
Transferring Power in the Family Business

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One of the most agonizing experiences that any business faces is the moving from one generation of top management to the next. The problem is often most acute in family businesses, where the original entrepreneur hangs on as he watches others try to help manage or take over his business, while at the same time, his heirs feel overshadowed and frustrated. Paralleling the stages of family power are stages of company growth or of stagnation, and the smoothness with which one kind of transition is made often has a direct effect on the success of the other.

Sons or subordinates of first generation entrepreneurs tell of patient and impatient waiting in the wings for their time to take over the running of the company. When the time comes, it usually comes because the "old man" has died or is too ill to actively take part in management, even though still holding tightly to the reins of the family business. Often this means

years of tension and conflict as older and younger generations pretend to coexist in top management.

As one second generation manager put it, speaking of these problems: "Fortunately, my father died one year after I joined the firm." Concerning another company, a prospective buyer said: "The old man is running the company downhill so fast that we'll pick it up for nothing before the kids can build it back up."

The transition problem affects both family and nonfamily members. Brokers and bankers, professional managers, employees, competitors, outside directors, wives, friends, and potential stock investors all have more than passing interest as a company moves from one generation to the next. Some of these transitions seem orderly. Most, however, do not. Management becomes racked with strife and indecision. Sons, heirs, key employees, and directors resign in protest. Families are torn with conflict. The president-father is deposed. Buyers who want to merge with or acquire the business change their minds. And often the company dies or becomes stagnant.

The frequency of such accounts and the pain reflected in describing the transfer of power from one generation to the next led us to begin a more formal research inquiry into what happens as a family business, or

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more accurately, a family *and* its business grow and develop over generations. Specifically, what happens in the family and company between those periods when one generation or another is clearly in control but both are “around”? In addition, how do some managements go through or hurdle the family transition without impeding company growth? And can or must family and company transitions be kept separate?

The research project on these questions began in June 1974 and is still continuing. It has included interviews with over 200 men and women and multiple interviews in over 35 companies, not all of which went beyond the first crucial transition test. This article contains some of the initial findings and conclusions.

Professional or Family Management?

Some observers and commentators on family business believe that the sooner the family management is replaced by professional management in growing companies, the better. The problems just described can lead to disruption or destruction of either the family or the business, sometimes both, in the long run. Furthermore, the argument goes, an objective, professional management will focus on what is good for the business and its growth without getting lost in the emotions and confusions of family politics.

This rational argument for professional management in growing companies has many strong advocates. It has even been suggested that the family members should form a trust, taking all the relatives out of business operations, thus enabling them to act in concert as a family.¹

Like any argument for objectivity, the plea for professionalism has logic on its side. It makes good business sense, and in a way, good family sense as well. It guides a business away from mixing personal lives with business practices, and it helps to avoid the evils of nepotism and weak family successors who appear so often to cause transition crises.

Historically, the main problem with this rational argument is that most companies lean more heavily on family and personal psychology than they do on such business logic. The evidence is overwhelming. There are more than one million businesses in the United States. Of these, about 980,000 are family dominated, including many of the largest. Yet most of us have the opposite impression. We tend to believe that, after a generation or so, family businesses fade into widely held public companies managed by outside managers with professional backgrounds. The myth comes partly from a landmark study of big business by Adolph Perle and Gardner Means, who maintained that ownership of major U.S. companies was

becoming widely diffused and that operating control was passing into the hands of professional managers who owned only a small fraction of their corporation's stock. This widely publicized “fact” was further used by John Kenneth Galbraith to build a concept which he called the “technostructure” of industry, based in large part on the alleged separation of corporate ownership from management control.²

There is evidence to the contrary, though. A study reported in *Fortune* by Robert Sheehan examined the 500 largest corporations on this question. Sheehan reported that family ownership and control in the largest companies was still significant and that in about 150 companies controlling ownership rested in the hands of an individual or of the members of a single family. Significantly, these owners were not just the remnants of the nineteenth century dynasties that once ruled American business. Many of them were relatively fresh faces.³

The myth is even more severely challenged in a study of 450 large companies done by Philip Burch and published in 1972. By his calculations, over 42% of the largest *publicly* held corporations are controlled by one person or a family, and another 17% are placed in the “possible family control” category. Then there is one other major category of large “privately” owned companies—companies with fewer than 500 shareholders, which are not required to disclose their financial figures. Some well-known corporate names are included in this category: Cargill, Bechtel Corporation, Hearst Corporation, Hallmark Cards, and Hughes Aircraft, among others. Burch notes that contrary to what one might expect, the rather pervasive family control exercised is, for the most part, very direct and enduring. It is exercised through significant stock ownership and outside representation on the board of directors, and also, in many cases, through a considerable amount of actual family management.⁴

When one thinks more closely about families in big as well as small businesses, some well-known succession examples also come to mind, suggesting that family transition and corporate growth occur together even though there may be strain in the process. For example:

□ H. J. Heinz was founded by Henry J. Heinz to bottle and sell horseradish, and today H. J. Heinz II, a grandson, heads the billion dollar concern.

□ Triangle Publications owns the *Morning Telegraph*, *TV Guide*, and *Seventeen*. It was founded by Moses Annenberg. He was succeeded by his son, Walter, and a daughter, Enid, is now editor-in-chief of *Seventeen*.

□ The Bechtel Corporation was begun by Warren A. Bechtel, for building railroads. His son, Steve Sr., directed the firm into construction of pipelines and

nuclear power plants. Today, Steve Jr. heads the \$2 billion company, which is now further diversified.

□ Kaiser Industries, built by Henry J. Kaiser, includes Kaiser Steel, Kaiser Aluminum and Chemical, Kaiser Cement and Gypsum, Kaiser Broadcasting, Kaiser Engineering, and Kaiser Resources. The present industrial giant is headed by Henry's son, Edgar, now over 65 years old. An obvious successor is Edgar Jr., president of Kaiser Resources Ltd.

Should a family business stay in the family? The question now seems almost academic. It is apparent that families *do* stay in their businesses, and the businesses stay in the family. Thus there is something more deeply rooted in transfers of power than impersonal business interests. The human tradition of passing on heritage, possessions, and name from one generation to the next leads both parents and children to seek continuity in the family business. In this light, the question whether a business should stay in the family seems less important, we suspect, than learning more about how these businesses and their family owners make the transition from one generation to the next.

Inside and Outside Perspectives

What are the implications when the transition from one generation to the next includes both business and family change, and what are the consequences also if business and family, though separate, remain tied together in plans, arguments, and emotions? In considering these questions, it might help to examine two perspectives in addition to age difference. One is the family, the other is the business, point of view. Both of these can be viewed from either the inside or the outside.

Exhibit I shows these four different vantage points from which to observe family and business members. One viewpoint is that of the "family managers" (inside the family and inside the business) as seen by both old and young generations. When they forget or ignore the other three perspectives, they can easily get boxed into their own concerns. This kind of compulsion includes hanging onto power for the older generation and getting hold of it for the younger. To both generations, it implies the selection, inclusion, and perpetuation of family managers.

A second perspective comes from "the employees," again older and younger, who work inside the business but who are outside the family. Understandably, they face different pressures and concerns from those of the family managers, even though many are treated as part of the larger corporate family. The older employees want rewards for loyalty, sharing of equity, and

security, and they want to please the boss. Younger employees generally want professionalism, opportunities for growth, equity, and reasons for staying. Both age groups worry about bridging the family transition.

A third perspective comes from "the relatives," those family members who are not in the active management of the business. The older relatives worry about income, family conflicts, dividend policies, and a place in the business for their own children. The younger, often disillusioned brothers and cousins feel varying degrees of pressure to join the business. Both generations may be interested, interfering, involved, and sometimes helpful, as we shall see later on.

Finally, the fourth perspective comes from "the outsiders." These are persons who are competitors, R & D interests, creditors, customers, government regulators, vendors, consultants, and others who are connected to the business and its practices from the outside. They have various private interests in the company which range from constructive to destructive in intention and effect.

A curious irony is that the more "outside" the family the perspective is, as shown in *Exhibit I*, the more legitimate it seems as a "real" management problem. Yet the concerns in the left column boxes are typically just as important as, and more time consuming than, the outside-the-family problems on the right. These inside-the-family problems tend to be ignored in management books, consultant's reports, and business school courses. Ignoring these realities can be disastrous for both the family and the company.

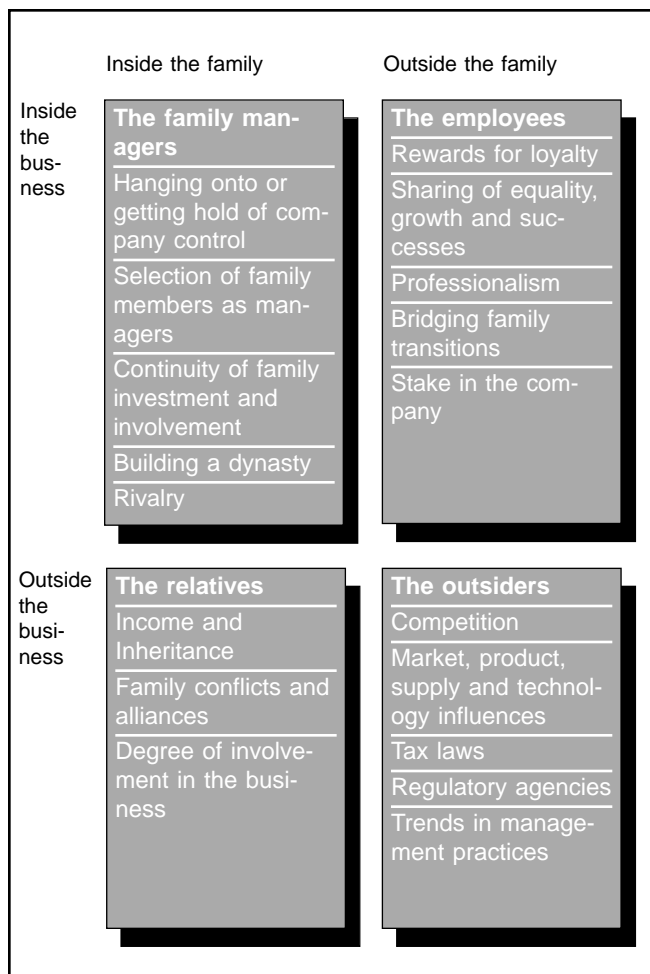
Our studies show that the transfer of power from first to second generation rarely takes place while the founder is alive and on the scene. What occurs instead during this time is a transition period of great difficulty for both older and younger generations. For the founder, giving up the company is like signing his own death warrant. For the son or successor, the strain may be comparable. As one of these said:

"I drew up the acquisition papers to buy my father out, because for a long time he has been saying he did not care about the business anymore. However, when it was all taken care of, and we presented him with the papers, he started to renege. Everything was done the way he would like it. Yet he would not sign. He finally told me he did not think he could do it. He felt it awfully hard to actually lose the company. He said he felt he still had something to give."

And another commented:

"I can't change things as fast as I would like to. It is absolutely clear to me that things need to be changed. However, it is not easy. First of all there is the function of age and experience as well as being the boss's son. Every other officer in the company is in his fifties. What I am talking about now are deep

Exhibit I
Pressures and interests in the family business



sources of dissatisfaction. I would like more ownership. Now I have only 7%, my father has 80%, and my family another 13%. In my position, I just cannot move the company fast enough. We argue a lot, but nothing seems to change. I have set a goal for myself. If I cannot run the company within two years, I am leaving. I'll do something else."

The Company Transition

While family managers feel the multiple strains as the generations overlap during periods of transition, another related process is occurring as the company grows and develops. Various authors have tried to describe this process.⁵ But, where one describes a smooth procedural development, another sees a series of difficult crises. For some, a series of growth stages is important. For others, it is the merging of functions with processes that count. Most writers do not tie business growth or decline to family transitions. However, the following points stand out for us in relation to company transitions.

1. Organizational growth tends to be nonlinear. Organizations grow in discrete stages, with varying growth rates in each stage.
2. Periods of profound organizational development often occur *between* periods of growth. These slower periods often are viewed with alarm, but they force managers to examine what the company has grown toward or into. These periods of development are the transition periods which appear less dramatic (i.e., there is less growth) but may be most crucial to a company's preparations for its own future.⁶ The apparent floundering can provoke useful learning once management begins to adopt and encourage new practices and procedures.
3. A typical management response to transitional strains is a total or partial reorganization of the company. This sometimes helps shake up old habits but rarely resolves a transition crisis. What is needed is time for the social and political systems of the company to realign themselves into new norms and relationships.

Exhibit II shows how a later growth stage differs from and builds on the earlier ones. The first stage is characteristic of an entrepreneurial company with direct management. The second is typified by a rapidly growing product line and market situation with second-level management set up in specialized functions. The third stage has divisional operations with a diverse line of products and markets. Whereas the management style of the first stage is highly personal and direct, the second tends to become the more collaborative style of a boss and specialized peers. The third stage typically involves a looser, impersonal, collective style, with the chief executive managing generalists as well as functional specialists. Under the patterns of the first stage, the core problem for a small company is survival. The patterns of the roughly defined second stage show a size and scope requiring such specialized functions as finance, production, marketing, and engineering.

As the company's size continues to increase, it is likely to evolve toward third-stage patterns of growth: At this point, different product lines become separate companies or divisions, while, in multinational firms, the separation may also be on an area basis (e.g., Europe, North America, Latin America, Middle East, Far East) as well.

In between the box-like stages of growth shown in *Exhibit II* appear the transition phases which help to prepare an organization for its next stage. To cross the broken lines separating one growth stage from another in *Exhibit II* requires time, new interaction patterns, and an awkward period of overlap. In effect, the broken vertical lines of *Exhibit II* represent widened time zones of varying and irregular width.

Exhibit II
Characteristics of company growth

Organizational Characteristic	Patterns of the first stage	Patterns of the second stage	Patterns of the third stage
Core problem	Survival	Management of growth	Managerial control and allocation of resources
Central function	Fusion of diverse talents and purposes into a unified company	Fission of general authority and specialized functions	Fusion of independent units into an interdependent union of companies
Control systems	Personal (inside); survival in marketplace (outside)	Cost centers and policy formulation (inside); growth potential (outside)	Profit centers and abstract performance criteria (inside); capital expansion potential (outside)
Reward and motivation	Ownership, membership in the family	Salary, opportunities and problems of growth	Salary, performance bonus, stock options, peer prestige
Management Style	Individualistic; direct management	Integrating specialists; collaborative management	Integrating generalists; collective management
Organization			
Structure	Informal	Functional specialists	Division organizations
CEO's primary task	Direct supervision of employees	Managing specialized managers	Managing generalist managers
Levels of management	Two	At least three	At least four

As we have seen, family transitions and company transitions can occur separately and at different times. However, we found that they usually occur together. As a company moves from the problem of survival to one of managing rapid growth, it must develop new control, motivation, and reward systems. It also requires a management style that can integrate specialists and their functions. This development cannot occur without a top management that wants to take the extra step beyond survival thinking. That is where an eager younger generation comes in. He, she, or they are more likely to want to go beyond traditional practices. This pent-up energy seemed to be a major factor in getting beyond company transi-

tions in 27 out of 32 businesses we studied where the company had gone beyond the first growth stage.

Another kind of transition occurs between the second and the third growth stages. Company and division units in stage three had general managers in both the head office and the decentralized units who had learned to work with both other general managers and functional specialists. This meant that they had to have or develop a sense of the complex interdependence that characterizes most major companies today.

These dual transitions seemed best catalyzed when the old management forces somehow helped to pave the way for the new. The following case is a good example:⁷

□ When Max Krisch came to America in 1851, he brought an expertise in baking and an old family recipe for bread. Soon after settling, he established a small bakery. The business grew, and Max got help from his three sons as soon as they were old enough to operate the ovens after school and on weekends. When Martin, the oldest, graduated from college in 1890, he joined the business and soon started suggesting changes which he was convinced were good for the company's growth. His father refused, and the two men would often end up in disagreement. Sometimes the arguments were long and bitter.

Eventually, Max's wife abandoned her role of neutrality and intervened on Martin's behalf. She begged Max to give Martin a chance to implement his ideas. Reluctantly, Max agreed and let Martin take the first step.

Martin's idea was to sell bread to milk peddlers who would offer it for sale to their milk customers. It was a new concept at the time, and it worked. The demand for Krisch's Bread increased sharply.

At this time, too, the second brother, Peter, was ready to join the company. Martin realized that the company's production capability would soon be unable to keep up with the increasing sales. He hoped that Peter could take over, modernize, and expand production, but again Max reacted strongly. He argued that the baking of Krisch's Bread could not be done in volume without ruining the quality. Martin and Peter eventually promised their father that if the new methods harmed the bread's quality they would discontinue them. Over time, Max again agreed to go along with the change, and Peter worked closely with his father to increase production while still maintaining quality. Again, too, the mother was behind the scenes trying to keep peace in the family.

When the third brother, Kurt, joined the firm, Martin gave him the responsibility for bookkeeping and financial affairs. Fortunately, Kurt had a good head for figures and did the job well.

As Max became less active in the business, Martin was in charge, with Peter heading production, while Kurt handled the financial end of the business. The business flourished. Occasionally, the three sons felt hampered by Max's continuing strong opinions on some aspects of the business. At these times, the boys' mother would often referee the disagreements. Partly because she was a sensitive person and a good listener, she was usually able to help the father and sons arrive at some mutually satisfactory solution to their problems.

Our studies show that when the familial and organizational transitions occurred together, as in the Krisch case, they typically took place in an atmosphere of strain and uncertainty. Quite often, a mother was a behind-the-scenes influence. More often, though, the transitions were not managed well either inside the family or inside the business. In the Krisch case, Martin guided the company into its second growth stage. But it was his mother's sensitive management of the family relationships that eased that process and eventually permitted the brothers to achieve an outstanding growth record for the firm. Although Max's time-tested ways and methods fell by the wayside as his sons took over, he became a useful adviser once both he and his sons accepted Martin as head of the business though not head of the family. The transfer of power inside the business took place when Max moved into a new working relationship with his sons and a new family relationship with his wife. With Martin managing the business transition and his mother helping to hold the family together, Krisch's Bakeries made both transitions.

The second transition period for Krisch Bakeries is also instructive. After an impressive growth record over a 30-year period, Martin Krisch and his brothers set the wheels in motion for the transition to the third generation. Martin's son, Max Krisch II, was the most obvious successor.

By 1925, the company had established an executive committee of both family and nonfamily managers who made decisions by consensus. The brothers believed that such an arrangement helped keep the family together and provided valuable inputs from nonfamily members on the executive committee.

In preparation for the transition, Martin, who was then 55, hired an outsider who suggested that a new role of coordinator be set up for the committee which he took on initially and then passed on to Max II, who had just been brought onto the committee as a member. Soon after, Martin was advised by the outsider that he should get off the committee and out of the company as much as possible.

Thus Martin began to spend more and more of his time away from the company in civic, volunteer, out-

side boards, and other business activities. At times, he was frustrated and unhappy over not being in the mainstream of the business, but he gained some satisfaction in watching Max II develop into a manager who set new wheels in motion for the company's expansion and diversification into new areas of business. New product lines were developed, the company was broken into divisions and a chain of other businesses was started. All seemed to be going well until the company was hit by an antitrust suit which restricted and delayed some of its most ambitious plans.

Though the Krisch Bakeries' plans for wider ownership, diversification, and expansion were stalled for a number of years, it seemed to again make the dual transition on both the family and the business levels.

The Single Transition

Even though most of the companies we studied changed top management and growth stages together, other companies showed one transitional change at a time. A stagnant company can get that way when the older generation gives way to the younger without any company transition. The Quinn Company was one of these.

□ In the Quinn family business harmony had been difficult to achieve. The founder, Josiah Quinn, established his industrial supply company in 1911. He began the business with a partner, and it grew steadily. As business improved, the partner took a less active role, and Quinn soon began to resent the partner's equal salary and taking of the profits.

When his wife suddenly died, Quinn impulsively sold the business to his partner and took his five children West. After several years there, he returned home and began a new business, remarried, and had two children by his second wife.

Eventually, Quinn's oldest children joined the firm. They worked well together, and the company prospered. When his second set of children also joined the company, however, jealousy and resentment increased. Conflict began to disrupt operations daily. The problems flowed over into family life, where his wife took the side of "her" children against "his." Finally, Quinn decided to set up a separate company for his wife's children. He founded it under another name, brought customers from the other company, and enjoyed helping it get started.

When World War II broke out, Quinn's most capable son in the first company was drafted. He was sent out West, married, and eventually set up his own company in San Francisco. This left the first company without a really capable successor, though the departed son's brothers and brothers-in-law worked to keep the company going. Again, dissension increased.

While the company continued to operate after Quinn died, its performance levels never rose over the next 30 years.

The Quinn Company's transition from first to second generation was influenced by a major split within the family, by the loss of its key young successor, and the divisive role taken by Quinn's second wife. The family conflicts seemed to keep Quinn and his heirs from dealing with company transition problems, since all their energies were spent on inside-the-family problems. The result was a family transition without a simultaneous company transition. Such single transitions were even harder for those inside the family and the company than when the two transitions occurred together. Today the Quinn Company is heading painfully into another transition, its second generation having apparently suffered much, but having learned little from the first one. The older family managers find it hard to let go as the 66-year-old president steps aside uneasily, only to be replaced by a 68-year-old in-law whose sons wait impatiently and sometimes irresponsibly for their turn. Meanwhile, the company suffers.

Another type of single transition occurs when a company moves from one growth stage to the next within one management generation. Such growth occurs rarely, it seems, in the first generation, partly because entrepreneurs tend not to be reorganizers, and growth requires reorganization along with a shift in management styles. We found these company transitions without a family transition to occur more often during the second generation. Whereas first generation entrepreneurs had trouble shifting to high growth strategies and more collaborative styles; the sons were more flexible, possibly because the shift from a second to a third stage growth pattern involves letting go of less personal ties or possibly because they had more help in making the shift. Here is an example of such a transition:

□ When Wells Thomas died, his hardware supply business passed on to his two sons, Paul and Bing. Paul handled production, and Bing worked in sales. The two brothers built the family firm into a major hardware supply house. Paul became chief executive officer, and he and Bing eventually diversified the business into retail hardware stores, medium equipment companies, an electrical manufacturing company, and several unrelated businesses. Along the way, they brought in six third-generation members of their own and their sister's families. But these younger family members never quite made the grade. Paul, with Bing's approval, fired five of the six and handed the presidency of the corporation over to a

man who had been president of one of the acquired companies.

His justification for discharging his sons, nephews, and sons-in-law was the good of the family business, and therefore in the long run the interests of all family members. Nevertheless, he had created a split in the family that never healed. Meanwhile, the new company president admitted that Paul had become like a father to him, and it was apparent that the father-son parallel was very strong for both of them. There was still one nephew in the company, and although he had an important position, it was clear that he had no inside track on succession plans.

Thomas Enterprises moved faster than most companies do in its growth cycle, possibly because Paul Thomas was willing to sacrifice family harmony for what seemed to be business efficiency. Ironically, though, the fired family members each went on to successful careers in outside jobs, most of them pleased in retrospect to get out from under Paul's reign. Whether any one of them could have taken over the sprawling company is hard to judge at this stage. What is clear is that Paul found another "son" who became heir apparent. In an artificial way, the "succession" transition actually came along only slightly behind the company transition.

The three patterns shown in the Krisch, Quinn, and Thomas cases suggest some overall advantages of family and business transitions occurring at the same time. The Quinn and Thomas cases also show what happens when family managers, relatives, employees, and outsiders cannot form a power coalition to protect either the family or the business transition, whichever is jeopardized by family conflicts. In the Quinn case, the family managers withdrew in the face of destructive family pressures typified by Quinn's second wife. She not only divided the family but had a strong hand in dividing the company into two separate enterprises, each also competing with the other. In effect, the microcosm of family conflict became replicated in the macrocosm of the two companies. Without capable second generation managers, the original Quinn business never got beyond the first growth stage.

In the Thomas case, the opposite occurred. The relatives retreated "for the good of the family business" as Paul Thomas put it. They helped to destroy the family by abdicating in favor of the dominant older family managers, Paul and Bing Thomas. In the process, some competent family managers were lost. However, the point is not whether Paul and Bing were right or wrong, it is only that they made sure that they were never really tested or questioned by

the intimidated relatives. Neither employees nor outsiders found a way to help either.

Under the distorted dominance of either family managers or relatives, not only crippled transitions but regression can set in. Consider one more case:

In the Brindle Company, a father had handed the business over to a son-in-law, did not like the results, and reclaimed the company, even though the son-in-law had done an impressive job of managing the company in terms of growth and expansion. Several years later, with the son-in-law out of the business, but still with a small ownership stake, Mr. Brindle sold the company at a fraction of the price that the same buyer had offered while the son-in-law was running the business. The business' growth had stalled and declined. The company had gone from second generation back to first generation, and the family was shattered to the extent that the two youngest grandchildren born to the son-in-law and his wife had never been permitted to meet their grandparents.

Managing the Two Transitions

If, as in the Brindle case, a single dominant power force tends to cause lopsided transitions or regression, how can a constructive pattern be built for creating and managing both transitions? The answer seems to lie in a power balancing setup that prevents polarized conflict. Only in the Krisch case, of those described earlier, was this power balancing done effectively. Yet it also happened in at least some of the other companies we studied. It may help to look at some of the assumptions and mechanisms that were used to encourage and manage the two transitions.

The Company Will Live, But I Won't

The key assumption for growth was an almost explicit decision by senior managers that "the company will live, but I won't." This assumption, so often avoided by older family managers, is almost built into the forced retirement programs of established companies. But an entrepreneur or even his sons, as they get older, must somehow consciously face and make the decision that, even though they will die, the company will live. Often, that decision occurs not because they are pushed into it, or out of the company by the younger family managers, but because of the intervention of relatives, noncompeting employees, or trusted outsiders, who may find a way of helping to pull the old family manager into a new set of activities.

At some point, a critical network of family managers, employees, relatives, and outsiders must begin to focus upon the duality of both family and business transitions. Such talks should, in our opinion,

begin at least 7 to 8 years before the president is supposed to retire. Even though the specific plans may change, the important assumptions behind those plans will not.

Mediation vs. Confrontation

Time after time we saw cases in which an entrepreneur's wife played an important role in bridging the growing gap between father and sons, as happened in the Krisch case. It also happened that an entrepreneur's widow would step in as a peacemaker for the younger generation. But when it came to helping make both transitions occur, the wife was more important than the widow. As in the Krisch case, she would help or persuade her husband to look toward the (children's) future instead of his own past. In effect, she provided a relative's outside-the-business perspective. Such outside perspectives turned out to be crucial in transition management, because they helped to heal and avoid the wounds of family conflict.

In some management circles over recent years, a cult of confrontation has been built. Confrontation is regarded as calling a spade a spade, not in anger, but as a way to move beyond conflict toward problem solving. The approach is reasonable and works in many business situations.

As we pointed out earlier, though, families and their businesses are not necessarily reasonable. The primary emotions tend to be close to the surface, so that conflicts erupt almost without reason. Attempts at confrontation by one party often fail, because they are seen as open or continuing attacks by the other.

When such nerve ends are raw, partly because of family jealousies and partly because of historical sensitivities, a third party or outside perspective can provide mediation and help to soften hardened positions. Relatives, outside directors, friends, and key employees all take this role in family companies. But they do something else that is equally important. They can help to begin a practice of open dialogue that cuts not only across age levels, but across the different perspectives of family managers, relatives, employees, and outsiders. The dialogues can aid in manpower planning and in managing the transitions. The question is how to develop such dialogues so as to include all the relevant perspectives.

Mechanisms for Dialogue

None of the dialogue mechanisms we observed or heard of is a cure-all. But each brought different important combinations of people together. One company management had periodic family meetings for family managers and relatives. Another combined family managers and employees into project teams and

task forces. Outside boards of directors, executive committees, and nonfamily stock ownership (to be sold back to the company at the owner's death or departure) brought together family managers, employees, and outsider consultants on major policy problems in a number of companies. One family company had in-company management development programs, but invited outside participants and also gave periodic progress reports to the financial and civic community for comment and review. At one extreme, family managers and key employees did set up a series of confrontation sessions, but only after detailed planning. The ground rules were carefully worked out and over the years both family and company transitions made good progress. At the other extreme, companies would hold various lunches or social events where the open dialogue opportunities were limited but sometimes possible in an informal setting.

Future Role Building

Unwillingness to face the future stalls both family and business transitions, since in one sense the future can only mean death for an older family manager. But in a more limited sense it implies new but separate lives for the manager and his company. If some of the above assumptions and mechanisms begin to take hold, they will lead to the building of new roles. The older managers learn how to advise and teach rather than to control and dominate. The younger managers learn how to use their new power potential as bosses. Family managers take steps to learn new roles outside the business as directors, office holders, and advisers. Employees learn new functional management skills as well as new general management skills. Relatives learn how to take third party roles to provide an outside perspective.

Beginning Near the End

We have been describing one of the most difficult and deep-rooted problems faced by human organizations. Family owned and managed concerns include some of the largest as well as most of the smallest companies in the United States and possibly the world. It seems pointless to talk about separating families from their businesses, at least in our society. Families are in business to stay.

However, as one management generation comes near its end, the life of the business is also jeopardized. Meanwhile, critics, scholars, and managers like to pretend that the "real" business problems lie outside of the family's involvement. This may be true in some cases, but it can also lead to and perpetuate four sets of tunnel vision. Family managers, relatives, employees, and outsiders adopt separate perspectives and separate paths.

Our studies, however, suggest that the healthiest transitions are those old-versus-young struggles in which both the family managers and the business change patterns. For this to happen, "the old man" must face the decision of helping the company live even though he must die. If he can do this, the management of transitions can begin. In effect, a successful family transition can mean a new beginning for the company

Writers like to think that their work and words will have a lasting impact upon the reader. However, the history of the topic we are discussing provides little cause for such optimism. In fact, a truly lasting solution may come only from experience such as that described by an entrepreneur, who said:

"I left my own father's company and swore I'd never subject my own children to what I had to face. Now my son is getting good experience in another company in our industry before coming in to take over this one. Within five years of the day he walks in that door, I walk out. And everyone knows it—even me."

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7. This and all following cases are based on real circumstances, but fictitious names and industries are used.

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