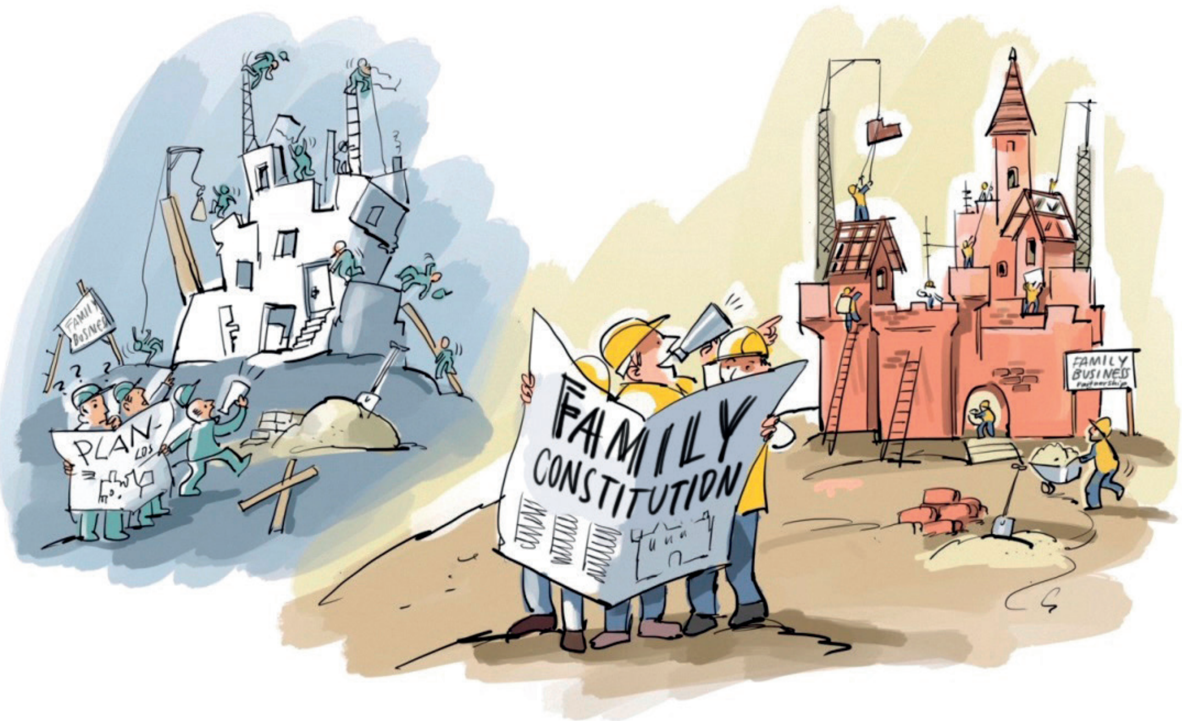


Figure 3: The family constitution as a 'blueprint' of the business family

2.4 | SO WHAT NOW?

The contents of the above-mentioned twelve topics are often already present before the process in other approaches – as governance mechanisms, in other contracts or in the unspoken practice of coexistence in business families, often communicated as expectations of one another. Ideally, after successful completion of the described process, there is a comprehensive family document in which these aspects are formulated as the 'will of the family'. Now it is a matter of developing a lived family strategy from this family document. To this end, the first step is to adapt existing contractual arrangements, such as articles of association, marriage contracts and wills, and other mechanisms and institutions to the newly defined regulations and processes. Once these precautions have been taken, it is up to all business family members to put the written word into practice.

The family strategy is, therefore, a process, a permanent task that cannot be outsourced externally, for example, to advisors as 'welfare officer'. Nor can it be understood as a one-off act. It is essential to implement the agreed regulations and processes on a daily basis and to question them critically again and again. This is the only way to ensure the survival of the business family within its own set of values in the long term.

The result of such a process—which can be quite lengthy—is not always what is hoped for. It is not uncommon to find cases in which such a process actively confronts the family for the first time with the need to commit to common values and ideas about the future. That this does not always end well is in the nature of things. Thus, the process described above can also lead to the collective decision to sell the company, transfer it to a foundation or partially sell or separate parts of the business family as the best

Figure 4: The circle of expectations in business families

solution for all parties involved. Here too, however, the family strategy process provides a valuable framework: if a common path for the members of a business family is no longer conceivable, a gradual sale or separation can be organised outside of an escalated conflict or crisis.

Nevertheless, an actively developed and lived family strategy is currently the best instrument to ensure the long-term survival of a family business owned by a business family. The growing challenges facing companies as well as family members actively involved in operations or on committees – externally, through political, technical, ecological and social changes, and internally, through the growing and diversifying business family and the resulting family dynamics – in all probability cannot only be mastered with existing approaches to solutions. The family strategy and family management based on it support the business family in facing these challenges and ensuring the business can be passed on to future generations. Every business family is, therefore, advised to address these issues in a structured manner.

3 | STUDY OBJECTIVE AND EXPLANATION OF GOVERNANCE MECHANISMS

3.1 | OBJECTIVE

Based on the considerations presented in Chapter 2, one aim of our study is to gain an idea of how widespread the systematic examination of the family strategy of a business family already is and which family governance mechanisms are primarily applied by the participating members of business families. In recent years, isolated studies have examined the state of diffusion of governance mechanisms in family businesses, so that one can observe the general developments of the last decade.[18] However, the topic of family strategy has not yet been addressed in this form. This is because it is not an individually delimitable mechanism, but a perpetual process from which many specific family governance mechanisms can also emerge, though not independently of each other, but as part of the greater whole under the umbrella of family strategy.

Furthermore, the study aims primarily to collect an overview of opinions on the topic of family strategy, to shed light on the motives for, experiences with and the concrete challenge of a family strategy process and the implementation of the results. Based on the experiences of other companies and their assessment of such instruments, specific recommendations for action can be formulated for family businesses and their business families. Also, gaps and possibilities for improvement in the current research situation, which have already been individually solved in practice, can be identified.

To achieve these goals, WIFU launched the research project, 'Family strategy – A review of current practice', in March 2018. This study is based on a survey of 214 family entrepreneurs. It discusses the results of the data collection, taking into account the current research situation and WIFU's practical experience in this field.

3.2 | DEFINITIONS OF FAMILY GOVERNANCE MECHANISMS

The topic of governance mechanisms in family businesses has recently become increasingly important in practice, public reporting and research. It is, therefore, not surprising that terms such as family body, family constitution/codex and family academy are at least known to most members of business families. Nevertheless, it is important to, first, briefly clarify the concepts of the individual mechanisms observable in practice to be able to distinguish them from each other.

The survey shown here distinguishes between ten governance mechanisms, including the explicit family strategy, which was already defined in detail in Chapter 2. These are not clearly separate, either in definition or in actual practice. Nevertheless, we should establish a uniform understanding of what we use the latest scientific findings and our many years of experience for:[19]

[18] INTES study (2015): 'A Study on the Use and Effects of Family Governance Mechanisms in Family Businesses'.
[19] Cf. Chrisman et al. (2018); Felden et al. (2019); Gnan et al. (2015), Kirchdörfer and Lorz (2011); Madison et al. (2016); May (2012) and v. Schlippe et al. (2021). See also INTES study (2015): 'A Study on the Use and Effects of Family Governance Mechanisms in Family Businesses'.

NextGen formats

By NextGen formats we mean offers specifically aimed at the next generation. These can either have an entrepreneurial further training character, introduce the content of the training to the value-added process or market and competition of the company, or include a purely social offer (excursions with other members of the new generation, company visits and internships etc.) in order to strengthen the cohesion of the successors.

Family intranet and specific communication channels for the business family

Business families usually acquire an individual communication platform. What can still be solved via group chats or similar in small families soon increases in complexity as the business family grows. At this point, you can use your own protected family intranets. They provide a protected framework in which all members of the business family can communicate with each other. Furthermore, these systems can also be used very well as share points for the distribution of announcements, appointments, documents and news from the company and family. For the system to function and fulfil its purpose, however, someone from the family with technical experience must be appointed who is responsible for the care, regular use and (extremely important) communication with the family on how the relevant platform works.

Family days

Regular meetings of all members of the business family are extremely important for members to bond with each other and for them to identify with the family as well as with the company. Through joint activities, the boundaries between small and large families dissolve – you see yourself as part of the big picture. Here there is the possibility to find out about each other's values, mutual ideas and any existing expectations, or to exchange and reflect on them together. In addition, regular family days strengthen identification with the values of the business family and offer the shareholders a platform to personally inform all family members about the status of the company and – if desired – to discuss it.

Conflict management systems

This is about established processes for proactively solving conflicts or preventing them from occurring. These include central points of contact, such as a contact person within the family for conflict-related issues, designated conflict managers or a mediator, who are consulted in case of doubt when conflict situations arise and who should prevent unresolved escalation. Also, professional conflict management systems include defined processes on how to deal with a conflict, which forms and channels of communication are to be used and how decisions are made to resolve a conflict. All these aspects should be established in advance, preferably before conflict arises.

Family office

A family office is an independent organisational unit that takes care of the administration of general family matters. In practice, the term family office is sometimes used in very different ways; German business families often also use the term Familienbüro or Gesellschafterbüro (family office or shareholder office). The range of tasks of such a service unit includes the administration of family assets not tied up in the company and, increasingly, support services for legal matters, including marriage contracts and wills, which must be made compatible with the shareholders' agreement, and tax law issues. Sometimes complex issues have to be dealt with, especially in the case of international marriages or residences. If a family office deals exclusively with the needs of a family, it is referred to as a single-family office. Here, family members themselves are often involved in asset management.

Family body / 'welfare officer'

Up to a certain size of the business family, it makes sense to select a person from the family circle as the 'welfare officer' of the business family. This welfare officer looks after the family's concerns and takes over organisational tasks such as planning family meetings, company visits and further training measures, as well as acting as a contact person for all matters within the business family. In well organised extended families, this 'welfare officer function' is often institutionalised in a separate family body (e.g., family council, family business committee) and consists of several family members.

Family academy / programmes for professional ownership development (POD)

Within the framework of a comprehensive family strategy, professional ownership is regarded as one of the most important factors for the long-term success of a family business.[20] Systematic work on the level of competence of the business family is very important for the future of the business, particularly when the number of family shareholders not actively involved in the company exceeds the number of managing shareholders. On the one hand, this includes basic knowledge of business administration, so that the contents of the shareholder meetings can be understood. In addition, the family shareholders must develop skills which enable them to understand and assess the implications of any ground-breaking strategy proposed by management for the future of the company. This also includes the ability to actively pursue issues related to selecting and dealing with managers from outside the family (and to support the committee representatives in this respect), strong communication skills and profound knowledge of the company, its market and competitive environment, as well as its value creation processes. Of course, the intensity of knowledge acquisition is graded according to whether the aim is to develop into a board position or not.[21] Furthermore, in order to be able to adequately exercise the role as a shareholder or as a member of the business family, basic skills are needed to follow the fortunes of the company. Ideas such as a family academy or a separate internal POD programme, which is aimed at all business family members, represent a solution that can already be observed in many cases in larger German business families. Whether, when and for whom these programmes should be mandatory depends on the individual self-image of the business family.

[20] Cf. Horváth et al. (2015) ; Rüsen et al. (2014); Rüsen (2018).
[21] For a gradation of professional ownership, see Rüsen (2018).

Shareholder agreement with good conduct of the family members

A shareholders' agreement defining the legal basis is legally necessary as soon as there is more than one shareholder in a company. Among other things, it regulates decision-making powers, share succession and profit distribution in a legally binding manner. Many family businesses already use the articles of association to lay down rules for the conduct of the individual shareholders in the preamble of the agreement or in introductory explanations of the individual paragraphs.[22]

Family constitution/code

A family constitution is understood to be a legally non-binding document of a business family in which the family has summarised its central guidelines for familial and entrepreneurial thinking.[23] In addition to values, the guidelines can also include specific definitions, requirements, expectations, procedures and process descriptions for a business family. In practice, such documents are also referred to as a family charter, code, statute and mission statement. To document their willingness to accept the charter and to feel bound by its contents, the members of a business family often sign it together.[24]

Explicit family strategy

Analogous to a corporate strategy, the family strategy pursues the goal of developing a long-term vision of the future for the business family in relation to the joint family business and defining behavioural patterns for family members which correspond with this vision. An explicit family strategy is understood as a regular process, after which a family constitution is established, but which is never fully completed. Rather, it reflects and adapts its contents at regular intervals. Accordingly, the business family is permanently in the midst of a family strategy process in which it is constantly questioning itself and its self-image as a family and its relationship to the company.

[22] The freedom of contract drafting in company law allows shareholders to draw up binding rules of conduct. This is a general principle of law which follows from the fundamental right of private autonomy. Specific areas of company law are exempt from this, for example, mandatory legal regulations which cannot be waived.

[23] See also Hueck (2017) in detail.

[24] Cf. v. Schlippe et al. (2021), p. 14.

4 | RESULTS OF OUR INVESTIGATION

This chapter presents an evaluation of the results of our survey and embeds them in the current research on this topic. In this context, explanatory approaches are included which result from WIFU's research and practical experience.[25] One of the main objectives of the study was to find out what the current spread of family governance mechanisms and explicit family strategy looks like, why business families are introducing them and how the development process of a family strategy is shaping up (Chapter 4.2). Furthermore, it is pertinent to understand the business family's motivation for and expectations of an explicit family strategy and to assess the advantages and benefits it can bring (Chapter 4.3). However, realising the advantages and benefits of a family strategy requires the right preparation, development and implementation of it. Chapter 4.4 looks at these issues in detail and identifies the most common problem areas for business families in living the contents of a family strategy. This follows on to Chapter 5, where the findings are considered in a more differentiated manner on the basis of a cluster analysis. Here, different types of business families are analysed with regard to the statements made on family strategy. Based on these findings, targeted recommendations for action are formulated at the end of this study.[26]

4.1 | DISTRIBUTION OF GENERAL FAMILY GOVERNANCE MECHANISMS

Figure 5 shows the spread of family governance mechanisms within the family businesses and business families surveyed.

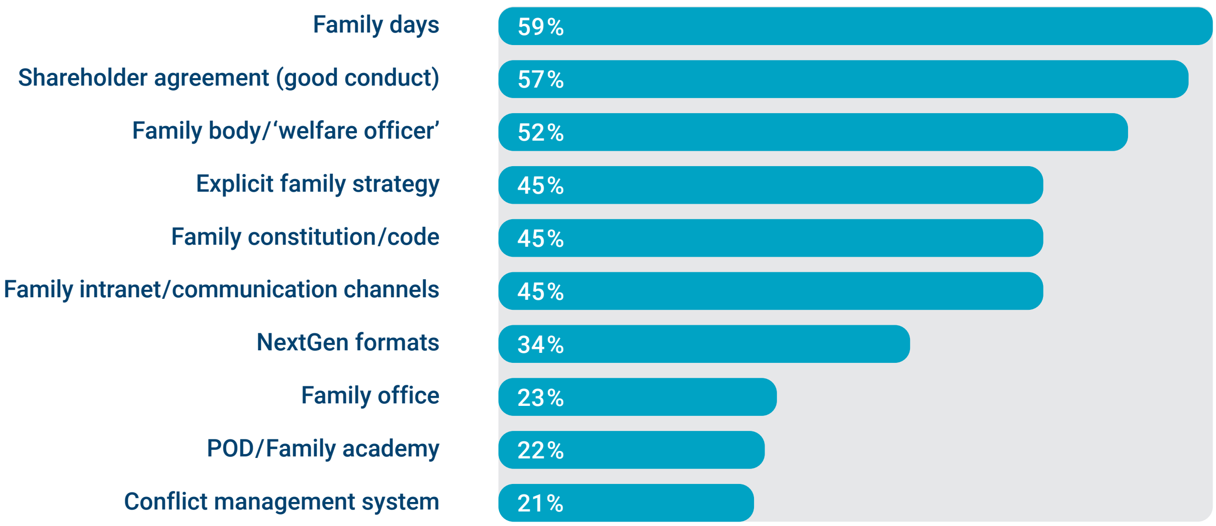


Figure 5: Dissemination of family governance mechanisms

[25] Accordingly, previous findings, which have already been published on various occasions, are integrated at an appropriate point. A comprehensive theoretical discussion and summary of WIFU's research work on this topic can be found in v. Schlippe et al. (2021).

[26] Chapter 4 provides an overview of the survey. In Chapter 5, the business families are divided into clusters to allow for a more differentiated analysis.

It turns out that many of the governance mechanisms mentioned above are actively applied in practice to strengthen cohesion within the business family and to ensure the future of the family business for generations to come. It is particularly noteworthy that 57 per cent already include the good conduct of the shareholders in the shareholders' agreement and that family days are already established for more than half of the companies surveyed (59%). In addition, 52 per cent have introduced a family body/'welfare officer'. Interestingly, 45 per cent say they have a family constitution/code, and the same proportion also has an explicit family strategy (45%). Since a successful family strategy process ideally culminates in a family constitution which puts all results in writing, this result is not surprising since it shows that companies which have an explicit family strategy have written it down accordingly.

Thanks to modern information technology, new communication programs and data-sharing platforms make it possible to set up a separate information and communication platform for the business family. Therefore, with only 45 per cent stating that they already have such a system in place, a great deal of development potential remains for the business families who have not yet taken this step. There is still a lot of potential to be realised, especially with regard to NextGen formats (34%). In the area of further training programmes for shareholders and the business family, only 23 per cent of participants state that they have such an instrument at their disposal. These governance mechanisms are central elements in ensuring the long-term success of the company and the business family; there is a considerable need for catching up and professionalisation here. Family offices and conflict management systems are still not very widespread either, at 22 and 21 per cent respectively, as they are often not yet seen as necessary.

In addition to the spread of these governance mechanisms, it is revealing to determine which of the mechanisms in use is considered particularly important or helpful by the business family. Figure 6 gives an overview of the survey results. The family constitution/codex (78%) and the explicit family

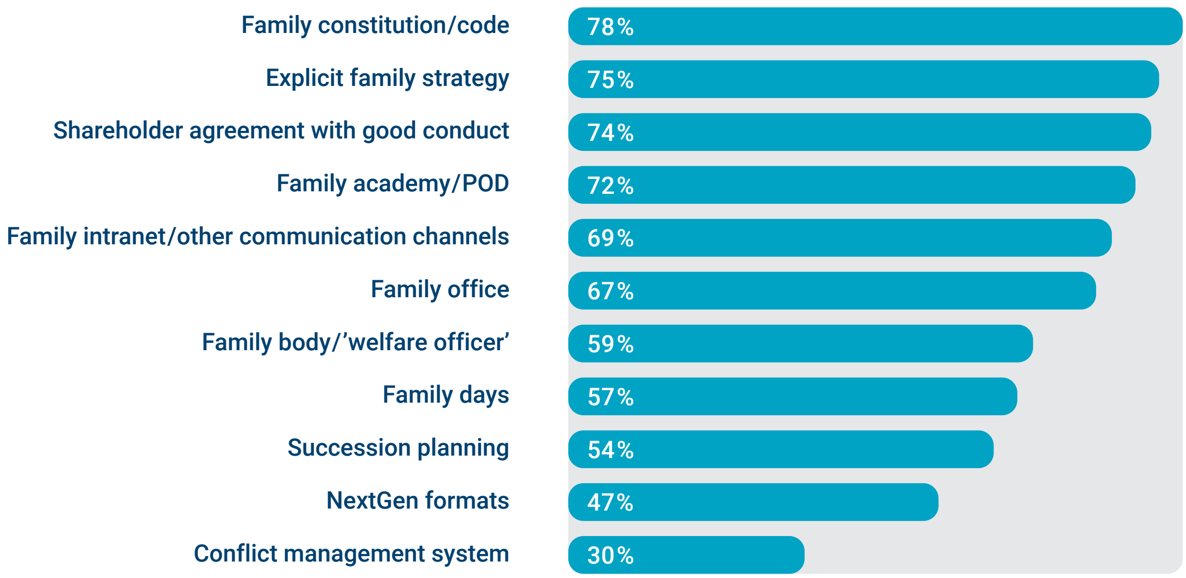


Figure 6: Importance of governance mechanisms for business families

strategy (75%) are considered the most important. In third place comes the shareholder agreement with good conduct (74%) and the family academy/POD programmes (72%). Family-specific communication channels (69%) seem to be very helpful for those business families who already maintain them, despite their low penetration. The NextGen formats and especially the conflict management systems are seen as less useful, although they are not yet very widespread.

4.2 | THE EXPLICIT FAMILY STRATEGY

Since the present study does not exclusively examine family governance instruments but deals specifically with the use, effects and challenges of dealing with a family strategy, the results of our survey on further facets of the topic of family strategy are explained below. These serve as the basis for the recommendations for the actions developed in Chapter 6 for the business family and its family strategy.

4.2.1 ADDRESSING THE ISSUE OF FAMILY STRATEGY

The participating companies were asked whether an explicit family strategy had been established or whether measures were being taken to develop such a strategy. The responses of the participants suggest that 57 per cent of the companies surveyed are either in the process of developing an explicit family strategy or have already completed the first stage of the process.[27] This means that in addition to the 45 per cent (see Figure 5) who stated that they have an explicit family strategy, 12 per cent of the participants are apparently currently working on the development of their family strategy – in other words, they are in the middle of the process described in Chapter 2.

We wanted to find out from the other companies what is currently preventing them from addressing the issue. Figure 7 summarises the answers.

Almost half (46%) of the companies which have not yet taken any measures regarding an explicit family

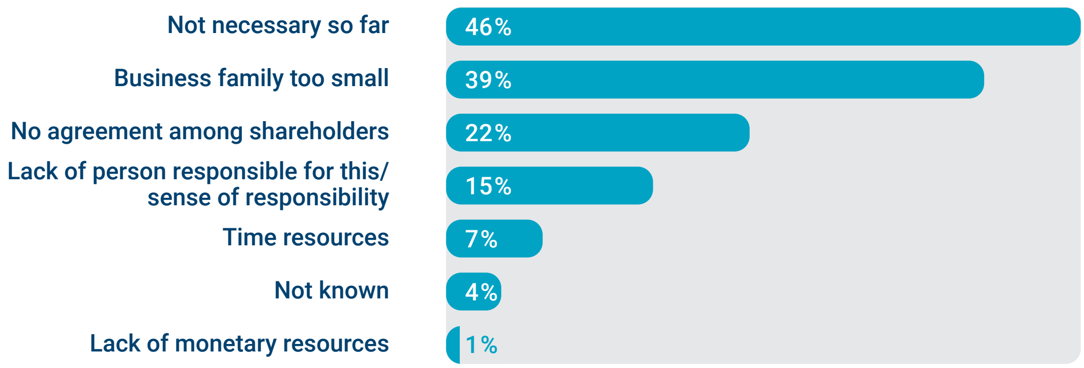


Figure 7: Reasons why there is no family strategy yet

[27] A 45 per cent proportion stated that they already had a family strategy in place, 57 per cent answered in the affirmative to the question of whether measures were already being taken. From this, we conclude that 12 per cent are currently taking action, but no concrete results are yet available.

strategy do not consider it necessary. A total of 39 per cent said that they considered the business family to be too small for such a step towards professionalisation.

Other important obstacles are that there is no agreement within the circle of shareholders (22%) and that there is nobody who feels responsible for initiating and leading this process (15%). In 7 per cent of the participants, the process could not be carried out due to lack of time resources, 4 per cent do not know the reason why and 1 per cent state that they do not have the necessary financial resources.

4.2.2 BENEFITS OF A FAMILY STRATEGY

Irrespective of whether a business family is already actively working on its family strategy, this study aims to shed light on the benefits that family entrepreneurs can expect from it. Figure 8 provides an overview of the most frequently selected areas in which the benefits of a family strategy are anticipated to be particularly high. Although all the areas surveyed appear to be strongly influenced positively by the development of a family strategy, the self-image of the family as a business family (94%) and the role of the family in the company (93%) are the two most frequently mentioned. In addition, 92 per cent cited the value framework of the company and the family as an area that should definitely be included in family strategy, as well as conflict management/prevention (85%) and succession planning (81%).

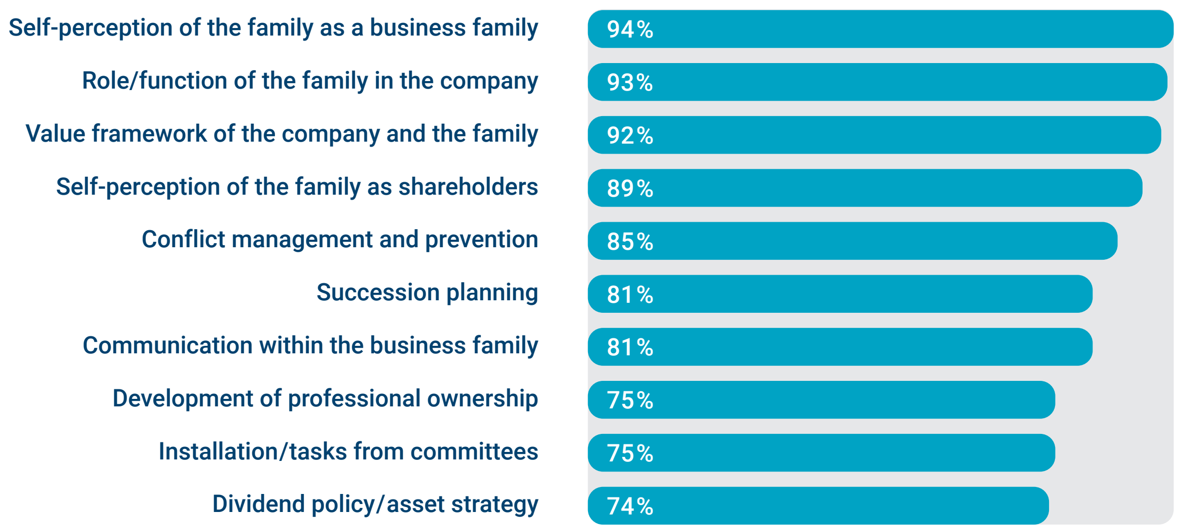


Figure 8: Areas which would particularly benefit from consideration in the family strategy

4.2.3 TRIGGERS FOR DEVELOPMENT OF A FAMILY STRATEGY

One of the study's aims was to find out what specifically motivated the participating companies or triggered the process to develop an explicit family strategy. Figure 9 provides an overview of the six central triggers.

At more than 95 per cent, securing the future of the company is clearly in the foreground for the business families surveyed. Another strong motivation seems to be an awareness of the increasing complexity of the business family (81%). This complexity is increased not only by the size of the family, which naturally grows with the generations, but often also by geographical distances between family members and a lack of ties between the younger generation and the company. These aspects also, directly and indirectly, determine the motivational factor 'concern for the cohesion of the business family', also at 81 per cent. Just over three-quarters of the answers (76%) also name the business family's need for professionalisation as a basic motivation for entering the process of developing a family strategy.

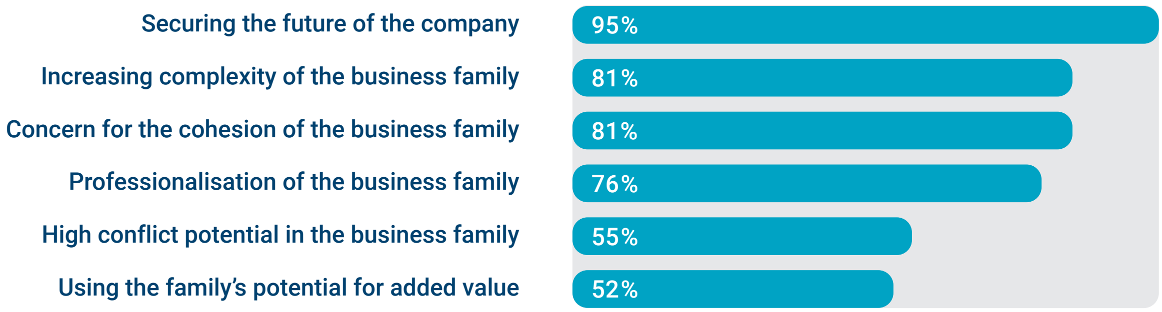
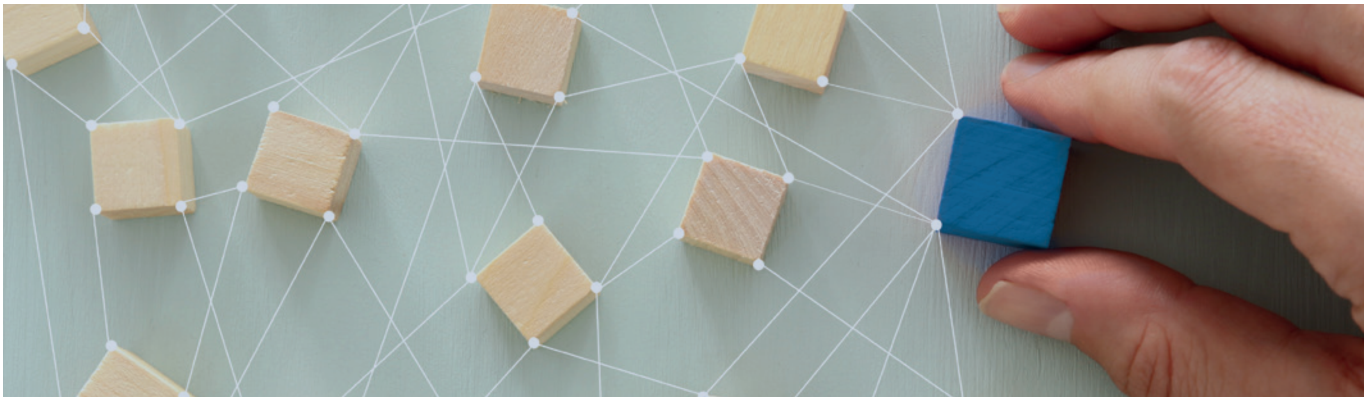


Figure 9: Triggers for the development of a family strategy



4.3 | IMPLEMENTATION OF AN EXPLICIT FAMILY STRATEGY

After the general spreading and assessment of the benefits of a family strategy have been examined, the following section deals with the contents and the implementation of a family strategy development process. The development is an individual process for each business family, so there can be no simple manual on how to proceed. The thematic priorities and the form of implementation of the defined contents of a family strategy only emerge over time and from each family context. It can also often be seen that both of these factors change during the process of developing a family strategy.

4.3.1 MAIN TOPICS FOR A FAMILY STRATEGY

The process model for family strategy development formulated by WIFU, as outlined above, provides for twelve topics to be worked through step by step (see Chapter 2). These twelve steps were identified on the basis of evaluations of particularly robust family business governance systems in long-established family businesses.[28] However, the individual topics of the family strategy serve merely as a guide to which questions and what content should be considered and can also help to make the process progress more logically. A common understanding of the family as a business family must first be created. This is the basis for all further considerations, which ideally should be addressed in the development of an explicit family strategy. The business families surveyed agreed with this logic, with 95 per cent citing the development of a self-image of the family as a business family, making it the most relevant element of the family strategy (Figure 10). Other elements considered relevant by the vast majority were a value construct for the company and family (92%) and the self-image as a shareholder (88%), closely followed by succession planning (85%) and structured conflict management/prevention (84%).

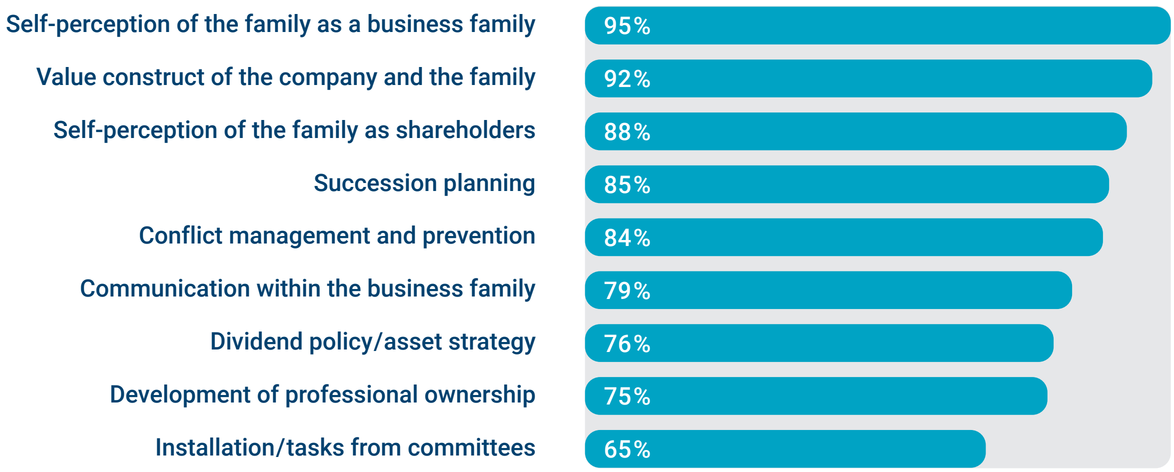


Figure 10: Relevant elements of a family strategy

[28] Cf. v. Schlippe et al. (2021), pp. 190 ff. This research is, in turn, based on the results of various previous research projects conducted by WIFU. See, in particular, Simon et al. (2005); v. Schlippe et al. (2011) and Plate et al. (2011).

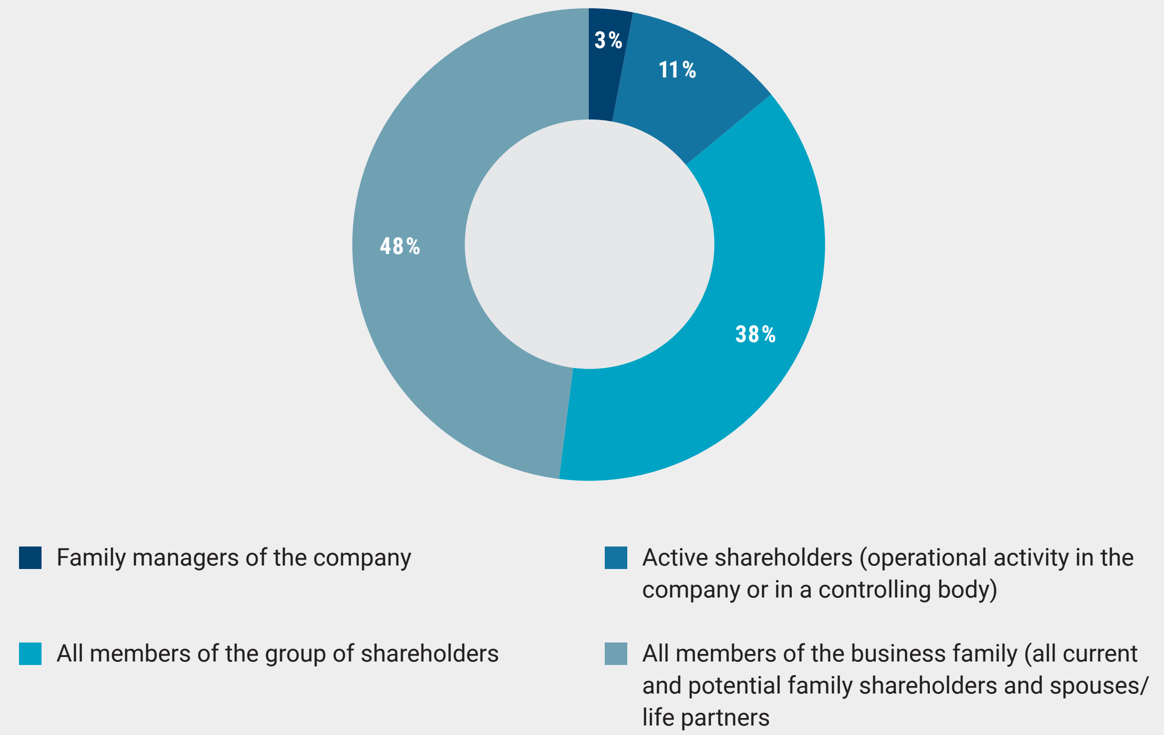


Figure 11: Target group of the family strategy

4.3.2 TARGET GROUP FOR A FAMILY STRATEGY

Since each business family develops an individual family strategy, it is impossible to generalise which target group its content should be aimed at. On the one hand, it depends on the self-image as a business family – for example, who belongs to it and whether rights/duties also arise with membership – and, on the other hand, it is influenced by the commitment of the various interest groups. For only if there is a will to place oneself at the service of the community and to adhere to binding rules can an explicit family strategy develop. Nearly half (48%) of those surveyed (see Figure 11) believed that all members of the business family had a duty and, therefore, that the contents of the family strategy should be addressed to this group.

WIFU's experience supports this view because only as a holistic construct can a family strategy develop its full impact and contribute to securing the future of the company. However, a large proportion of the study participants (38%) also saw 'only' the shareholders as having a duty to internalise the family strategy content. Meanwhile, 11 per cent and 3 per cent of those surveyed were only active shareholders or internal managers of the family business, respectively. In our view, it is precisely the latter two views that miss the usefulness of a family strategy.

4.3.3 RESPONSIBILITY FOR DEVELOPING A FAMILY STRATEGY

The family strategy should be developed by all members of the business family. Nevertheless, such a process requires one or preferably several persons with principal responsibilities for organising the process, ensuring its progress and acting as contact persons for all participants. It is up to each family to decide from which circle these responsible persons come. Ensuring that this role is accepted by the family as required is important.

Interestingly, the answers as to who should be responsible for strategy do not paint a clear picture, not even a slight trend within the group of respondents (see Figure 12). In our opinion, this speaks for the heterogeneity of the business families surveyed and their very individual understanding of a family strategy.

The answers are distributed almost equally among the categories surveyed: partners with operational activities (27%), all members of the business family (26%), all members of the circle of partners (25%), and a family body/'welfare officer' (22%).

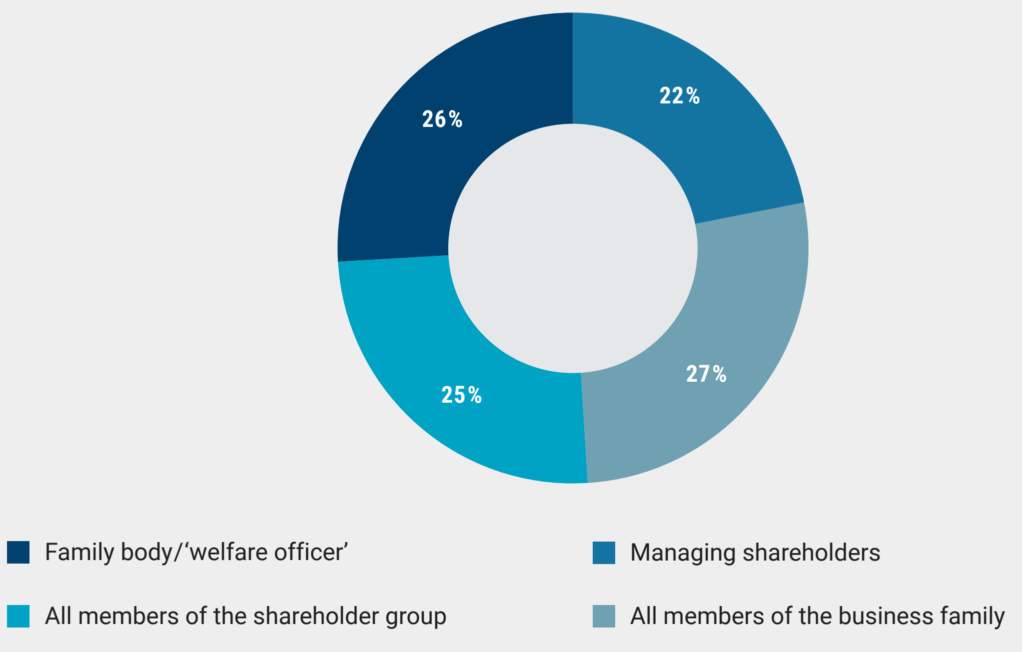


Figure 12: Responsibility for the development of a family strategy (hypothetical)

Figure 13: Responsibility for the development of a family strategy (in practice)

However, the reality looks somewhat different (see Figure 13), as the managing shareholders (40%) were most often responsible for development. In 26 per cent of cases, it was a family body/'welfare officer', in 23 per cent, the circle of shareholders, and in only 17 per cent, all members of the business family. External confidants (11%) and a family member specially appointed for this purpose (10%) are rarely found in this role.

However, if the question is not about responsibilities but about who should be involved in the development of a family strategy (see Figure 14), the business families surveyed all agreed: At 89 per cent, most were of the view that all members of the present and future generation should be equally involved in the process.

Only 10 per cent saw the current generation in particular as responsible and 1 per cent the next generation. To compare this ideal hypothetical situation with reality, the participants were also asked who previously had been involved in the development of a family strategy or the individual governance mechanisms (see Figure 15).

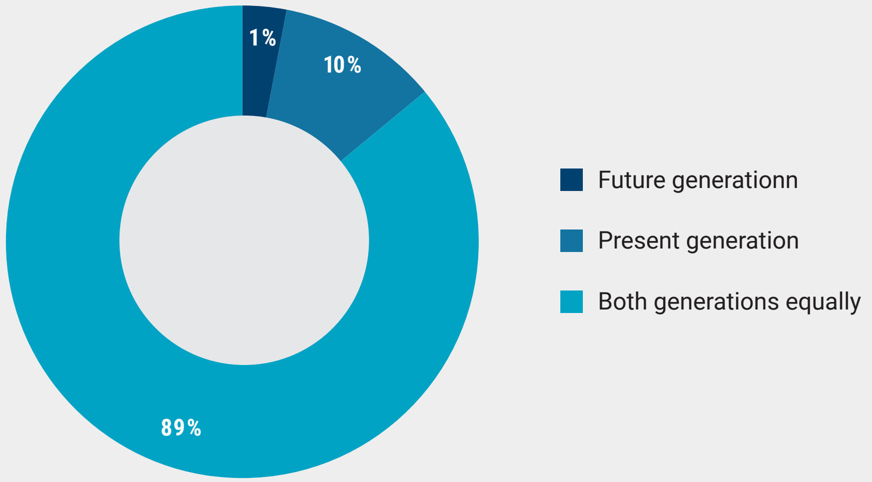


Figure 14: Who should be involved in the development of a family strategy

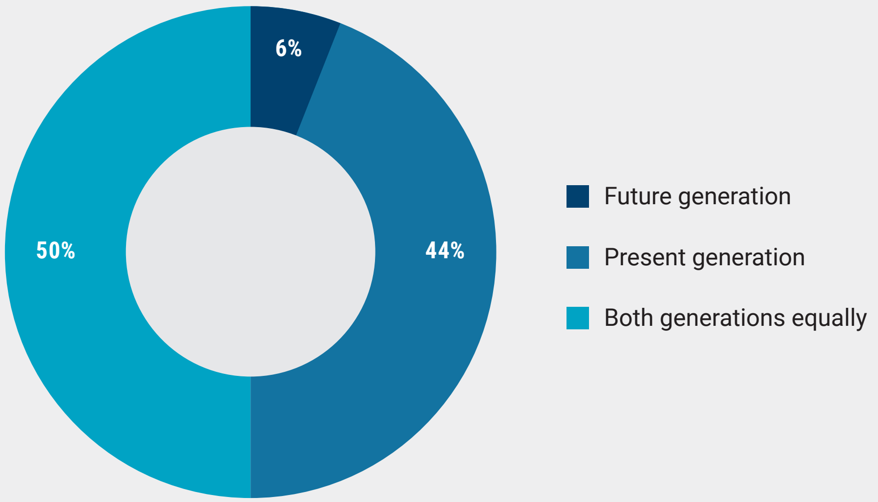


Figure 15: Contribution to the development of family strategy/governance mechanisms

This shows that in just over half of the cases, the desired participation of both generations can be observed. For 44 per cent of the business families, this task is mainly the responsibility of representatives of the current generation, while only 6 per cent of the business families were primarily concerned with family strategy issues in the next generation.

4.4 | KEEPING A FAMILY STRATEGY ALIVE

As discussed in Chapter 2, the biggest challenge of a family strategy is not to create a lifeless document that lies in a drawer but to keep it alive permanently: integrating the agreed contents into the everyday life of each member of the business family and developing them further in an ongoing process is the essence of a successful family strategy. However, it also causes many business families the most difficulty, arising as a central challenge after the development process is completed.

4.4.1 CHALLENGES IN THE IMPLEMENTATION OF A FAMILY STRATEGY

Figure 16 shows that this is where the business families surveyed see the greatest challenges in family strategy. Just over half (51 %) named integrating awareness of the rights and duties of being a member of the business family into everyday life as a major challenge. Apparently, business family members found it more difficult to professionalise themselves by implementing the measures they had chosen themselves than they had assumed at the time the family strategy was developed. Moreover, communication within the business family seems to be difficult, as 45 per cent of the answers show. A similar aspect is the recognition of the adopted contents as a binding set of rules, which is named by 42 per cent. Other relevant challenges are the development of professional ownership (32 %), the willingness of family members to provide the time resources needed for a family strategy (31 %), and acceptance of mechanisms for conflict management and prevention (28 %).

Figure 16: Challenges with the implementation of a family strategy

The following selected answers were given to the open question of where the greatest challenges for family strategy currently lie:

- 'In order to cooperate well on equal footing, it is essential to work in a family dynamic to dissolve old conflicts and complications. And then practising communication in habitual meetings (committees).'
- 'Acceptance of the corporate strategy'
- 'Preparing for an unjust generational transition'
- 'Most important: the older generation driving forward a forward-looking, participatory strategy'
- 'Recognition, including financial, of family management'

4.4.2 RESPONSIBILITY FOR COMPLIANCE WITH THE AGREED CONTENTS

The business families surveyed saw various groups as having primary responsibility for meeting these challenges appropriately and ensuring the implementation of the family strategy (see Figure 17).

In almost half of the cases (44%), the managing shareholders were seen as responsible for implementing the family strategy. More than a fifth (22 %) considered all members of the shareholder group or a family body (consisting of several persons) as responsible. Other options mentioned were all members of the business family (15%), external confidants (12%) or a family member specially appointed for this purpose (11%).

The answers given are somewhat surprising, as they still assign a special and dominant role to family members who are involved in operations. Even if intra-family differences in seniority can be assumed to be the cause, it is, nevertheless, astonishing that such relatively little importance is attached to a separate family body or to the collective task.[29]

[29] Interestingly, the size comparison in Chapter 5 shows that there are no significant differences with regard to the size of the circle of shareholders. Responsibility for the implementation of a family strategy is seen by a majority of all members of the shareholder group across the cluster.

Figure 17: Responsibility for the implementation of the adopted contents of the family strategy

4.5 | ADVANTAGES AND DISADVANTAGES OF DEVELOPING A FAMILY STRATEGY

The process of developing a family strategy is complex, lengthy and time and cost-intensive, but it can make a significant contribution to securing the future of the family business. The effects the process has on the business family is naturally very specific. However, the responses of the study participants can be summarised into six positive (see Figure 18) and three negative effects (see Figure 19).

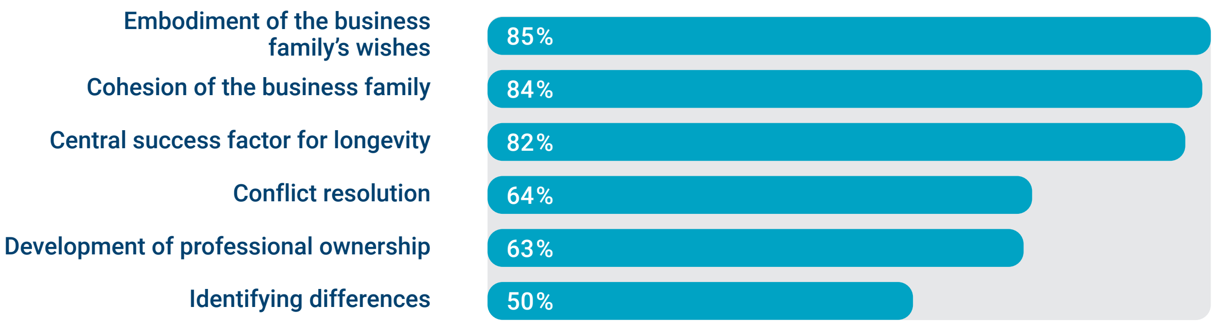


Figure 18: Positive effects of creating a family strategy

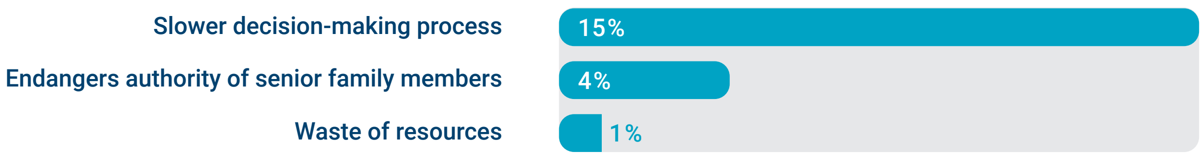


Figure 19: Negative effects of the creation of a family strategy

The positive effects of the process on an explicit family strategy (see Figure 18) are seen, above all, in the embodiment of the business family's wishes (85%) and in strengthening the business family's cohesion (84%). Furthermore, the family strategy is mentioned as a central success factor for the longevity of the family business (82%). It supports the ability to resolve conflicts (64%), the development of professional ownership (63%) and the identification of differences within the business family (50%) which have not yet come to light.

Nevertheless, the study participants also identified some negative aspects (see Figure 19), which can be summarised in the following three effects: slower decision-making processes within the business family (15%), endangering the authority of senior family members (4%) and wastage of resources (1%). In conclusion, it can be stated that the positive effects of a family strategy for the participating business families strongly outweigh the negative effects.

4.6 | SUMMARY

The purpose of this chapter was to provide a general overview of the use of family governance mechanisms and the concrete way in which the issue of family strategy is dealt with. The data analysis shows that the topic of family governance is becoming increasingly important for business families in general. Furthermore, we are pleased to see that an explicit family strategy not only is a concept for most business families, but its relevance is recognised: business families are intensively engaging with the topic and undertaking the corresponding processes. Finally, we would like to quote the study participants' statements which show what they would like to see in the future with regard to their family strategy:

- 'Regular meetings with agenda items and open-ended discussions.'
- 'We have no strategy. Mission statement, yes. Does it need a police function?'
- 'We're making a start now that there are two adult successors.'
- 'It's better to involve partners.'
- 'More family involvement in the company equals more information, more professional ownership.'
- 'We should talk more about these formal things. More frequent partners' meetings.'
- 'Always be aware and keep a family strategy in mind once it has been worked out.'
- 'Make the content of family meetings more attractive.'
- 'Clearer rules in the succession process.'
- 'We are in the process of integrating the family strategy into the family constitution so that at the end we'll have a binding paper that is clear for all to see.'
- 'More commitment to comply with and implement agreed actions.'
- 'To better keep to what we agreed on.'
- 'Higher valuation of the company goals compared to the individual goals of the shareholder families. Putting corporate interests before personal interests.'
- 'The conflict: how openly can one address conflicting issues without destroying cohesion, and how open should one be in order for an issue to be dealt with? It's a never-ending story.'
- 'Allow more freedom for the time spent in the active shareholders' subfamilies: we dealt with these issues in a very intrinsic and time-consuming manner, as we are several active shareholders and this seemed necessary for problem-free cooperation. Everyone is individual in the family, has different ways of life, and that is good: the issue of equality/inequality comes up sometimes.'
- 'Define an obligatory framework for it. Discussions are often planned but everyday business ends up stealing the time for it.'
- 'Professional, defined measures for conflict management are still missing. Overall, more active participation of the shareholder group, in particular, of those persons not operatively active in the company, is desirable.'
- 'Recognition of family managers ('welfare officer').'

- ‘Plan more time for it and, if necessary, consult with experienced external consultants.’
- ‘Regulations are known, but have not yet been agreed in writing; no clarity about a long-term orientation.’
- ‘Interest in the company should be greater because this increases understanding of it. Otherwise, there is good cohesion in the family, which now consists of over 20 members.’
- ‘Communication must be improved. Urgent.’
- ‘We started at 80 per cent and are now improving on that over time. We must take care of the targeted development of professional ownership and maintain certain competence conditions for the coming generation.’
- ‘In my opinion, at this point we are already up and running professionally. In the future, it will be important to motivate the family and keep it active (implementation of our professional ownership development programme). In addition, it will be our task to continuously work on a common family identity to strengthen cohesion.’
- ‘The importance of such a strategy and the interpretation of it should be respected equally by all parties and should be judged and lived accordingly.’
- ‘Reduction of the fear of the managing shareholders of losing control through communication processes that cannot be influenced.’
- ‘More priority must be given to the issue. This is due to the temporary overloading of the current CEO shareholder, who is also the ‘welfare officer’.’
- ‘Timely communication, regardless of any sensitivities. More openness, avoiding virulent but unaddressed issues.’
- ‘A little more professionalism would be helpful sometimes.’
- ‘Who communicates and takes responsibility for what and when still needs a bit of practice.’
- ‘There is a lack of interest on the part of the shareholders in assuming responsibility for the continued existence of the company and, moreover, a lack of willingness to deal with the quirks of the balance sheet and P+L.’
- ‘Better integration of the upcoming children.’
- ‘A more expeditious development of our family strategy.’

5 | DETAILED ANALYSIS OF RESPONSES BY TYPE OF BUSINESS FAMILY

In this chapter, a more differentiated analysis and explanation of selected results and problems are made. This should enable business families to find their specific characteristics more easily.

With regard to the development and design of a family strategy, whether the business family is large, medium or small, or whether the family business is in its second or seventh generation makes a considerable difference. Recommendations for action that can be derived from our analyses can, of course, only be given in general terms, as they depend on the individual situation of the family and the company.

5.1 | CLUSTER FORMATION FOR A MORE DIFFERENTIATED ANALYSIS

Business families that are similar in their demographic structures often face similar challenges. To make the recommendations for action more specific and accessible, it is advantageous to group the business families according to their similarities. This is only possible on the basis of the voluntarily provided data of the (anonymous) study participants. Even a few demographic data, such as the age of the company or size of the family, can be used to form groups which can be distinguished relatively clearly. With the help of a cluster analysis,[30] we have succeeded in forming three distinct clusters from the data, which are briefly presented in the following section. In this way, cluster-specific challenges can be better addressed and recommendations for action can be formulated.

The three clusters result from the following characteristics (see Figure 20): turnover and age[31] of the family business and the number of shareholders and generations in the business family which own the business.[32] These three parameters can be used to describe business families at different stages of development, which are directly linked to specific challenges and opportunities. It is important to know the circumstances of the business family and to argue from its point of view, especially with regard to a family strategy.

The cluster analysis led to three 'types' of participating family businesses or business families, which can be summarised as large, medium and small. However, a differentiated view makes it clear that although all companies are on average similar in age, there are considerable differences in terms of turnover and size of shareholder base.

30 More information is provided in the appendix, which briefly explains this methodology.
31 The clusters show no difference in their average age. Nevertheless, it is important to include this dimension in the analysis, as the age distribution within the clusters differs.
32 More information on the clusters can be found in the appendix.

	SMALL BUSINESS FAMILY – CLUSTER 1	LARGE BUSINESS FAMILY – CLUSTER 2	DYNASTIC BUSINESS FAMILY – CLUSTER 3
Annual turnover (mill. EUR)	40	325	950
Company age	85	90	90
Generation	3	4	5
Number of shareholders	4	10	50

Figure 20: Cluster description

Cluster 1 describes the *small business family*, which consists of a relatively small group of shareholders (4 persons on average), which probably consists of only one family branch. The age of the company owned by this family is 85 years, slightly younger than in the other clusters. These are also the participants with the comparatively lowest generational age of ownership. The companies represented here have an average annual turnover of €40 million. The business family, which is usually still a managing family, often still organises itself as a business family in the 'logic as a family' and sees no need for more professional structures.

Cluster 2 represents the *large business family*. It has a medium to large-sized company in its ownership (average annual sales of €325 million). It consists of more than one family branch (average of 10 shareholders) and is confronted with initial problems in the organisation of the business family.

We refer to Cluster 3 as *dynastic business families*, which are characterised, above all, by a family business with a very high annual turnover (average € 950 million) and a very large circle of shareholders (average 50 persons). Due to the size of the circle of shareholders and the business task usually being performed by a supervisory body, there is often no longer a direct connection to the company. Therefore, the organisation of the business family needs professional structures.

5.2 | CLUSTER-BASED ANALYSIS OF THE STUDY RESULTS

The results presented in Chapter 4 are based on the data of all participating business families. In the following, these results can be analysed in a cluster-specific manner. Using the four dimensions of family strategy – diffusion, motivation, central aspects and challenges – we show the most important and most strikingly different observations based on the three clusters. On the basis of our research experience on this topic, the observed specifics are explained with hypotheses and explanatory approaches.

5.2.1 SPREAD OF FAMILY GOVERNANCE MECHANISMS/FAMILY STRATEGY

In the area of dissemination, interesting differences can be observed, particularly with regard to an explicit family strategy and the formats for the subsequent generation.

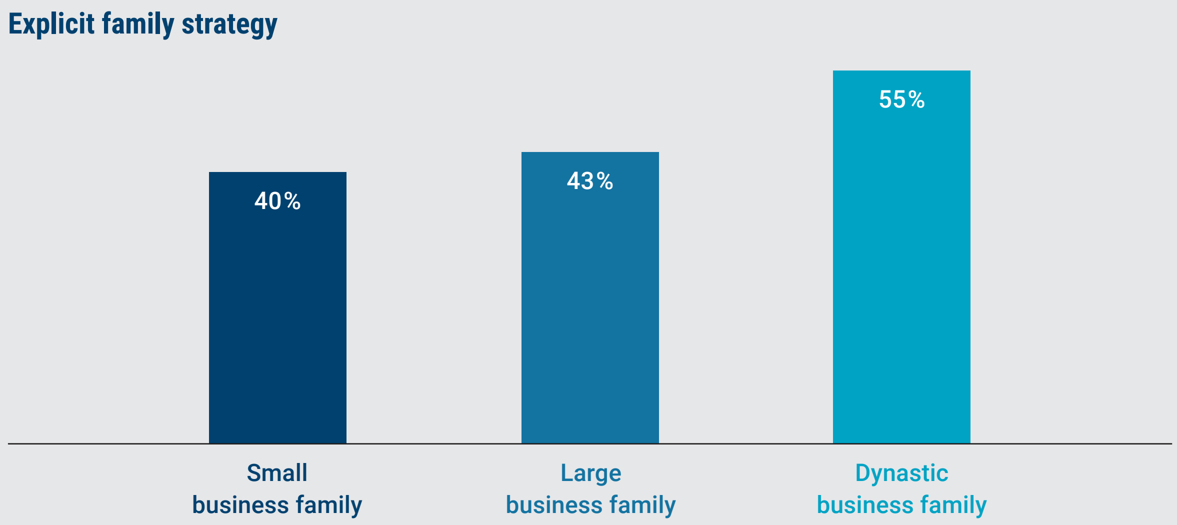


Figure 21: Specific scale of spread of the family strategy

The overall result is that 45 per cent of the study participants have an explicit family strategy.[33] However, as Figure 21 shows, more than half of the participating representatives of *dynastic business families* have already developed an explicit family strategy, while the other two clusters are lagging behind somewhat. In our opinion, this is due to the logic of this type of business family: due to their large number of members, *dynastic business families* often have to struggle for a long time with the challenge of maintaining the cohesion of the business family and organising the business family community.[34] To our knowledge, it is the representatives of this type of business family who can be considered pioneers in the German-speaking world in establishing professional organisational structures for the circle of shareholders or the business family. In the status quo, they can also be regarded as pioneers in the field of explicit family strategy and the established family management systems based on it.[35]

A total of 34 per cent of the study participants stated that they offer tailor-made formats for the next generation (see Figure 22).[36] However, the individual clusters reveal that 56 per cent of the *dynastic business families* already have such offers, whereas only 20 per cent of the *small business families* engage with this topic. Only the *large business families* reflect the overall average, at around 30 per cent. This discrepancy can be explained, above all, by the need to train the next generation and inform them that the company is becoming increasingly important for larger families due to the assumed loss of attachment to the company.

[33] Cf. Chapter 4.
[34] On the special form of organisation of dynastic business families, see also Rüsen et al. (2019) and Kleve et al. (2018).
[35] On the basis of results from other research projects, the business families Freudenberg, Merck, Henkel and Haniel, among others, can be named as examples of the degree of professionalisation in the organisation of the business family that has been established for several decades.
[36] Cf. Chapter 4.

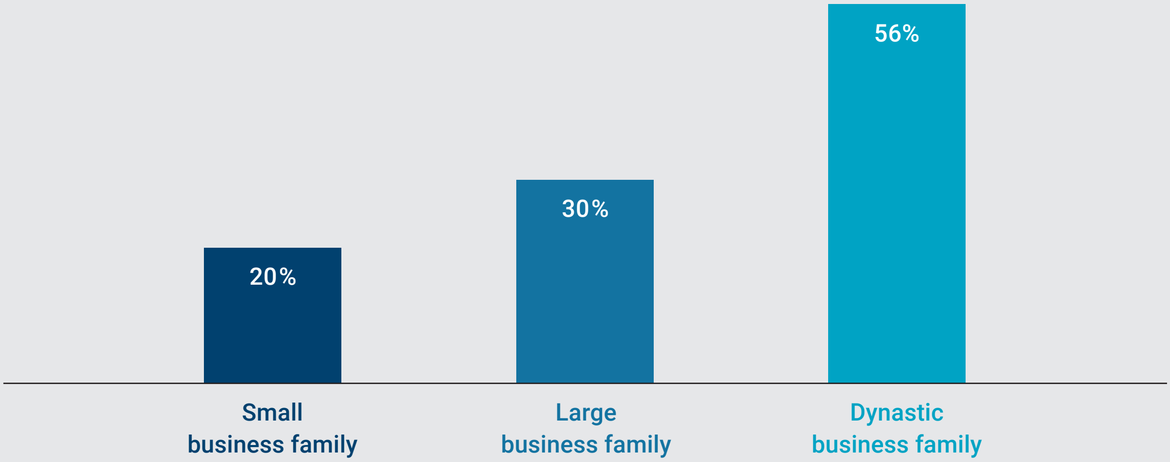


Figure 22: Specific formats for the next generation

In *small business families*, family members are often still actively involved in the company, meaning that interest in the company can be expected due to the high degree of kinship. The company plays a large role in the family and has a strong influence on the next generation.

In the case of larger family structures, however, corresponding formats are not only aimed at conveying content relating to the company but, above all, at ensuring the cohesion of the generations, which otherwise almost automatically lapses due to the decreasing degree of kinship. Through the formats and activities offered, an interest in the company can be created or maintained and an emotional bond of the descendants to the family community or the common business task can be ensured.

5.2.2 MOTIVATION FOR A FAMILY STRATEGY

An insight into the motivation for a family strategy reveals differences between the three clusters, particularly in the three areas of professionalisation, increasing complexity and high conflict potential of the business family (see figures 23 to 25).

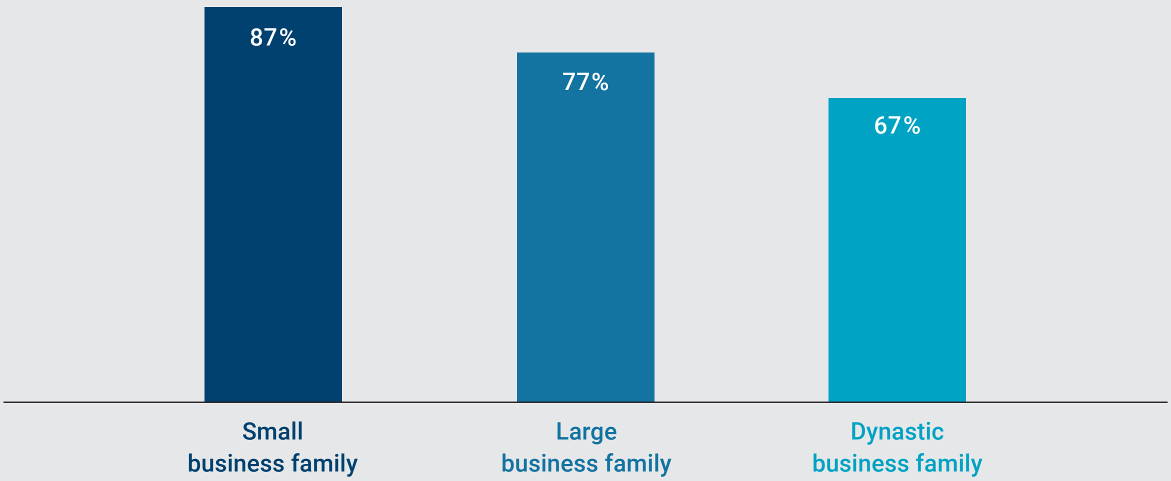


Figure 23: Need for professionalisation as motivation for the business family

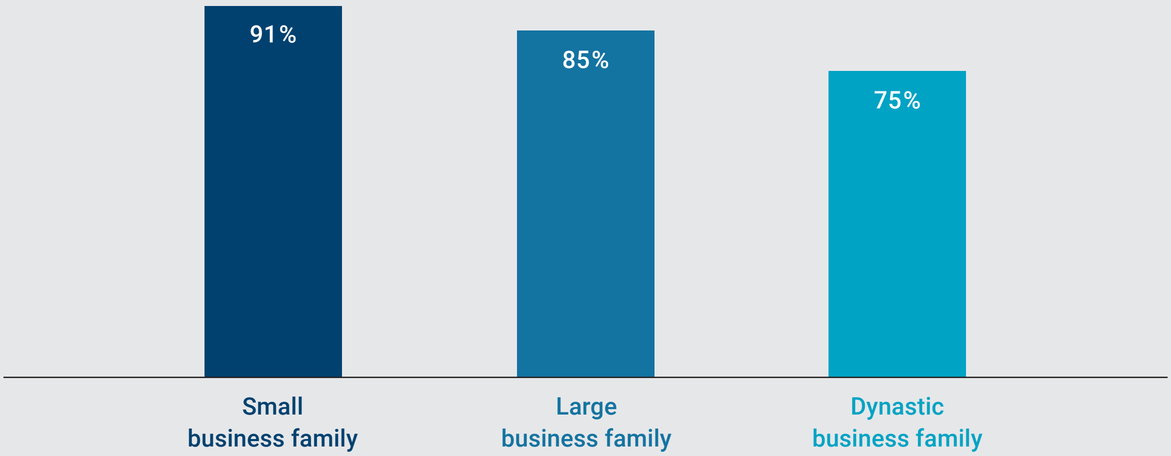


Figure 24: Increasing complexity as motivation for the business family

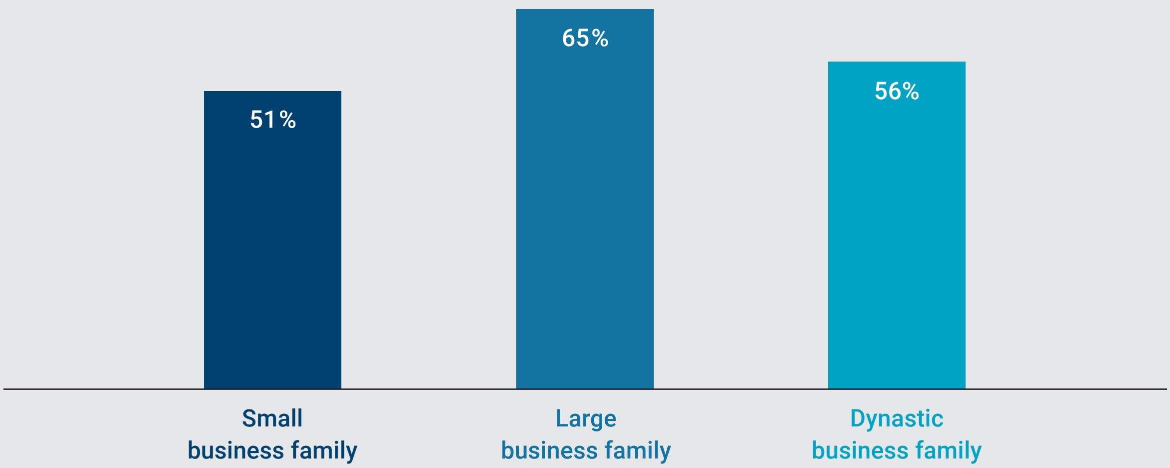


Figure 25: High conflict potential as motivation for the business family

The professionalisation of the business family is a motive for the development of a family strategy, especially for the *small business family*. The representatives of this cluster participating in the study are, evidently, indicating dynamics of change. Typically, business families of this type lose their still manageable size in the circle of shareholders due to share transfers. The concern usually then is that one can no longer rely on purely family communication and organisational principles. In most cases, the needs and challenges facing the family are seen here and appropriate efforts are made to professionalise the family.

For Clusters 2 and 3, however, concerns about family cohesion and dealing with increasing complexity are particularly relevant. While the *Dynastic Business Family* has been dealing with these issues for quite some time and has typically had some experience with explicit family strategy, these challenges appear to be a novel phenomenon for the representatives of the *Large Business Family* cluster. With this type, it only becomes clear over time that the number of existing family shareholders can no longer be meaningfully organised through communication and interaction (usually regarding individuals) by a few family members. Trusted third parties, who have often been responsible for strategic decisions or the bond to the company over a long time in personal one-on-one discussions, are either no longer known or are no longer able to adequately integrate new family shareholders into the family community for age reasons. The members of this family type are, therefore, often concerned that the family ties will weaken as a result of the decreasing degree of kinship and the resulting decline in the frequency of interactions with each other. As a result of the loss of care for the family community, it is often feared that the importance of the company as a communal task in intra-family communication will diminish and that the focus will shift to dividend payments alone. The latent danger that a common understanding of values or a common attitude is no longer automatically passed on to the children through the parental home is structural since the parental homes can differ greatly and can be different from each other. Family branches which are not constantly in close contact with one another typically no longer have a uniform set of values and development. This has a high potential for conflict and weakens cohesion. To counteract these developments and still maintain a uniform understanding of values as a business family, at least with regard to the family business, measures must now be taken, since pure family membership alone is no longer sufficient.

5.2.3 CENTRAL THEMES FOR A FAMILY STRATEGY

Depending on which stage of development the business family is at, certain topics are considered to be suitable for being addressed in a family strategy or corresponding regulations are considered to be particularly helpful. All clusters show clear trends here, reflecting the concerns of the respective business families.

Role and function of the family in the company

Defining the role of the family in the company is the issue that concerns the *large business family* the most and should, therefore, be clarified by the family strategy (see Figure 26). In this type of business family, not all shareholders can be active in operations, probably only a few – if any. Therefore, the question of how family influence on the company's fate can be guaranteed or executed in the future is an urgent one. Aside from its continuation via operative management roles, this influence can also be realised through seats on supervisory and controlling bodies. For this purpose, however, clear rules need to be established as to the extent to which they should act in the interests of the business family. This is because it can be a problem for family members who are involved in operations to be 'supervised' by other family members. At the same time, it becomes increasingly difficult for the often large number of non-active shareholders to accept that they can be content with a vote at a shareholders' meeting. At the latest when no family member from

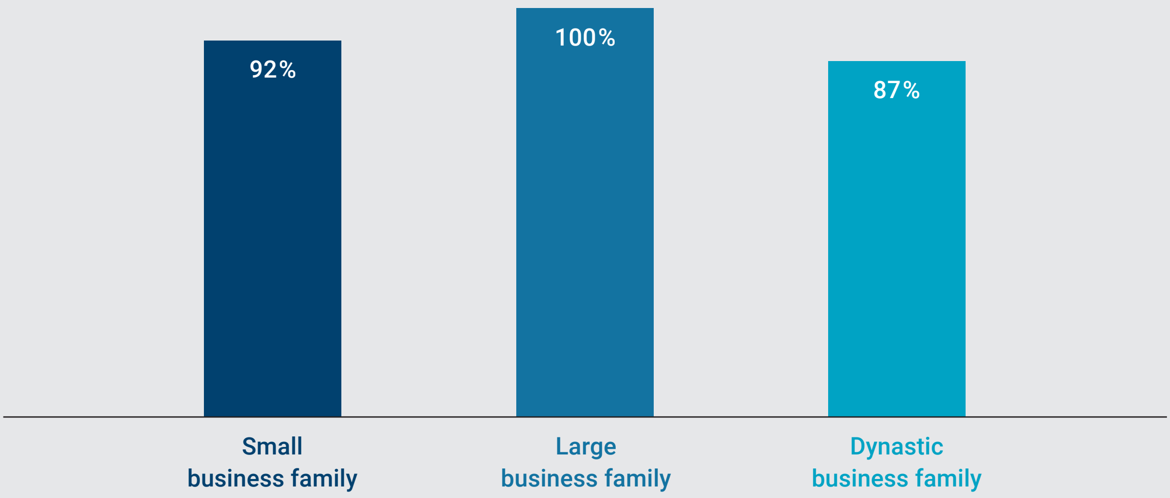


Figure 26: Clarifying the specific roles/functions of the family in the company in the family strategy

the following generation is prepared to assume operational responsibility, precautions must be taken in the business family to ensure efficient and appropriate control of the management outside the family becomes active at that time.

For Cluster 3, the *Dynastic Business Family*, the topic of role-finding is not new, as it had to deal with this in detail in earlier times in order to develop to its current size. But it is the task of family strategy to constantly redefine the role of the family. The reflection on the role of the business family here often focuses on the question of whether it sees itself more as a fiduciary owners' association or more as a family committee of investors.

That 92 per cent of the *small business families* also cited this topic as particularly relevant was surprising, as these families are mostly still actively involved in the operative business. One possible explanation is that today's successors should be free to choose whether they want to enter the operative business or follow their own inclinations. Particularly if there is then no entry into the operative business, how the relationship between the owners and the company will be structured and how the business role can be exercised so that the successors are given real freedom of choice must be defined in advance.

Succession planning

The use of the family strategy to regulate succession planning is preferred, above all, by the representatives of the *dynastic business families*. At almost 75 per cent, this family type stands out from the other two in the answers given (see Figure 27). One conceivable explanation for this is the need to define a selection process accepted by all family members, at the end of which a legitimised selection of representatives of the large number of shareholders assumes responsibility for the community. Since individual rights or tribal principles dominate less frequently in this type in comparison to the other two cluster types, the challenge is to establish a 'group of us for us' and to develop it for the necessary tasks: the family strategy, then, provides an orderly framework for the processes based on it.

The family businesses owned by this type of business family are often very large and complex and are usually run by professional managers from outside the family. Consequently, in our experience, *dynastic business families* are almost always those which follow the logic of the *mental model of the Controlling Family*.[37] Here, the central entrepreneurial task is no longer the operative steering and management of the company, but the strategic monitoring and control by a supervisory body. The core of this task is to convey 'the will of the business family' to top management and to ensure a sustainable (dynastic) strategic positioning of the company. To enable full members of a supervisory body to be appointed, competencies and selection procedures must be developed at an early stage.

[37] Siehe hierzu ausführlich den WIFU-Praxisleitfaden „Mentale Modelle von Familienunternehmen. Wie Unternehmerfamilien über sich und ihre Verbindung zum Familienunternehmen denken“.

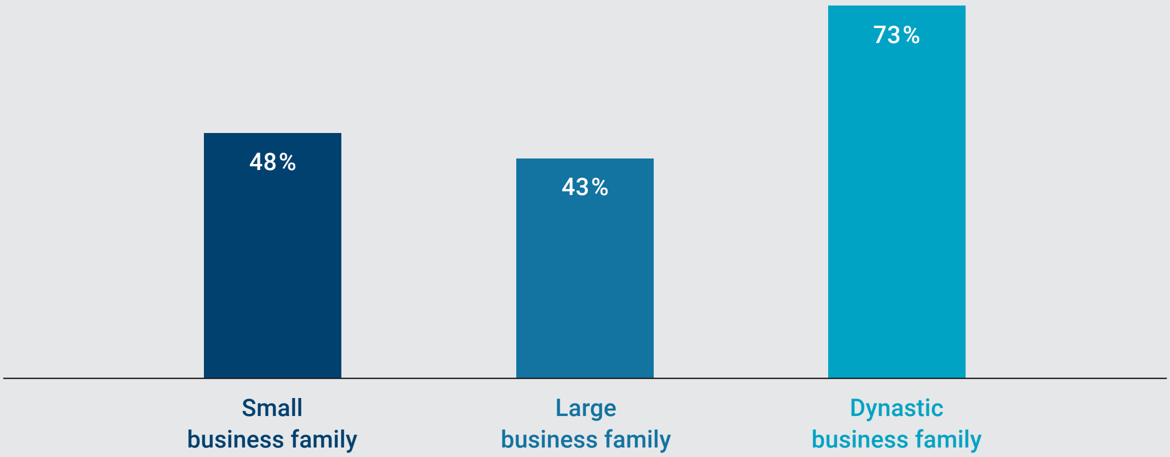


Figure 27: Defining specific forms of succession planning in the family strategy

Conflict management system

Analogous to succession planning, the representatives of the *dynastic business family* cluster in particular see a benefit in a professional conflict management system as part of the family strategy (see Figure 28). Due to its size and complexity, this type of business family has long understood that conflicts within the family of the family business are rather the expected norm and often cannot be solved purely with the usual family communication. Therefore, it is these business families, above all, who appear willing to invest the necessary financial and time resources which a professional conflict management system requires. According to the findings, approaches and procedures defined in this document offer a structural platform to make conflicts addressable. They make it possible to enter into a solution process without the family being directly 'sucked into' the conflict dynamics in its entirety and without endangering constructive cooperation despite the presence of dissent.[38]

Nevertheless, even in this type of family business, less than half of the business families surveyed said that such a system was useful. There is, therefore, a need to catch up here in the introduction, design and implementation of professional conflict management. Interestingly, the *small* and *large business family* representatives considered the usefulness of such a system to be even lower, at 22 and 26 per cent respectively. Presumably, conflicts within the business family are seen here as an exception that should be

[38] For details of the typical approaches see v. Schlippe et al. (2021), p. 189 ff. and v. Schlippe (2014).

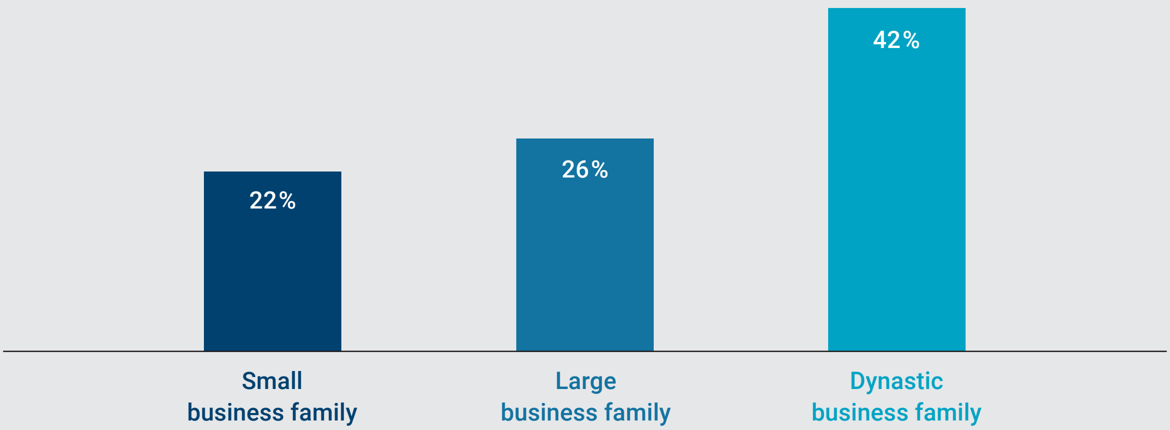


Figure 28: Defining the specific use of conflict management systems within the family strategy

avoided; family logic is thought out and acted upon in this context. At the same time, hardly any fact is communicated as prominently in the press and other media as the fact that family businesses generally fail due to conflicts within the circle of shareholders and the business family. The often prevailing attitude – 'we are family; after all, we don't quarrel' – is understandable, but it is probably often based on the 'consensus fiction' that there is somehow agreement. Latent conflict potential often breaks out unexpectedly and dramatically, at the latest during significant transitions, such as inheritance periods.[39] In the long term, this attitude is likely to seriously endanger the preservation of the family business in the hands of the business family. The research results, therefore, suggest that every business family – regardless of size and age – should establish a system for dealing with conflicts.

5.2.4 DEVELOPMENT AND IMPLEMENTATION CHALLENGES

The greatest challenges for the development and implementation of the family strategy are to be found in these three areas: integrating awareness of the rights and duties of the members of a business family into everyday life, recognition of the family strategy as a binding set of rules and regulations, and communication within the business family. While it seemed to have been equally difficult for all three cluster types to develop and maintain an awareness of the rights and responsibilities of the business family, differences in the detailed consideration of the participants' answers were apparent in the other areas. Since this subject complex is a key issue in the development of a business family through family strategy regulations, it is worth taking a look at it in detail.

[39] See, in particular, v. Schlippe and Hülsbeck (2016) and Hülsbeck and v. Schlippe (2018).

Recognition of the family constitution as a binding set of rules

The recognition of the family strategy as a binding set of rules appears to be a central challenge, especially for the *dynastic business family* (56 %) (see Figure 29). The following factors could be responsible for this:

a) Large groups of shareholders often comprise very differently differentiated nuclear families, in which different value systems exist and are experienced.

b) In business families of this type, the individual members are often emotionally far removed from the family business and the community of owners. Often there is hardly any emotional attachment to the family values or common ownership. As the everyday life of these mostly non-operational partners and their relatives is no longer directly influenced by the developments of the family business, they often see no point in implementing the regulations of the family strategy in their personal lives. Here it is necessary to highlight the importance of the family strategy and its future-oriented impact and to indicate its direct influence on each member of the business family. This is best achieved at family meetings and reflection workshops, where individual components of the family strategy can be critically examined and discussed by the participants.

The same argument applies in a weakened form to the *large business family*. In our experience, not all shareholders often have direct contact with the company's operative business and, therefore, do not

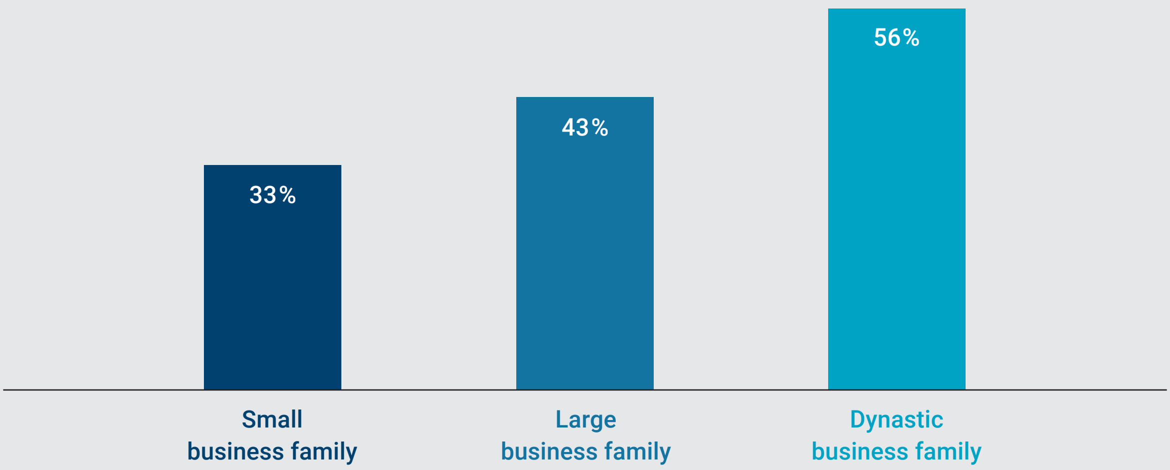


Figure 29: Challenge no. 1 – Recognition as a binding set of rules

consider a more intensive examination of the joint family business to be appropriate. For a long time, the assumption of responsibility by those in charge has worked well. In the case of the *small business family* type, the low level of feedback from the participants can be explained by the family strategy being lived out virtually daily due to the company's proximity to the business family's everyday life. The 33 per cent of answers could indicate a generational change and the associated deviation from the previously existing everyday practice (e.g., taking over an operative task).

Communication within the business family

The differences between the clusters in terms of communication within the business family are not particularly large (40 % to 47 %). However, it is noteworthy that the highest value is found in the *small business family*, at 47 per cent (see Figure 30). Apparently, these families seem the ones most likely to face structural obstacles in systematically addressing family strategy issues. Here it can be assumed that explicitly addressing relevant issues is considered inappropriate.

At first glance, this result may seem surprising. However, this type of communication is seldom professionalised – it usually feels strange to talk to parents and siblings about what one has actually experienced and been taught in the upbringing and growth of the *small business family*. In comparison, the *dynastic business family* (44 %) has usually been practised for a longer time in discussing itself and its views, as this is often a central measure for coordinating large numbers of people and remaining capable of making decisions. The representatives of the *large business family* cluster seem to have had the least resistance here (40 %). These must invest in appropriate processes and structures to promote communication between the different groups, at the latest when the ratio of active family members to non-active ones becomes disproportionate, or when at least two family tribes have emerged as independent groups of shareholders.

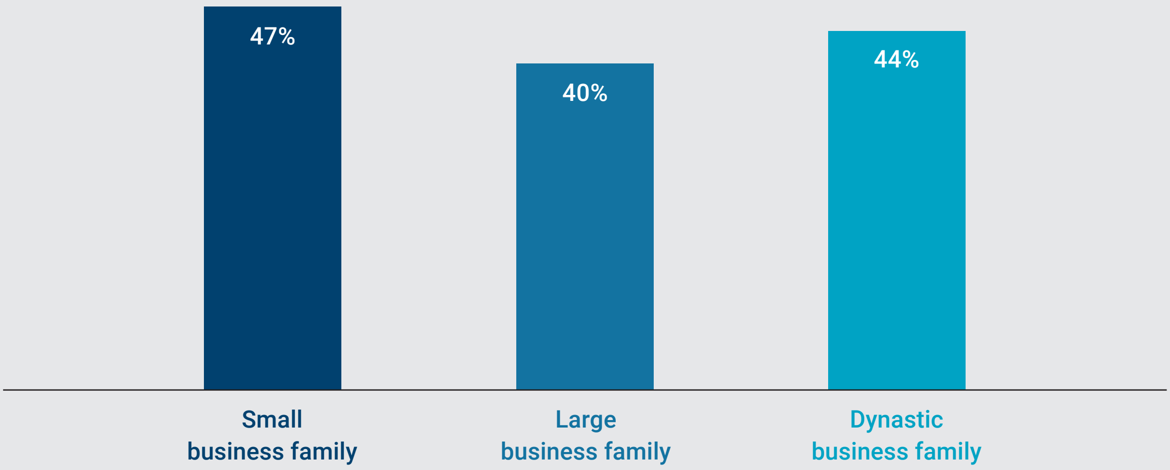


Figure 30: Challenge no. 2 – Communication within the business family

Basically, the communication task plays a key role in the development and life of a family strategy if its contents are to be preserved after its adoption. Here, the typical communication form of a pure family approach must be broken out of and new professionalised formats established. Practical examples include family magazines, adequate reporting for shareholders, family calls with board representatives or top management and information rounds. However, such a changeover to appropriate forms of communication takes time.

Willingness of family members to provide time resources

The development of a family strategy costs a business family time resources above all else. Whether the members of the business family are prepared to invest time and deal with unpleasant topics and lengthy discussions often determines the success of the process. If a family strategy development is successful, it is then necessary to implement its contents and to spend the regularly recurring time necessary for this. Again, time resources from each family member are necessary, for example, to participate in committee meetings, further education measures and family events. The *small business family* has comparatively few problems here, as its members are usually very close to the day-to-day business of the company and family strategy issues can be easily integrated into the regular exchanges that already exist (26 %). In the *large business family* (38 %) and, above all, the *dynastic business family* (44 %), it is always a struggle to prioritise family activities in relation to the private obligations of their members (see Figure 31). Here it is much more difficult to get the same commitment from all members for the family strategy's defined activities.

The conclusion is that the business family's willingness to provide the necessary time resources decreases the less the family business as a whole influences the everyday life of its family members. Even

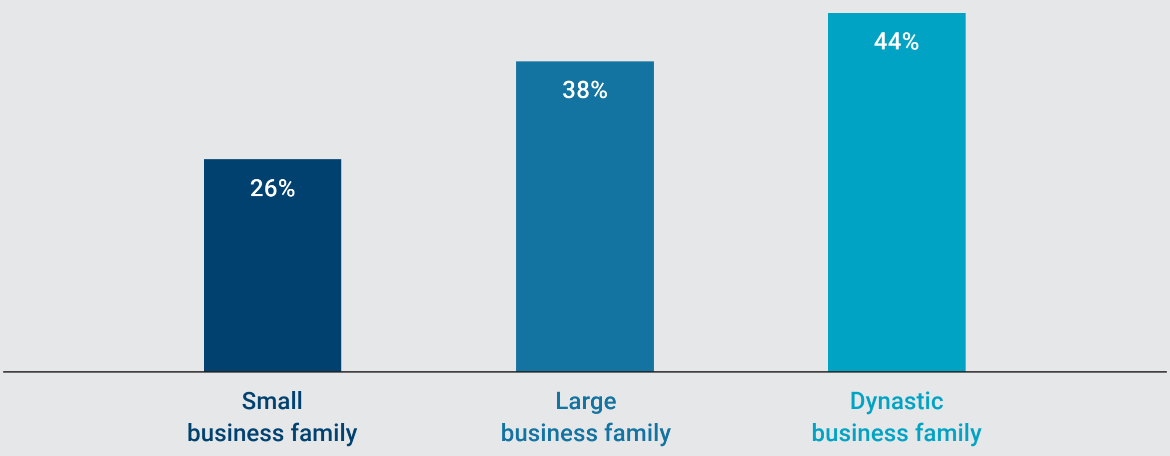


Figure 31: Challenge no. 3 – Difficulties in providing the agreed time resources

though the pool of conceivable family members who are willing to take on responsibility is increasing, business families – especially ones which grow rapidly over time – appear to be challenged. Therefore, in the course of the family strategy, ways and means must be found to increase the family members' commitment and to make the offices more attractive. Furthermore, it is much more difficult for larger groups of people, especially if they live far away from each other, to coordinate appointments. Clear rules for setting deadlines should be adopted here in line with the communication strategy.

5.3 | SUMMARY

The discussion shows that even as a result of fewer demographic characteristics, different challenges and problems become apparent in some cases. The cluster approach alone, which can only roughly divide the interviewed business families, opens up the possibility of formulating more targeted explanatory approaches and recommendations for action. However, to make a family strategy process successful in the long term, the specific and individual characteristics of each business family must be taken into account. Nevertheless, some generally valid recommendations for action and success factors are defined in the next chapter.

6 | KEY QUESTIONS AND SUCCESS FACTORS IN DEVELOPING AND ESTABLISHING A FAMILY STRATEGY

Finally, we would like to round off the findings of our investigation and take a somewhat broader perspective on the issues raised. To this end, we enrich the newly gained insights of this study with already existing results from other WIFU studies and research projects on the topic of family strategy and summarise them in core statements. First, three stages of a business family are defined in relation to an explicit family strategy development in which they potentially find themselves. Thus characterised, the business family either has an implicit family strategy orientation but has not yet started the process of explicating it (stage 1), or it is in the middle of developing one (stage 2), or it has completed the development of the family strategy, that is, is busy implementing its contents (stage 3). Depending on the stage of development, sample questions and statements that the business family should ask or consider are presented here.

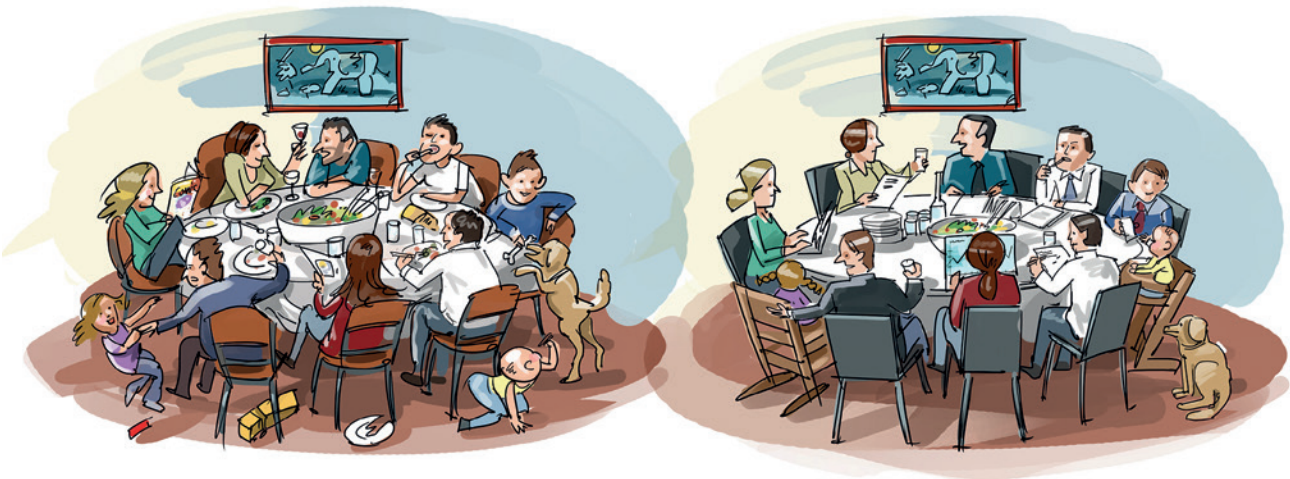


Figure 32: Family vs. business family – similar but not the same!

6.1 | STAGES OF DEVELOPMENT

Development stage 1: 'We don't have anything explicit yet!'

The business families addressed here have not yet dealt with the structured process of family strategy development. Family strategy here takes place implicitly according to upbringing. That is, the orientation of its members typically takes place via unreflected observation and adoption of value and behaviour patterns by the representatives of the senior generation or the family members in charge. This typical form of intra-family learning and transfer of action and behaviour patterns can hardly be achieved in multiple nuclear families of later generations. At the outset, it can be achieved when several nuclear families have formed. The following questions can be helpful to clarify what ideas the business family's members have about the development of the family business and its ownership structures. The question of the meaning of a family strategy alone is a good starting point for an intra-family dialogue

QUESTIONS FOR STAGE 1 (ON INTRA-FAMILY DIALOGUE):

1. Why is there (still) no explicit family strategy?
2. What exactly is currently preventing the business family from taking a closer look at the topic?
3. What issue could be behind the possible rejection of a family strategy conversation within the circle of the business family?
4. How does the business family ensure sufficient knowledge and expertise on the subject of succession planning and family strategy development?
5. What opportunities and challenges of family strategic work are seen by the individual members of the business family?
6. What possibilities exist for an exchange with other representatives of business families about the potential success and non-success of a family strategy development?
7. Which 'hot issues' have possibly been avoided so far – and would it be good to continue to not address them?
8. What happens if nothing happens: what development prospects and risks for the company and family are seen in the case of a 'business-as-usual' family?

Development stage 2: 'We're in the middle of the process!'

The business families at this stage are in the middle of a process to develop a family strategy. They deal with the questions described above, have already answered some of them or are working out approaches to implement the solutions found. In principle, the members of these business families have decided to work on a common set of values and rules. However, in the course of the process, protracted discussions or dissent, or even conflict, can arise. The work, which started out so full of hope, sometimes turns out to be a painful disillusionment process, which shows how big the already existing differences in values have become or how deep old injuries still are. There is a risk of interrupting or not completing the process at the first sign of major problems. In our view, constructive forms of dealing with differences, coming to terms with old blockages or interrupting latent conflict dynamics are needed now. However, the transition, in which the family begins to understand itself also professionally, as an 'organised family', and then gives up a piece of familiarity, is not easy. The family learns to be both a family and a business family at the same time. Paradoxically, at this stage, it has to become a bit of an organisation to remain a family in the long run.

QUESTIONS FOR STAGE 2:

1. Professionalisation as a family can and will 'hurt' in some places – what forms of dealing with unpleasant issues or situations do you have in the business family?
2. Which topic, dynamic or concern of an individual family member can we ignore 'with impunity'?
3. What are the expected conflict issues in our family that can complicate or paralyse the process?
4. How do we want to deal with problematic questions or issues and conflicts that may arise during the process?
5. Which other business families can we consult as orientation parameters or case studies and use them as examples for successful family strategy development?
6. How do we want to deal with a situation where, in the course of the process, it becomes clear that we can no longer adopt a common vision of the future within our business family?

Development stage 3: ‘We have developed our family strategy!’

Business families at this stage have reached a milestone. They have agreed on family strategic cornerstones and are now faced with the task of implementing the content they have written. Here, there is the danger that the members will fall into a kind of ‘fatigue trap’ after a sometimes lengthy and time-consuming development process. They are proud of what they have achieved and, at the same time, glad that the family work has come to an end. The process of elaboration is seen as essential, everything is captured on paper. Unfortunately, a systematic anchoring of the contents in the consciousness of the family members is often missing. A few years after the adoption of the family strategy, it is not uncommon for them to be surprised that hardly any changes have occurred compared to before the whole process. It is here that continuous (self-)management by the business family is required to ensure that constitution’s contents are preserved in the consciousness of its members:

QUESTIONS FOR STAGE 3:

1. How can we structurally avoid the ‘fatigue trap’ and ensure that we systematically keep the strategy’s contents in the consciousness of the family members?
2. In what form is the family strategy adaptable and how does it react to changes in the business family system?
3. What forms of communication should there be concerning the family strategy?
4. How regularly does the top management of the company discuss corporate strategy? Is it possible to find bonds for the family and their family strategy discussion?
5. How can it be ensured that members of the business family feel equally involved in the existing set of rules?
6. What possibilities does the next generation have to shape the reflection process on family strategy in the future?
7. How are new members of the business family (e. g., spouses) welcomed, informed and integrated into the family strategy process?

6.2 | TOP 3 SUCCESS FACTORS

Finally, three success factors for the family-strategic development process of a business family are formulated here.

A family strategy process stands a good chance if…

Number one: Time resources

... the members of the business family have and make available sufficient time resources to deal with themselves, go through the process of family strategy development and regularly reflect on its contents. It is desirable that all members participate. However, individuals should not be able to block the process by refusal. They are informed regularly even if they do not participate.

Number two: Critical reflection

... the members of the business family possess or are willing to develop sufficient skills to critically reflect on the previous thought frames, values, actions and behaviour patterns, and to adapt them if necessary. This includes a willingness not to personalise conflicts, but to accept them as structurally unavoidable.

Number three: Living the strategy

... the business family is prepared to implement the formulated contents of the family constitution and family strategy, to motivate the family members to overcome the fatigue trap, to address misconduct and to constructively resolve critical dynamics.

7 | SUMMARY AND OUTLOOK

The study's results show a very positive picture of the current diffusion of family governance mechanisms and, especially, family strategy. It shows that the 214 members of business families who participated in the survey are increasingly professionalising their relationship to their business as a family. Such professionalisation steps are taken to ensure the future viability of the family and the family business alike. A systematic approach to family strategy development facilitates this professionalisation process and ensures that all relevant issues are discussed and elaborated on in detail. It offers the business family a structure to ensure its long-term viability.

However, a family strategy should not be understood as a finished concept which, once developed, is finished and is imposed on every new member of a business family. It merely provides a framework which must be filled again and again, with individual content adapted to the family situation. Thus, over time, there is always the need to reflect and adapt the self-image of the family and the family business to the changing family situation. In the development process of a family strategy and the family management system based on it, the actors of the business family bear the central responsibility of successfully applying the concept of an explicit family strategy as a central component of family governance.

The awareness of the necessary professionalisation of the business family is already widespread among the study participants and will continue to increase as the family organisation, as well as tasks in the management of the business family, become more and more complex. The survey's results show that a large proportion of respondents have recognised the need for professionalisation. Almost half of them even stated that they had already introduced or had in place concrete measures for the development of a family strategy. However, since the topic of family strategy is still very young, the number of business families developing a family strategy is expected to increase steadily.

Business families in younger generations or with a close kinship and a small number of shareholders in particular often do not see the point of professionalising themselves, as they cope well with existing expectations and communication structures between family members – which result from the core family communication. However, these families are also facing the next generational transition and it can be assumed that their number of members and thus their complexity will increase steadily. Here it is important to explain the advantages of structured processes and, above all, to point out that a family strategy helps to make the business family sustainable for future generations in terms of their common role and task as responsible owners. This should be the goal of every business family.

8 | APPENDIX

8.1 | SURVEY

The study on the topic of family strategy is based on a nationwide survey of 222 members of business families which we conducted from April to June 2018. The questionnaire was made available to potential participants as a digital online version. Incomplete questionnaires (<75 % filled in) were excluded from the evaluation of the results. This applied to a total of 8 datasets so that the statements of the present study are derived from a sample of 214 evaluated data sets.

Based on 34 questions, the participating members of German business families were asked about family strategy and family governance mechanisms. The business families in the study included representatives of a wide variety of legal forms (see Figure 33), size/turnover classes (see Figure 34), number of generations (see Figure 35), and number of family shareholders (see Figure 36), so that the study is based on a meaningful range. The diversity of the business families is reflected in the demographic data of the participants.

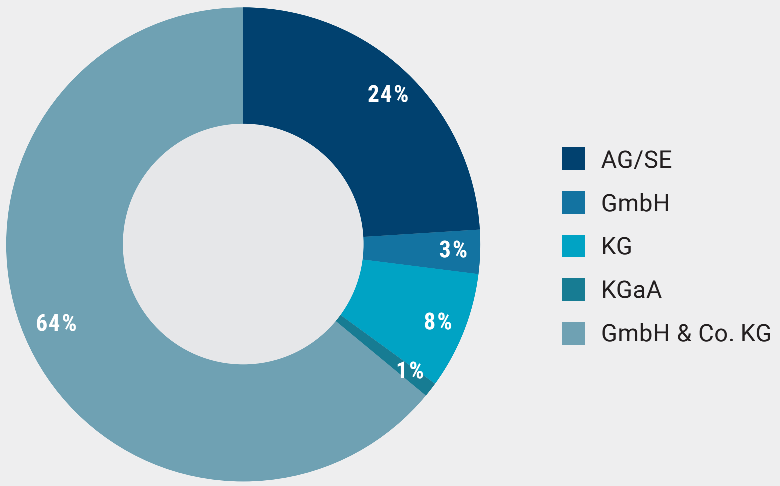


Figure 33: Legal form of the family business

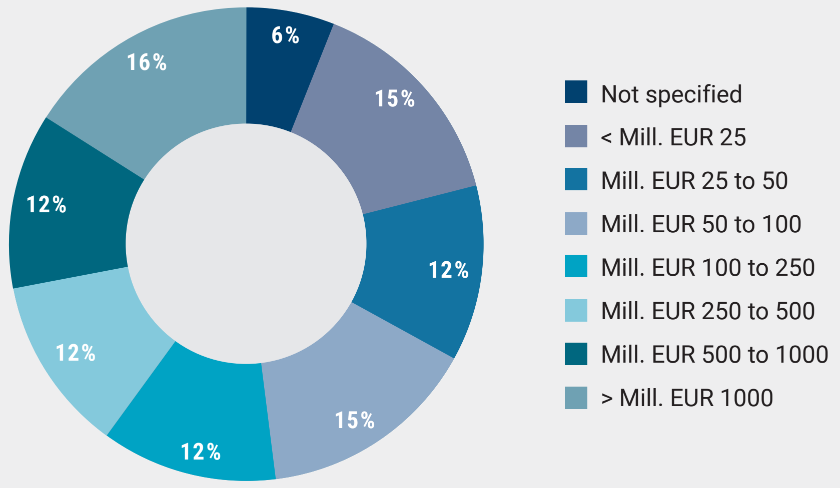


Figure 34: Turnover classes of family businesses

Figure 35: Number of generations of the business family

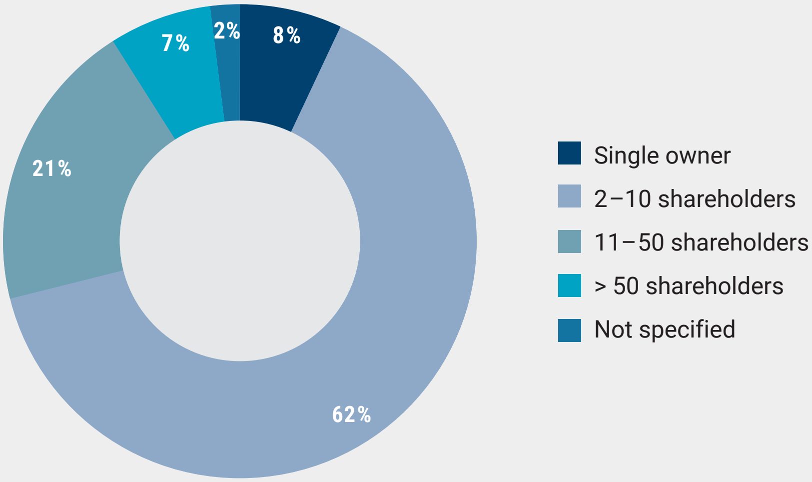


Figure 36: Number of family shareholders in the business family

As can be seen in Figure 36, the majority of those surveyed 2–10 shareholders in the business family. At 21 per cent, the larger groups of shareholders of 11 to 50 persons follow. A reasonable share of 8 per cent belongs to a business family in which there is only one sole owner, and 7 per cent are very large groups of shareholders with more than 50 members. Furthermore, Figure 37 shows that a good half of the participants come from the operational management of the company and the second half are distributed among other roles in the family business and the business family. The participants, therefore, not only represent the perspective of managing shareholders who usually have a great deal of influence in the business family, but also members of the business family who are not involved in the day-to-day business of the company and, therefore, have a different perspective.

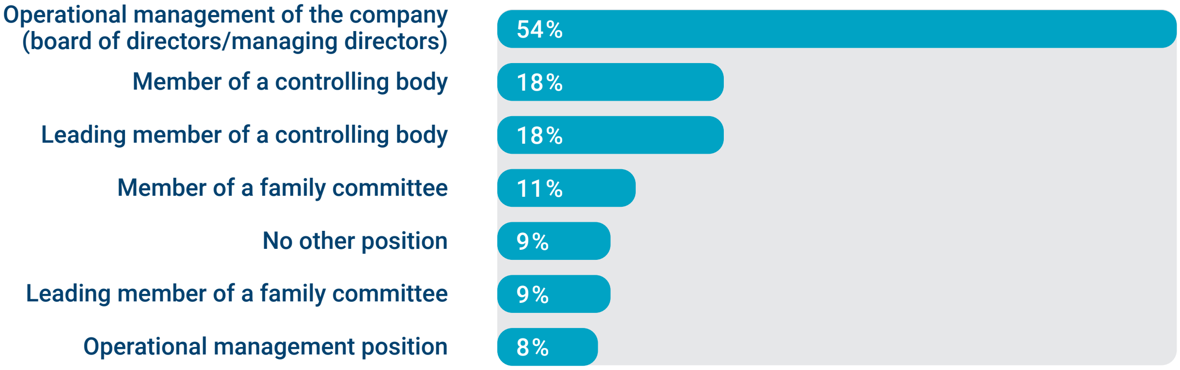


Figure 37: Position of interviewed members in the business family or the family business

8.2 | DEFINITIONS

There are no generally accepted definitions for many of the terms used in this study. Therefore, the WIFU definitions on which this study is based are presented below.

8.2.1 FAMILY BUSINESS

We speak of a *family business* when it is wholly or partially owned by one or more families or family committees. From a corporate responsibility perspective, these have a decisive influence on the development of the company, from a management or a supervisory function, or both. If it is not represented in the management, the family sees itself as a partner of the company, especially in the development of entrepreneurial strategy. The legal form and size of the company play no role in this definition, so family businesses are not equated with SMEs.[40] The transgenerational moment is essential for family businesses. A company becomes a family business when the will is evident to hand it over to the next generation in whatever form (concentrated or divided ownership, management). Start-ups or owner-managed companies are not family businesses in this sense alone.[41]

8.2.2 BUSINESS FAMILY

A *business family* is a definable group of people related to one another in terms of a concrete original couple, usually the founders, who determine the boundaries of the family. It is shaped in its development by a company owned by one, several or all family members. This group does not have to live together in a house community; it is rather defined by the affiliation to the group of descendants of the original couple. The question of how this ownership is passed on within the family committee is an issue that concerns the family. The form of the solution found in each case (tribal association, so-called crown prince regulation, extended family organisation) is not significant.[42]

8.2.3 FAMILY STRATEGY

A *family strategy* is about developing a medium- and long-term vision of the interaction between family businesses and the business family. A well-formulated family strategy thus comprises the result of a process of reflection by a business family on its self-image as a family and on the question of how it can and wants to remain a resource for the company in the long term. The positioning of the business family is to be carried out from a family, business and ownership perspective.

8.2.4 FAMILY CONSTITUTION

A *family constitution* can be understood as a legally non-binding document of a business family, in which the family has summarised its central guidelines of family and entrepreneurial thinking. In addition to values, the guidelines can also include concrete definitions, requirements, expectations, procedures and process descriptions of a business family. In practice, such documents are also referred to as a family

[40] SMEs is the abbreviation for 'small and medium-sized enterprises'.
[41] Taken from v. Schlippe et al. (2021), p. 10 f.
[42] Taken from ibid.

charter, code, statute or mission statement. In order to document their willingness to accept the charter and to feel bound by its contents, the members of a business family often sign the charter together.[43]

8.2.5 FAMILY MANAGEMENT

Family management can be described as the implementation of family strategic considerations in the form of actions and measures in everyday practice. It comprises two complementary tasks for the self-management of a business family: in addition to formulating a strategy, it is a matter of developing the ability to manage oneself in the necessary change needs and steps. One aspect of family management is described in the term 'family compliance'.[44] In line with the understanding of the term in business administration, it means the willingness to comply with a voluntary code which the business family has set itself. This is often set out in writing in a family constitution or statute.[45]

8.3 | CLUSTER ANALYSIS

Cluster analysis is a procedure which divides the objects of a data set into homogeneous groups. The individual objects are described by a certain number of variables which serve as the basis for group formation. The cluster analysis in this study is based on the variables of company turnover, company age, generation and number of shareholders in the business family. The objects within the groups should be as similar as possible with regard to their characteristics within these variables. The objects from different groups should be as different as possible, so the groups should be clearly separated from each other. These groups are also called clusters.[46]

The applied method on which the cluster analysis of this study is based is the minimum variance method according to Ward.[47] In a first step, this method forms many small clusters and fuses them on the basis of high object density in certain regions. This process of merging small clusters is continued in such a way that the variance criterion (sum of squares of errors)[48] increases the least (remains minimal). This way, before merging two clusters, the total variance of a cluster is calculated and this cluster is then only merged with those clusters that change this variance the least. This process continues until all clusters have merged. The trick is then to find the appropriate number of clusters and to end the process at the appropriate point. For the analysis in this study, we chose three final clusters because, at this point, there is a discriminatory power of the individual clusters (heterogeneity) in three out of four variables (age of entrepreneurship is relatively similar in all three clusters) and these three types of business families can be explained well, especially in their real context.

The following figures (38 to 40) show the results of the statistical analysis and provide an overview of the three clusters which were most appropriate for the context of this study.

[43] Cf. v. Schlippe (2017), p. 32.
[44] Cf. also Rüsen (2016).
[45] Cf. v. Schlippe (2017), p. 33a.
[46] Bacher (1994).
[47] Bacher et al. (2010).
[48] The criterion of variance is the sum of the squares of distance between the clusters to the centre of the cluster.

VARIABLE	OBS	MEAN	STD. DEV.	MIN	MAX
Holders	89	6.359551	8.257568	1	60
Gen	89	3.235955	1.522725	1	8
Age	89	87.92135	54.2413	8	273
Turnover	89	41.99438	26.06041	0	75

Figure 38: Cluster description of the *small business family*
(Source: Cluster analysis WIFU survey 2018)

VARIABLE	OBS	MEAN	STD. DEV.	MIN	MAX
Holders	53	13.0566	22.83841	1	150
Gen	53	3.867925	1.797838	1	9
Age	53	94.45283	55.90981	4	280
Turnover	53	276.8868	100.939	175	375

Figure 39: Cluster description of the *large business family*
(Source: Cluster analysis WIFU survey 2018)

VARIABLE	OBS	MEAN	STD. DEV.	MIN	MAX
Holders	62	54.06452	136.6411	2	700
Gen	62	4.951613	2.459024	1	13
Age	62	135.3548	73.04548	13	350
Turnover	62	891.129	124.9669	750	1000

Figure 40: Cluster description of the *dynastic business family*
(Source: Cluster analysis WIFU survey 2018)

In the left column are the four selected variables: Company turnover (turnover), company age (age), generation (gen) and number of shareholders (holders) in the business family. The table shows how they are distributed within the cluster by showing the mean value (mean), the standard deviation (standard deviation) and the respective minimum (min) and maximum (max) values. 'Obs' describes the number of objects in the respective cluster.

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10 | LIST OF FIGURES

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WITTEN INSTITUTE FOR FAMILY BUSINESS (WIFU)

The Witten Institute for Family Business (WIFU) of the Faculty of Management, Economics and Society of Witten/Herdecke University is a pioneer in Germany's academic research and teaching on the special features of family businesses. Three fields of research and teaching – business administration, psychology/sociology and legal sciences – mirror the factors shaping family businesses. This has enabled the WIFU to develop a unique expertise in family businesses, made possible by a group of 75 family businesses. As an institute for family businesses, the WIFU can thus work to support family businesses on an equal footing with them. With its current 20 professors, the WIFU has made significant contributions to the cross-generational viability of family businesses for over 20 years.

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