

Today's changing social values, growing competition and increasingly complex family systems mean that business families must recognise an essential point: Motivating the next generation of owners is a critical factor in family business success. Professor Randel Carlock and Senior Research Programme Manager Christine Blondel explain how fairness plays a part.

Fairness in the family

"That's not fair!"

Adolescents lean on this one-line comeback to counter everything from requests to tidy up bedrooms to denials of permission to go out with friends. And when siblings are involved, fairness becomes of the utmost importance.

The idea of fairness is woven into the way families operate, and conflicts and issues that typically arise in family situations are similar to those that can crop up in family businesses. Family members lose their psychological

commitment to the family business, not to mention their willingness to co-operate, when they perceive that relatives are not considering their interests when making decisions.

The problem is to separate family judgments from business judgments

Sir Adrian Cadbury, former Managing Director and Chairman of Cadbury-Schweppes, says: "At the heart of management of relationships in a family business lies the concept of fairness. Division and ruptures within the family can be caused only too easily through suspicion that some family members are benefiting at the expenses of others, or that the contribution which some are making to the firm is not being properly recognised. The problem is to separate family judgments from business judgments."

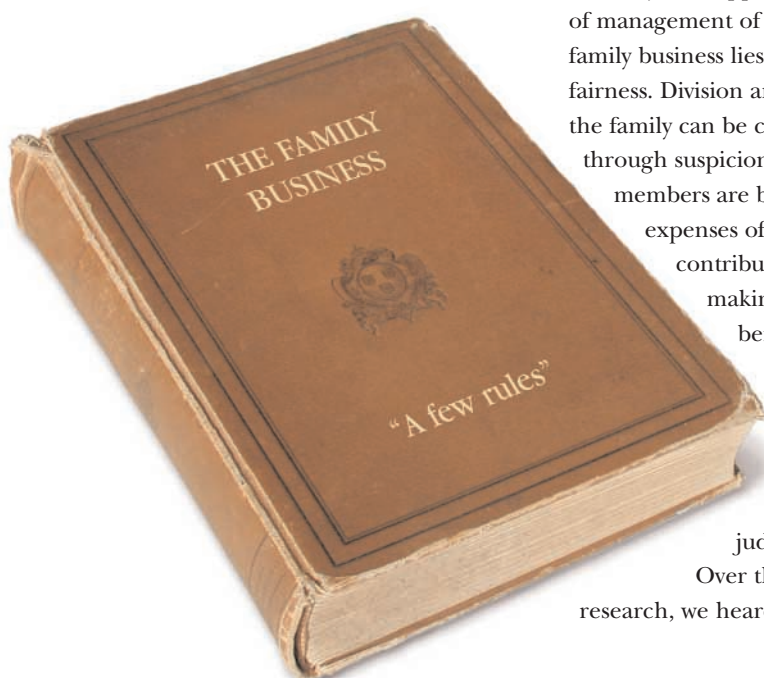
Over the course of our research, we heard a strong call for

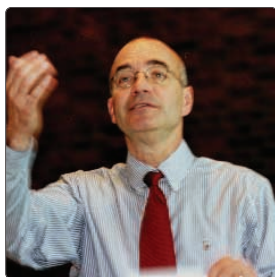
justice from next-generation members. Some pointed out their search for fairness around decisions regarding ownership, board membership, career opportunities, job responsibilities and promotions, rewards and recognition, and accountability. Our studies have shown that dissatisfied family members often had a strong desire to contribute and be valued as part of the family, but the sense of unfairness made this difficult, if not impossible.

Where might families be missing out on important potential contributions from family members? We suggest they get past this hurdle of fairness and strengthen their decision-making processes by formalising their family and business governance.

Defining fairness

Families can often tell you what is not fair, but it's not so clear when it comes to defining what fairness is and how to achieve it. In an effort to better understand this somewhat abstract notion, we find it useful to begin with some concepts around justice. Within the framework of the law, fairness can be described as distributive (Who gets what and how much?), retributive (How do we punish?) and/or procedural (How do we make decisions that are deemed fair?).





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In applying these descriptions to families, it appears that distributive fairness is particularly difficult to achieve and assess. There are all kinds of intervening factors such as genetics, birth order, branch membership and family dynamics that give certain members larger pieces of the pie than others. Moreover, distributive fairness is hard to assess in a complex system where family, business and ownership spheres overlap, each with different criteria of distributive fairness.

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Retributive fairness does not properly address planning and forward thinking. That leaves the procedural approach, what we refer to as “Fair Process”, as the best and most workable approach. And, indeed, family members call on it the most. Applying Fair Process means paying attention to fairness in the way decisions are taken, more than in the outcome itself.

Based on our research, we have identified five key principles of Fair

Process in family firms: Communication and voice; Clarity; Consistency; Changeability; and Commitment to fairness. By involving all those family members concerned in certain decisions, Fair Process increases their motivation, the number and quality of options, and the effectiveness of implementation.

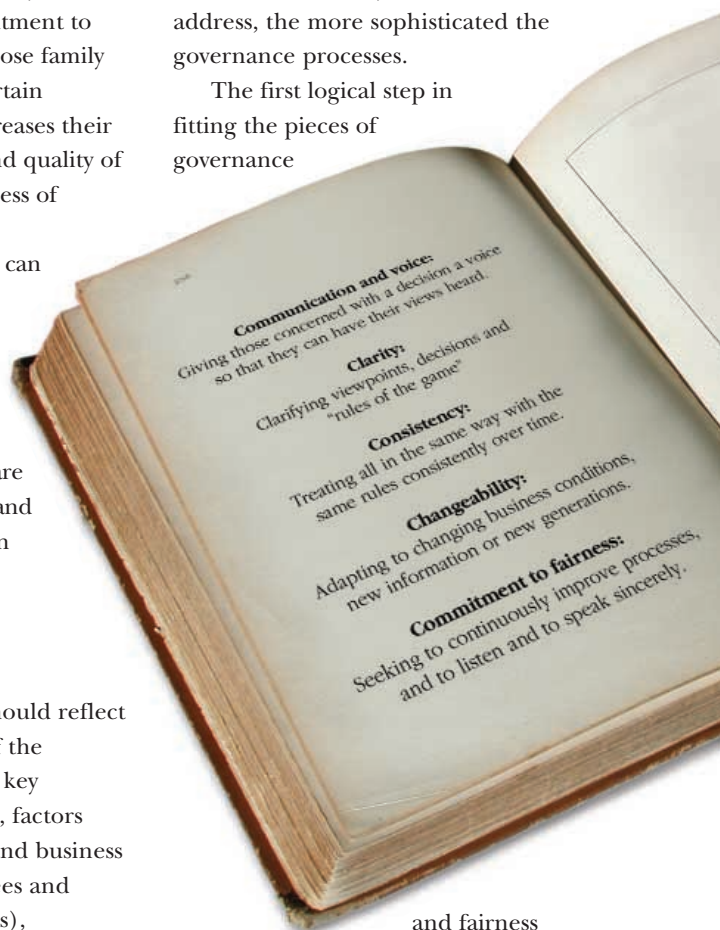
Governance institutions can play an important role in fostering Fair Process, since they are designed to increase communication, clarity and consistency. But they can do so only if they are designed with Fair Process and also integrate the concept in practice. This means a real commitment to fairness.

The role of governance

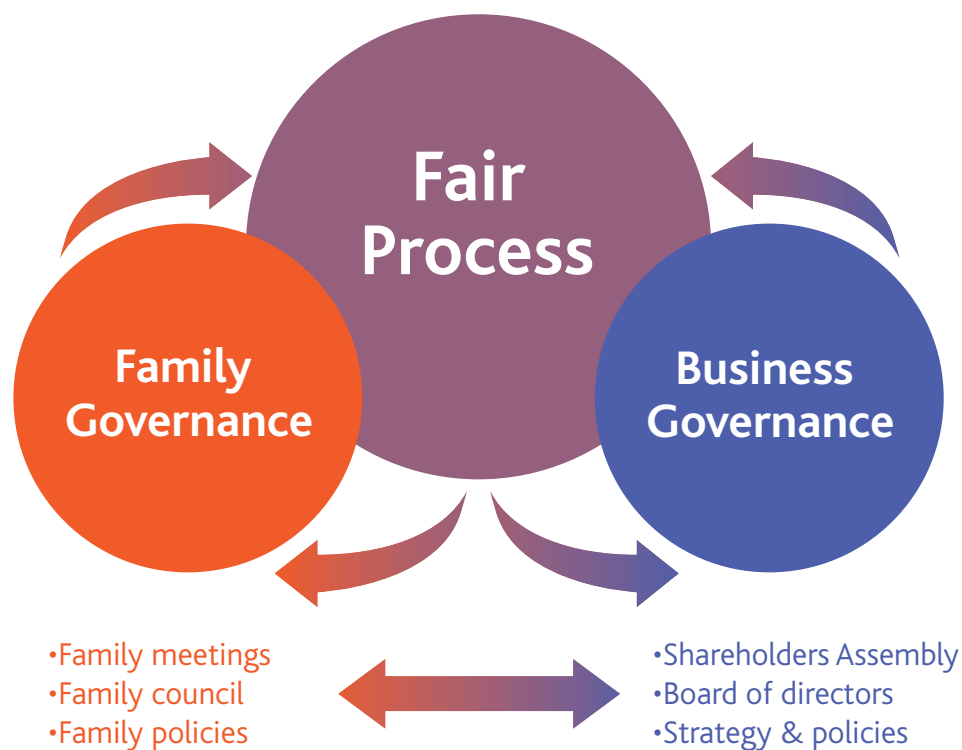
Governance institutions should reflect the needs and demands of the business, family and other key stakeholders. For example, factors such as size of the family and business (sales, number of employees and number of family members), ownership and financial structure (private, public and bank debt), life cycle (start-up versus fifth-generation) and statutory requirements (types of board, responsibilities) all shape the type and sophistication of the governance structures required.

Generally speaking, the more complex the issues the family and business must address, the more sophisticated the governance processes.

The first logical step in fitting the pieces of governance



and fairness together is to investigate the relationship between fair process and the key institutions of family business governance—family policies, boards of directors and family meetings.



Family policies

Fair Process calls for clarity of the “rules of the game”, so that all family members can be treated consistently. Family policies should create a shared set of expectations so that family members know how to behave and how they will be treated. For instance, some families specify the conditions that family members must fulfil before working in the business; the criteria can include education, outside work experience and learning languages. These guidelines serve as a reference for recruitment, selection and hiring, thereby minimising the risks of individual family members who are not hired feeling that they are being treated unfairly.

The policies can vary considerably depending on the family. We find that some families have clear policies that no family member will be employed in the business, while others expect all family members to work for the firm. The details of each specific policy are not as important as its overall clarity, the fact that it is known to all family members and applied with *consistency*.

In their zeal to create more structure, some families hire advisers or consultants to help formalise their policies. As outsiders who hopefully provide a more objective perspective, they can serve a useful role in collecting opinions of the family members, making sure that all *voices* are heard in the process, and facilitating meaningful dialogues within the family. But a consultant alone is not a panacea. Families and consultants must keep in mind the necessity of using Fair Process in considering and developing their family business policies. Policies will be more supported and accepted if all family members participate in their development.

While family policies increase *clarity* and *consistency*, they must also be sensitive to the demands of the external world and new generations of family members to allow possibilities of changes or amendments to the policies. As conditions and circumstances *change*, the family’s policies must adapt to them.

Shareholder and family meetings

Meetings can be a great opportunity to engage family members. Unfortunately, shareholder meetings are not always held in privately owned firms. A well-planned shareholder meeting is an important first step in building more fairness into the system. It creates an opportunity to share information on the business (*clarity*), hear the owners’ expectations (*voice*), and reduce the difference of knowledge between family managers and other family members (*consistency*).

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Board of directors

Most family firms have some type of board, but often the board’s contribution to strategic planning,

effective decision-making and accountability is limited by a lack of Fair Process.

One recurrent issue is the nomination of family members to the board. Some families insist that *equality* among branches should be the norm, so that each branch or given ownership stake has a representative on the board; others use *merit* as the only criterion, selecting senior family members with extensive business experience. Both equality and merit are possible criteria to exercise distributive justice—and we see once more the difficulty of assessing distributive fairness.

Solutions combining both criteria can be found: In some families, the holding board represents branches and ownership, while only competence prevails in the business board. In other families, branches are represented at the level of the family council and not on the business board—while in others, branch, ownership and competence criteria are combined in the selection of business board members. We have no evidence that one is the best solution, but we can once more insist on the importance of the process: criteria and decision-making must be clear, communicated and applied consistently. Processes typically used for the selection of board members can include a board nominating committee, an outside human resource consultant, rotations on the board and evaluation by the so-called “elders” or the non-family board members.

Finally, a good example of Fair Process in board meetings is the evaluation of the board and of the board members. By evaluating itself, the board ensures that it continuously improves its functioning. In order to do this, each board member can

evaluate his or her peers and himself or herself, as well as the board as a whole. The chair or an outside consultant debriefs each board member and, if necessary, works on an improvement plan. The board as a whole can then work on improving its functioning.

Fairness is of the utmost importance for family businesses, and Fair Process is a key attitude.

We believe that Fair Process and governance are key to the survival of family businesses

Governance structures are great tools to foster fairness, provided they are designed and operated in a spirit of Fair Process. We are following this research theme because we believe that Fair Process and governance are key to the survival of family businesses. This

positive interaction of the “soft” part (fairness) and the “hard” part (governance institutions) can help family businesses thrive over generations, yielding positive effects of an alliance between a family and a business. **IQ**



Endnote

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