

PRACTICAL GUIDE

THE DYNAMICS IN GROWING BUSINESS FAMILIES

THE POWER OF ELEMENTARY
SYSTEM RULES FOR COHESION
AND COMMUNICATION

by
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Please note: Where this practical guide includes references to persons in the masculine, these should be taken to apply equally to persons of all genders.

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Business families are quite special: while the family is responsible for the family business, the interests of the business tend to play a crucial role in the everyday communication and interactions of the family. It could be said that the business always 'keeps them company' at the family table.

As long as the business family is confined to the framework of the traditional nuclear family, the ever-present questions of the business are discussed in the customary context of family life. There are unquestioned rules for solving problems which may have developed over years or even decades. It is often assumed that everyone involved has a similar view of the world and its problems.

However, the challenges facing business families change significantly over time. Generational change always brings about an inevitable shift in the relationships of authority. When there are several siblings, different 'factions' are likely to crystallise in the second or third generation, each following its own logic and, in the worst case, becoming incompatible with one another. Family members by marriage enter the playing field and raise the question of who 'really' belongs to the business family.

In addition to such issues of affiliation which require clarification, growing business families are also concerned with shaping the opportunities of family members, or even entire generations, to exert their influence on the business. They need to ensure that individual commitment to the family community and the business is appreciated, while the personal characteristics and potential of those involved are recognised. In all social systems, there is an exchange of give and take, with everyone involved keeping a mental record of their personal 'balance'. If the balance is in overdraft (seriously

and permanently), a conflict develops that can endanger the whole system.

Such questions, which arise in all families, groups and teams, have the potential to become particularly explosive in business families. This Practical Guide offers very specific solutions and targeted strategies for reflection and the effective clarification of such questions. These include all three levels that shape our personal and social lives: the cognitive dimension of thinking ('head'), the emotional area of feeling ('heart') and the practical context of action ('hand').

The central point here is that questions of social affiliation, personal influence on community relationships and business-related decisions and, finally, questions of recognition and appreciation of the actions and skills of family members, are elementary, in the sense that they are relevant wherever and whenever people live and/or work together. Everyone who deals with the functioning of their family (and possibly with resolving conflicts between families) would be well-advised to gain an understanding of these elementary system rules, to recognise how they come into play and to acknowledge their power.

Heiko Kleve used the beautiful term 'curative' to describe the function of these elementary rules in social systems. Allowing oneself to be consistently guided by these principles has a healing effect on a group of people as a whole; in other words, it keeps the whole group healthy and functional.

This Practical Guide is therefore urgently recommended to all business families and, in particular, to those family members who play an active role in shaping the interests of their families..

Rudolf Wimmer

Witten, September 2020

1 | INTRODUCTION: BUSINESS FAMILIES IN AN EVER-CHANGING WORLD

Every day, we read in the press, hear on the radio, see on television or observe on social media how our world is changing faster than ever before in human history. Digitalisation and globalisation are continuously transforming our professional and private lives.

Electronic networking via the Internet and our permanent availability on mobile devices have dramatically accelerated our communication processes. We are always available for communication and expect this availability equally from others, increasing the speed with which we make decisions. In addition, we are more aware than ever of the risks that come with every decision. We have to commit ourselves without knowing: accepting the uncertainty as to whether the desired effects of our decision will materialise or whether they will be outweighed by the undesired results.

Whenever we are confronted with the possibility of such risks and side effects, we are faced with complexity: events are rarely isolated, so we never know exactly what consequences a decision we make may inadvertently trigger. This ultimately leads to ambivalence, that is, to the ambiguity of our perceptions. We can never be certain of the best decision or course of action because there are several choices, each of which has potential advantages and disadvantages.

In a world that has become more complex, the likelihood of conflict, both internal and interpersonal, also increases. Since we are permanently networked, we are less able to avoid each other than we were before the digital revolution, and conflicts arise and escalate more quickly.

Consequently, we derive a great sense of comfort from being able to reassure ourselves that, despite all the volatility, uncertainty, complexity and ambivalence in the world, there are certain aspects

upon which we can rely, which offer us security and provide us with foundations on which we can firmly base our thinking, feelings and actions. These aspects are the focus of this Practical Guide.

It is astonishing that, throughout the development of human society, no matter where we move in the world in entering social systems, certain rules of coexistence remain constant. Together with the sociologist Karl Otto Hondrich, we call these rules 'elementary social principles'¹ – they are elementary because they apply *everywhere*, and they are social because they relate to interactions *between* people, i.e. in social systems.

Familiarity with these elementary principles of coexistence and an understanding of these rules provides us with systemic skills that are helpful in shaping our lives in the complex world of today with greater calm and peace of mind. They equip members of business families, who live within and with a particularly challenging social system, with basic skills. Such skills help them to better understand how conflicts have arisen in their families or how they may occur, and how they can be resolved or prevented in the long term. *With the help of these elementary social principles, the family organisation can become more effective through a more adequate and sustainable design*, as described and explained in this Practical Guide.

In particular, family members who play the socio-pedagogical role of the 'family carer', i.e. those who are responsible for the social aspects of family management, should possess systemic skills that can be founded on the knowledge of the basic social rules. This Practical Guide aims to assist business families in developing such skills, which, particularly in this uncertain and turbulent day and age, can help them to recharge their batteries and provide the family with a social anchor that will last and remain stable despite all the changes.

¹ Hondrich (2001).

2 | SYSTEMIC SKILLS WITH HEAD, HEART AND HAND

When we say that business families are social systems, we mean that we are looking at an interconnected group of people within which relationships, patterns and rules of behaviour exist. Such people, linked in systems, work and live together in order to jointly shape their lifestyles or to manage other tasks, such as running a business together.

At least three resources are necessary for this common lifestyle and to cope with the collective tasks: *knowledge, emotion and structured action*. There should be a balance between all the three areas, which can metaphorically be described as 'head' (cognition), 'heart' (emotion) and 'hand' (action). Business families require knowledge and an emotional basis to live and work together as well as the necessary structures for action to allow them to approach their tasks in a sustainable and successful manner.

All the explanations in this Practical Guide serve precisely this purpose: *ensuring a balance between head, heart and hand*. Only in this way can the tension between proven strategies of the past and developments for the future be sustainably resolved. 'Action' itself takes place in the present and must strike a balance between an adequate recognition of the past and a necessary focus on the future.

This is particularly important in business families because they are based on *transgenerational*

continuity, i.e. the ownership of the business is intended to be passed on to subsequent generations. With every generational succession, the question arises as to how the traditions of the business and family from the past can be appropriately respected in the present, while at the same time allowing the family to strive for innovation, remain open to future developments and prepare for challenges.

QUESTIONS FOR REFLECTION ON DEVELOPMENT WITH HEAD, HEART AND HAND

- ➔ How would you rate the dimensions of knowledge, emotions and action in your business family? Are all three aspects noticeable – if so (or if not), in what way?
- ➔ What do you do in your business family to keep the family's knowledge base up-to-date, to create appreciative (i.e. positive) emotional relationships and to establish suitable structures for action?
- ➔ If there is no balance between the three extremes of rationality, emotionality and structure, what could you do yourself to achieve a better balance between these aspects?



Figure 1: Head (cognition), heart (emotion) and hand (action) as extremes of change

3 | BUSINESS FAMILIES AS 'FAMILIES TIMES THREE'

EXAMPLE: THE GROWING BUSINESS FAMILY

The business family in this example goes back eight generations. The company was founded during the mid-19th century industrialisation as a steel-works. The parent company has now been sold and the family has various holdings as part of a holding structure. The almost 60 shareholders of the holding, who are related in one way or another, live in numerous nuclear families and have formally organised themselves to ensure that their company-related decisions are made in a coordinated and concentrated manner. No family members are operationally active in the company. The Shareholders' Meeting established a Shareholders' Committee and an Advisory Board in the 1990s. While the Shareholders' Committee is responsible, in particular, for family-related issues, the Advisory Board, which consists of five members (three from the family and two external), is responsible for company-related issues (e.g. for the establishment and control of external operational management). Since the business family is growing larger and larger, questions about how to secure the cohesion of the family in the future are increasingly coming to the fore. While the shareholders have their family lives within their nuclear families, pursue their own professional careers and contribute to the formal structures of the business family, some active shareholders are demanding more commitment from their co-shareholders and wish to establish informal meetings and groups. This is because there is a consensus in the family that the owner family should stay together as a family business, so that the ownership of the company, which has been passed down over generations, can be held in trust and passed down to the (great) grandchildren in the future.

As we can see from this example of the growing business family, such families are special systems. When the number of members increases and 50 or more people are involved, three different types of system characterising these families can be observed:

- *Firstly*, large and multigenerational business families, in particular, are made up of several or sometimes even a large number of nuclear families, each of which is characterised by intimate relationships which provide a framework for the private lives of its members.
- *Secondly*, business families are confronted with business demands that traditional families do not face. This is because members of business families have ownership of the business, which comes with a very special responsibility. Therefore, the dynamics of the business family are not only shaped by internal influences. The family members have to organise themselves formally, for example, by setting up committees such as shareholders' committees or advisory boards.²
- And *thirdly*, growing business families that have existed for several generations and have a membership of more than 50 people become social networks.³ In networks, people connect with one another informally, based on interests. They support each other and stay in contact with each other as part of the exchange processes of give and take.⁴

We will examine these differences between the social systems of the nuclear family, the organisation and the network in more detail with regard to business families.

² See, for example, Simon et al. (2005); Simon (2011); Simon (2012); v. Schlippe et al. (2017).

³ See Kleve (2017c); Kleve (2018); Kleve et al. (2018) and (2019).

⁴ For the underlying concept of a network in the context of systems theory, see Kleve (2017a) and (2017b).

3.1 | NUCLEAR FAMILY: BUSINESS FAMILY 1.0

Nuclear families are characterised by the holistic inclusion of their members. This nuclear family structure could be said to represent 'Business Family 1.0'. The structure focusses on the close emotional ties between people who share their lives as part of mutual socialisation. The partners have a strong attachment in their roles within the couple relationship and, as parents, have a deep bond with their children and vice versa.

For this reason, family systems are highly emotional systems that, one way or another, have a great impact on our feelings – they can go hand in hand with love, but also with hate, as all facets of our personalities are integrated into these social systems.⁵ In families, people expect to be spoken to, accepted and respected as 'whole' people, in a very personal way. They want to experience communication that is based on trust and want to share elements of their lives that happen outside as well as within the family. This holistic inclusion is particularly easy to understand through two examples that define nuclear families – *firstly*, couple formation as a prerequisite for starting a family and, *secondly*, the birth of children.

In the Western world, *couple relationships* begin with an experience of holism, namely with love between the partners in the newly formed couple.⁶ The hallmark of this state of being in love is the romantic ideal of love, whereby both partners correlate and adjust their *whole* lives to each other. One partner's world is moulded in relation to the world of the other partner and vice versa, in a way that takes account of the other partner's life in its completeness.

The *birth of children* requires the caregivers, usually the parents, to sensitively identify and satisfy the needs of the new-born in all areas, physical,

psychological and social. The biological, psychological and social wellbeing of humans depends on this complete inclusion in a social system, usually the family, being successfully realised after birth.

Business families also grow out of such nuclear families. In multigenerational business families, the family members live in a number, sometimes a large number, of such nuclear family communities.

3.2 | ORGANISATION: BUSINESS FAMILY 2.0

In organisations, people are included in a different way, i.e. only partially, because organisations become independent of specific people. The staff can be changed or vacancies filled. In organisations, people conform to certain role expectations and job descriptions. The inclusion process is based on selected personality traits, that is to say, the skills that are important for the work of the organisation. Additionally, in organisations, decisions are made, communicated, documented and evaluated. Tasks are performed based on the division of labour and with specific goals in mind.

Business families also organise themselves in this way. This family organisation will be referred to as Business Family 2.0. Once formal structures are created, alongside committees and procedures for the appointment of their members, the business family develops an organisational character. A *family governance* is established.

In the example of the growing business family, the shareholders, who are related to one another, organise themselves in a Shareholders' Committee and an Advisory Board. Both these bodies comprise people who have the appropriate skills and who are elected for a defined term. In other words, the members of these bodies can change over time.

⁵ See, for example, Luhmann (1990); Fuchs (1999); Simon (2000).

⁶ For full details, see Luhmann (1982) or Hondrich (2004).

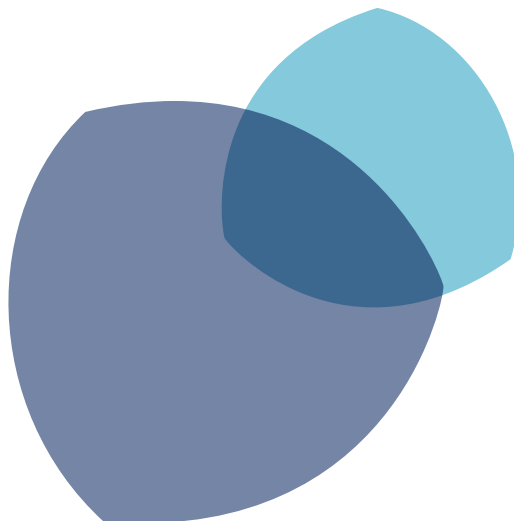
3.3 | NETWORK: BUSINESS FAMILY 3.0

Networks are social systems that are not based on close family relationships (as in families) or on formal membership (as in organisations). In contrast, networks are established between people who, in some respect, are temporarily or permanently connected to one another based on their interests. Friendships, acquaintance relationships and neighbourhood relationships can be defined as networks. People participate in the network if they can give something to the other network partners and if they are interested in gaining something. This exchange of give and take is the mechanism that stimulates social networks and keeps them up-to-date at all times.⁷

When the business family grows and consists of many nuclear family structures, while formally organised bodies have already been established (as in the example on Page 7), the question arises as to how cohesion and the common interest in the

business family can be fostered in the long term. In order to accomplish this task, social-network relationships are formed within the family circle of shareholders. These relationships are confined to the boundaries of kinship within the business family but, within these boundaries, non-formal bonds of give and take can be established where the scope of nuclear family relationships is too limited and the formal organisational memberships are too functional. Such large multigenerational families, in which a large number of shareholders take on the business responsibilities of a family community of business owners, will be referred to as Business Family 3.0.⁸

Growing business families 'shuttle' back and forth between these three cultures of the nuclear family, the family organisation and the social networks. The members of these families perform family and organisational tasks and live in extensive family networks, all at the same time. Therefore, they can be described as 'families times three'⁹ or as Business Families 3.0.



⁷ See Kleve (2017a) and (2017b).

⁸ See Kleve (2018) and Kleve et al. (2018).

⁹ See Kleve et al. (2019).

4 | FORMAL, INFORMAL AND ELEMENTARY LEVELS OF RULES IN SOCIAL SYSTEMS

EXAMPLE: THREE LEVELS OF RULES IN BUSINESS FAMILIES

The family in this example is a growing business family with frequent clashes about the rules that the family has formulated for itself. There is a family constitution that has recently been revised in order to reflect the current requirements of the family and the business, for example, with regard to the succession plan. It offers transparent and comprehensive answers to numerous questions. The structure of the family organisation has been made clear. In formal terms, all key aspects that are vital for the transgenerational continuity of the family are specified, in particular, the intention to keep the ownership of the business in trust for subsequent generations. Nevertheless, there is a tense atmosphere within the family, because some shareholders hold on to the factional principle that has been established over decades and discuss certain questions and decisions with 'their faction'. These forms of communication, which have now been abolished in formal terms, continue informally. And finally, questions about affiliation with the family and the right to have a say continue to arise in the family and, although these are now formally regulated, ambiguities and demands on a further level, namely the elementary level of rules, persist.

Our social lives are shaped by rules of co-existence, most of which have never been consciously decided or implemented in formal processes. Instead, these forms of interaction with one another have developed informally over generations, i.e. in the course of the evolution of our society, in a process of 'spontaneous order formation'.¹⁰ These rules are confirmed by every social contact, which is shaped by these rules and does not question them but, instead, maintains them by observing and implementing them.

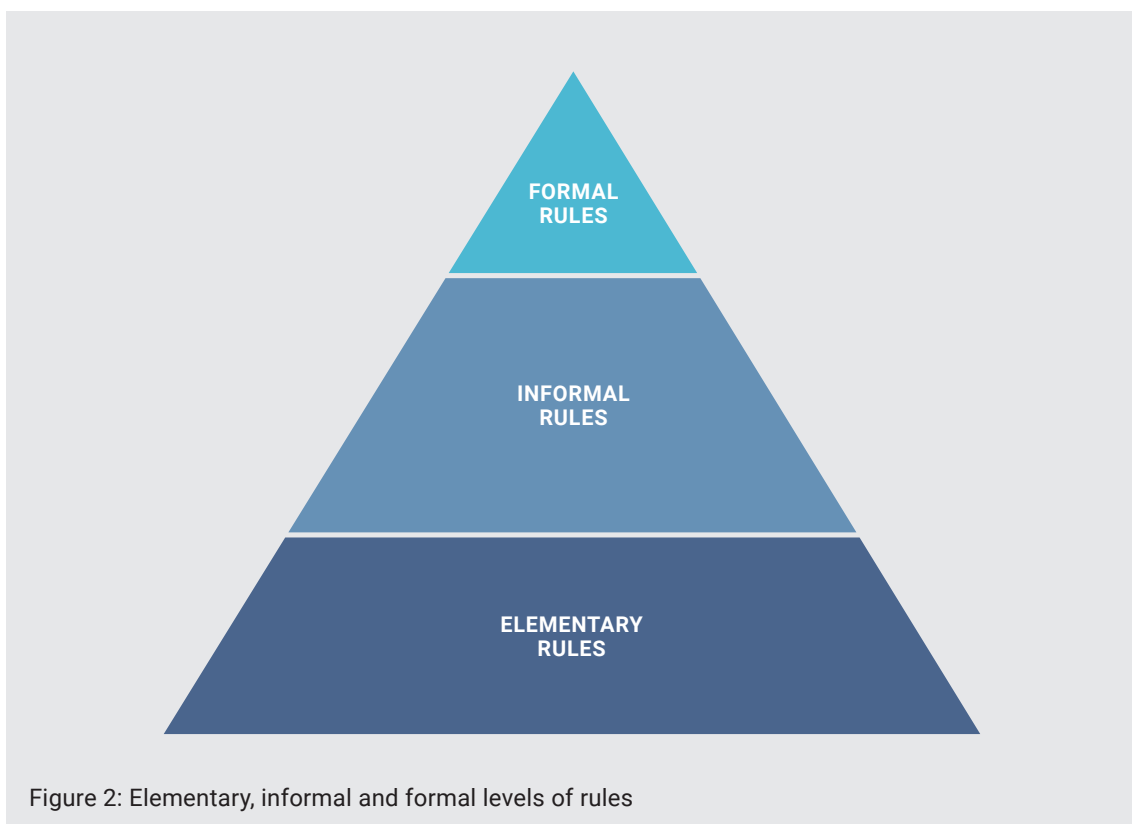
A simple example can be seen in the group that regularly meets in exactly the same composition at a table at which the individual members have 'fixed'

seats. However, these seats were never formally defined but, rather, have been established over time. At each meeting and whenever these seats are taken, this seating arrangement, although never planned, is further consolidated.

On a still more fundamental level, we can identify elementary rules that take precedence over the informal and formal rules and which shape the way we interact with one another in all social systems, i.e. wherever people live and work together.

However, before we turn to look at the elementary level of rules in more detail, the levels of formal and informal rules should first be briefly outlined.

¹⁰ For basic principles, see Hayek (1963).



4.1 | FORMAL RULES IN BUSINESS FAMILIES

Business families establish procedures that are atypical for families, but typical for organisations, such as formal rules for collective business-related or ownership-related action. These rules may be set out in a family charter, a family constitution or a family statute after they have been formulated as part of a strategic process¹¹ undertaken by a body such as a family council. They should, ideally, be continuously monitored with regard to members' compliance or to check whether any amendments are required. Well-organised business families establish what can be termed a 'family management system'.

This serves as an example of the *formal organisation* of the business family, which comes with a system of rules that are laid down in writing and ideally known to all members of the business family. Collaboration within the family, for example the communications of the business family, can be supported and strengthened by a kind of '*family compliance policy*', a rule of compliance of the family members. On this basis, any breaches of the rules can be clarified and procedures can be formulated on how to address them.¹²

It helps to make a clear distinction between compliance and non-compliance with written rules for communication in business families. Imposing sanctions for breaches, however, is a challenge which requires that business families demonstrate

¹¹ See Rösen & Löhde (2019).

¹² See Rösen (2016).

a high level of professionalism in their communication skills, especially since such sanctions can lead to protracted conflict. *What happens, for example, if a member of the business family repeatedly violates the jointly formulated rules? What sanctions should be imposed?* Such questions can also be answered by jointly formulated sanction principles, included in the formal catalogue of rules.

It makes sense for members of business families to learn that it is possible in interpersonal communication to make a distinction between condemning certain behaviours and respecting the individuals who have exhibited these behaviours, whether intentionally or otherwise. We can condemn, reject and criticise the actions of individuals without at the same time devaluing the individuals from whom these actions have originated or originate. In other words, *we can understand people's behaviours, appreciate what caused these behaviours and, thus, respect the individuals in the context of their subjectively perceived behaviours, without having to accept the behaviours themselves.*

QUESTIONS FOR REFLECTION REGARDING THE FORMAL LEVEL OF RULES

- ➔ What formal rules and associated structures have you established in your business family?
- ➔ In addition to the articles of association, is there a family charter or a similar document through which your family has committed itself to certain formal rules for ethical interaction with one another?
- ➔ How would you rate the formal structures in your family? What has proved to be successful in this regard? Which formal rules or structures do you think should be changed or developed further?

4.2 | INFORMAL RULES IN BUSINESS FAMILIES

Alongside the rules of communication within the business family which are recorded in writing in a family charter, family constitution or family statute, *informal* rules also develop. These apply to the communication patterns and structures of recurring behaviours within the business family that arise spontaneously and develop dynamically through interaction between family members. As we know from various theories of complex systems, spontaneous principles of order, structures and patterns are established between people, whether they want them or not, simply because people observe and communicate with one another.¹³

These patterns of order can be beneficial or obstructive. They are manifested, for example, in certain seating arrangements that spontaneously establish themselves in meeting rooms, but also at the dining table, and become consolidated through repetition. They can be expressed through a certain division of labour in the business family which, despite never being explicitly agreed, arises spontaneously and is replicated at every meeting. These patterns of order can develop into informal rules, compliance with which, although not openly discussed, is 'monitored' as part of mutual communication. Therefore, in addition to compliance with *formal* rules, there is also the issue of compliance with *informal* rules.

As long as these rules are non-disruptive, but supportive, there is no need to specifically explain them or reflect on them. However, if these informal rules inhibit the development and organisation of the business family, an attempt should be made to make others aware of them, to negotiate and to change them. This can be achieved by introducing alternative rules, which are then included in the official and fixed catalogue of rules, e.g. the family constitution.

¹³ See, for example, the classics in the field: Hayek (1963); Watzlawick et al. (1969); Foerster (1988); Luhmann (1984).

QUESTIONS FOR REFLECTION REGARDING THE INFORMAL LEVEL OF RULES

- ➔ What rules do you see in your business family that have been established over years, perhaps decades, without ever being consciously introduced?
- ➔ What sense do these rules make? What function do you think they fulfil? What would potentially happen if these informal rules were no longer observed, or if they were called into question?
- ➔ What would you like to see in terms of the informal rules level? Would you like to change some of these rules or suggest new informal rules? If so, how could you make this happen?

4.3 | ELEMENTARY RULES IN BUSINESS FAMILIES

We will now turn our attention to the third level of system rules, referred to – in accordance with Karl Otto Hondrich – as ‘elementary social processes’.¹⁴

- These rules are *elementary* because they can be found *everywhere*, in all social systems;
- They are *social* because they are established *between* people, i. e. they serve as the foundations for relationships between members of social systems.

While formal and informal rules in business families are family-specific, the elementary rules possess a universal character that can be seen as the basis of cohesion and the development of all social systems. In particular, the social systems on which our individual existence depends or previously depended shape us with regard to the

elementary rules. The most notable example is the nuclear family into which we were born and which made our life or survival possible in the first place. From a biological, psychological and social point of view, we depended on adults to sensitively identify our needs, which we could not satisfy ourselves, to provide for us and to look after us. We owe our lives to this care, which is usually provided within the framework of the nuclear family. These systems in particular are, therefore, especially shaped by the elementary social principles and the corresponding system rules. Even in the organisations, teams, groups and networks into which we are integrated, however, the elementary rules are replicated and we experience problems and conflict when the rules are not followed.

We will now approach these elementary system rules through descriptions, as they were formulated specifically to understand families, groups, teams and organisations as social systems by Matthias Varga von Kibéd and Insa Sparrer¹⁵ and, subsequently, by Elisabeth Ferrari.¹⁶ Observing these rules could be referred to as *system compliance* and could contribute to the prevention of conflict in business families.¹⁷ If conflicts of any kind have already arisen, the following elementary system rules can be understood as curative principles¹⁸ that help to reflect appropriately on such conflicts and, ideally, resolve them. The solution should be designed in such a way that the system rules illustrated by the following principles are (re-)created.

4.3.1 The rule of the elementary economy of give and take

Within social systems, whether traditional families, teams or business families, relationships are established through an exchange of give and take. ‘Action’ in the social sense, i. e. a behavioural exchange between people, can at the same time be understood as a ‘transaction’ in the economic sense, an exchange of services and payment.¹⁹ All parties involved, consciously or not, keep a mental record of the appropriate compensation: *What did I*

¹⁴ Hondrich (2001), p. 11.

¹⁵ See Varga von Kibéd & Sparrer (2009).

¹⁶ See Ferrari (2011a). For further elaboration of Varga von Kibéd & Sparrer (2009) and Ferrari (2011a), see Kleve (2011).

¹⁷ See Kleve (2017c).

¹⁸ See Varga von Kibéd & Sparrer (2009), p. 182 et seq.

¹⁹ See Simon et al. (1998).

give, what did I get? Conflicts arise when the flow of give and take comes to a standstill, for example, when one person feels that they are getting too little back for what they are giving. This elementary economy of reciprocity applies to all the following system rules and secures the existence of social systems as well as their ability to develop.

While the give and take in nuclear families (Business Family 1.0) is usually ensured through the giving of life itself and is accompanied by close emotional ties and relationships, in organisations (Business Family 2.0) it may be satisfied through formally agreed compensation, e.g. money. In networks (Business Family 3.0), the give and take

is related to interests and thus not realised along any specific lines. What the parties involved give and take varies and can change from situation to situation. However, the interest in the existing relationships in the network is tied to the question of whether the commitment that the individuals bring to this network can, in return, be offset by a 'profit' that they gain from the network.

4.3.2 The rule of unambiguous system affiliation

Systems secure their existence and thus their external boundaries through unambiguous rules of membership for very specific people, in contrast to other people who are not authorised to become members and thus have no system affiliation. In the membership of a system, the reciprocity of give and take can be seen as a combination of the rights and duties of the system members which are associated with their membership of the particular system.

Accordingly, by virtue of their membership, people are given something that they desire, need and are willing, supposed or obliged to take in a biological, psychological or social sense. At the same time, in exchange for this 'taking', i. e. for providing a social framework for the satisfaction of personal needs, the system expects something in return, i. e. personal actions that respond to 'taking' with 'giving'.

If the system membership is unclear and there are different opinions within the system as to who is a member and who is not, conflicts may arise. While family membership can be determined relatively easily and unambiguously through ancestry (Business Family 1.0), the membership of Business Family 2.0, the family organisation, is not as unequivocal. Certain criteria are necessary to regulate which members of Business Family 1.0, i. e. the nuclear family, are also members of Business Family 2.0 or to define the characteristics (e.g. inherited ownership of the business and/or role as

QUESTIONS FOR REFLECTION ON THE BASIC ECONOMY OF GIVE AND TAKE

- ➔ In your business family, how do you ensure that the commitment of the family shareholders to their family and the business is appropriately balanced?
- ➔ Has your family decided to compensate the shareholders for their commitment through annual dividends, or are the views on this divided? If views are divided, what do committed shareholders expect in return for their commitment?
- ➔ If there are interpersonal conflicts in your business family, look at them through the lens of the elementary economy of give and take. Is it possible that some of the conflicts have arisen because the parties involved use different 'accounting methods' to record their personal 'balance' of give and take? If so, in what way does the balance of give and take give rise to problems? Who expects what in order to settle the 'accounts'?

a shareholder) that enable and establish this membership. Lack of clarity about these characteristics may lead to problems and provoke confusion and conflicts over membership, thus upsetting the balance of give and take.

The rule of system existence, which postulates the observance or unambiguous definition of system affiliation, is so elementary that in formal processes of strategy development within business families it is absolutely essential to define clearly what is meant by family (Business Family 1.0) and what is meant by business family (2.0). By way of example, the Witten model of family strategy development begins with questions that invite the business family to explicitly define its membership principles,²⁰ for instance, clarifying whether adopted family members, spouses or non-marital partners are also included.

In line with these questions, a distinction is made between the family and the business family, as different expectations are placed on members of the family and the business family in terms of give and take as well as respective rights and duties. Failure to respect this distinction could become a source of conflict.

QUESTIONS FOR REFLECTION ON THE ELEMENTARY RULE OF SYSTEM AFFILIATION

- ➔ Who is a member of your business family – who is part of it, who is not?
- ➔ What are the membership rules in your business family and how do these differ from the membership rules in the nuclear family?
- ➔ What differences are there in your business family with regard to membership of the family, the family organisation and, possibly, the extensive family network?
- ➔ What expectations regarding give and take are associated with the different affiliations?
- ➔ If there are interpersonal or social problems or conflicts in your business family, is it possible that they are related to unclear rules of affiliation – and if so, in what way?

4.3.3 The rule of direct chronological order in system growth

Systems grow with the addition of new members. Families expand when a new member is born. Or a business family grows because, for example, the spouse of one of the owners is also accepted into the business family. When systems expand in this way, a differentiation emerges in respect of the elementary membership rights: those with longer membership may experience a systemic or structural preference over those who joined later. In other words, systems in which the members who join later (initially) subordinate themselves to the members with longer system affiliation exhibit greater stability. Problems and conflicts in social systems, for example, in business families, may arise when this elementary system rule is not observed.

²⁰ See v. Schlippe et al. (2017).

Why is this the case? With each new member who joins, not only does the system grow, but the temporal, spatial and psychosocial resources become scarcer, as they must now be shared with more members than before. The system members with longer system affiliation are more willing to accept new members if the new members recognise their secondary position in chronological terms, i. e. if their rank corresponds to the chronology of their entry into the system.

Business families become larger when new members join, for instance, through the addition of family members from the next generation. As a result, social distinctions emerge, while the 'head-count' of the family increases the complexity and diversity, for example, of the thoughts and actions of the members. Such an increase in complexity might lead to an existential crisis in the business family if it were always associated with a fundamental reconsideration of all tried and tested principles of family strategy, that is to say, if the business family had to reinvent itself every time new members joined. The rule of direct chronological order in system growth ensures that new members first integrate themselves into the established structures, adapt and learn to appreciate and respect what has proven to be effective, before they use their innovative strength to transform the system.

However, it is also possible for 'old members' to explicitly invite 'new members' to stimulate innovations and lead the system through a transformation process. Nevertheless, the rule is still observed even in this case, because such a process would ideally lead to the consolidation of the particular strengths of business families and family businesses, i. e. to a healthy balance between tradition ('respecting the old') and innovation ('developing the new').

QUESTIONS FOR REFLECTION ON DIRECT CHRONOLOGICAL ORDER IN SYSTEM GROWTH

- ➔ What do you expect from new members of your business family?
- ➔ How do you ensure that new members of the system learn about, respect and appreciate what you have developed and established over the years or decades of your existence as a business family?
- ➔ In your business family, when, under what conditions and in what way do you open up to new and innovative ideas that new members of the system may bring?
- ➔ If there are interpersonal or social problems or conflicts in your business family, is it possible that they are related to a failure to observe the elementary rule of direct chronological order in system growth?

4.3.4 The rule of inverse chronological order in system propagation

This rule describes how members of newly formed systems that establish and stabilise themselves, i. e. develop independently, are likely to demonstrate a strong personal preference for such systems. In other words, the membership of the new system plays a primary role, while the systems from which the members originate are of secondary significance. In the 'family times two', a special variant of this question arises: *Which system has the primary rank in the personal preference order of individuals with this 'double membership': the family (Business Family 1.0) or the Business Family 2.0?* In this regard, it could also be said that the 'horizontal' commitment must become stronger than the 'vertical': This means

that the system members on the same level, for example, of the same generation of a business family, must set themselves apart from the previous generations in order to find their own way into the future.

In long-standing family businesses, it can be assumed that the private family needs become subordinated to the business expectations and tasks of the business family.²¹ In the long term, however, family members of the business family will probably only put this subordination into practice and accept it if they are able to ensure that their personal 'balance' resulting from the elementary economy of give and take remains positive. In the ideal case, such a positive balance, achieved through loyalty to the business family, which is seen as primary, will also pay off with regard to the membership of the (private) family.

A business family, with its membership structure differentiated from family affiliation, can only develop decision-making capacity and stability, especially in challenging times of crisis, if its members give highest priority to their membership of the business family or their respective generation of this family. This is because the economic existence of the entire family often depends on the successful decision-making capacity of Business Family 2.0, i.e. the family organisation, which in turn relates to the development of the family business in an environment of unpredictable market developments.

QUESTIONS FOR REFLECTION ON INVERSE CHRONOLOGICAL ORDER IN SYSTEM PROPAGATION

- ➔ In your business family, how do you manage to ensure a balance between issues which affect the business and expectations that come from the family?
- ➔ Do you succeed in creating a horizontal commitment in your business family which, for example, unites the family members of one generation who jointly decide on their own path in the future?
- ➔ If there are interpersonal or social problems or conflicts in your business family, is it possible that they are related to a failure to observe the elementary rule of inverse chronological order in system propagation?

4.3.5 The rule of recognition of commitment and contribution to the system: System immunity

Social systems, too, develop a certain kind of immunity – a special strength allowing them to appropriately address changes in their environment. This immunity depends on the contribution and commitment made by system members to the system as modes of action that are 'accounted for' within the framework of the elementary economy of reciprocity of give and take.²² This raises the question of what the system members of a business family who make a contribution and demonstrate commitment receive in return for their actions.

Contribution and commitment to the business family are more likely to dwindle if they are not properly recognised, appreciated and valued through communication. If business families struggle with

²¹ For details, see Simon et al. (2005).

²² See also 4.3.1.

members who appear passive and detached from the issues of the business family, the underlying reason may be that contribution and commitment are not seen and respected appropriately.

Business families should ideally develop strategies of respect and appreciation for the contribution and commitment of individual members. These can be expressed in rituals honouring individual members who have done something special for the business family and/or the business, or they can also be part of the dividend policy or asset strategy, for example, taking the form of special monetary awards. In either case, the willingness to make a sustainable and long-lasting contribution to the business family is strengthened when social or even monetary forms of respect for contribution and commitment are established.

QUESTIONS FOR REFLECTION ON THE ELEMENTARY RULE OF RECOGNITION OF CONTRIBUTION AND COMMITMENT

- ➔ What forms of commitment and contribution are important to you in your business family?
- ➔ From whom do you expect commitment and contribution?
- ➔ How do you value and recognise the contribution and commitment of individual members of your business family?
- ➔ If there are interpersonal or social problems or conflicts in your business family, is it possible that they are related to a failure to observe the elementary rule of recognition of contribution and commitment?

4.3.6 The rule of inclusion of individual differences: System individuation

The more individualised the members can become within their systems, in terms of personal development, the greater the loyalty they will show to the system and to other members. 'Individuation' in this sense is the ability of the system to respect the particular skills of individual system members and, ideally, to include them appropriately. In principle, three areas of competence, which the system members must possess between them, are important for human coexistence and cooperation, for example, for the development and organisation of a business family:²³

- shaping the *rational* dynamics, i.e. ensuring that the necessary knowledge, information and data for the organisation and development of the business family are available;
- shaping the *emotional* dynamics, i.e. ensuring that members of the business family are on amicable terms and that mutual relationships are based on appreciation and recognition, and
- shaping the *structural* dynamics, i.e. ensuring that the necessary order and structure in the coexistence and cooperation of the business family are implemented and maintained.

In the ideal case, business families should succeed in ensuring that these three necessary levels – rational, emotional and structural – are managed by those members of the business family who possess the skill set required to realise them. Conflicts in the business family may be associated with the fact that a healthy balance between these three levels is not sustained, and that the personal skills of members are not included in the system in a way that appears appropriate for both the system and the individuals involved.

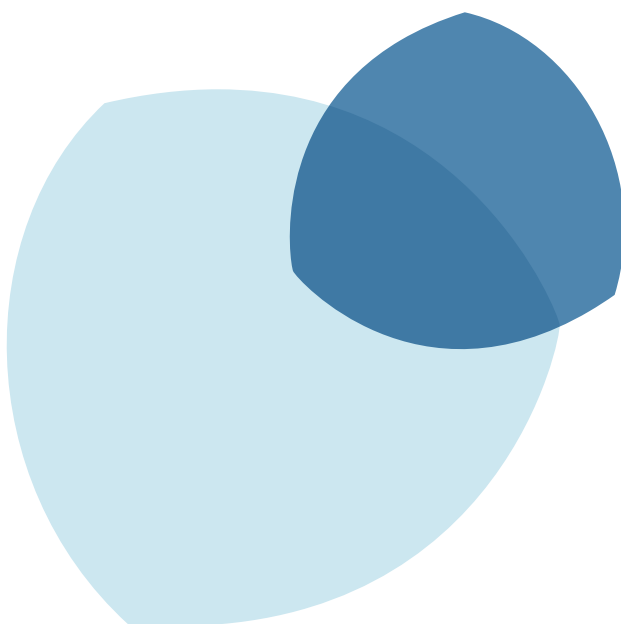
²³ See Ferrari (2011b); see also Chapter 2.

Ultimately, it is a matter of accepting the diversity of people or, more precisely, respecting the members of the business family and their individual personalities while, *at the same time*, working together to strengthen the resources and potentials associated with this diversity within the system.

Not every family member needs to be able to do everything, for instance, read financial statements or develop corporate strategies. However, those members who are particularly skilled in these aspects should be allowed to take on the corresponding tasks, while others who have strong social communication skills, for example, should ensure that the meetings of the business family are not only intellectually and strategically stimulating, but also become memorable social events based on mutual appreciation and respect between members of the business family, and on the ability to resolve any conflicts that may arise between them.

QUESTIONS FOR REFLECTION ON THE RULE OF INCLUSION OF INDIVIDUAL DIFFERENCES

- ➔ How diverse would you say your business family is? What different characters, personal traits, skills, professions, life experiences or, in general, biological, psychological and social characteristics do you observe in your business family?
- ➔ How do you manage to include, respect and appreciate the diversity of the members of your business family appropriately, with a view to strengthening and supporting the business and the family?
- ➔ If there are interpersonal or social problems or conflicts in your business family, is it possible that they are related to a failure to observe the elementary rule of inclusion of individual differences?



5 | SYSTEMIC SKILLS IN PRACTICE: A SUMMARY

Conflict prevention in business families can be supported and strengthened by distinguishing between the three levels of rules at play in social systems. In the context of the family organisation of growing business families, only the *formal* rules are generally discussed and the question arises as to how breaches of the relevant rules and conflicts should be dealt with. However, this Practical Guide also addresses informal rules and, above all, *elementary* system rules.

The elementary system rules shape the basic structure of all social systems, including business

families. These rules constitute principles that arise whenever people live and work together.

It therefore makes sense to reflect on these principles in detail and to understand them as 'curative rules' the observance of which helps to prevent conflicts, or to reflect on them with a view to finding possible solutions.

In summary, wherever people live and work together, they are confronted with at least the following elementary challenges:

- achieving a healthy balance of give and take (*elementary economy*),
- defining who belongs and who does not (*system affiliation*),
- considering appropriate temporal structural preferences in systems (*system growth: priority of the older over the younger*) and between systems (*system propagation: priority of the younger over the older*),
- recognising performance and commitment to the system (*system immunity*),
- and considering and including individual skills and competencies within the system (*system individuation*).

6 | BIBLIOGRAPHY

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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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