PRACTICAL GUIDE

FAMILY STRATEGY DEVELOPMENT IN BUSINESS FAMILIES

CONTENT AND FORMS OF FAMILY GOVERNANCE AND FAMILY MANAGEMENT SYSTEMS

by
Tom A. Rüsen
Arist von Schlippe
Torsten Groth

Editor

WIFU FOUNDATION

IMPRINT

RESPONSIBLE FOR THE CONTENTS:
WIFU Foundation
Prof. Dr. Tom A. Rüsen
Alfred-Herrhausen-Strasse 48
58448 Witten
Germany

Design: Designbüro Schönfelder GmbH, Essen
Title photograph: Shutterstock
Photographs p. 4: Witten Institute for Family Business (WIFU)

Please note: Where this practical guide includes references to persons in the masculine, these apply equally to persons of any gender.

ISSN (Print) 2626-7365
ISSN (Online) 2626-7373

March 2022

CONTENTS

FOREWORD

The terms ‘family governance’ and ‘family strategy’ summarise the various efforts of business families to retain long-term ownership of their business within the family, sometimes over many generations. Which special tasks and efforts are required of a family when one or several of its members are managers, or owners and are thus important partners in the non-family management of the business? How can a business be strategically positioned in the market, increase its assets and also ensure peaceful and happy co-existence with the family without breaking the family up or causing envy, resentment, and jealousy? Which system of rules and which structures are most likely to ensure permanent cooperation between both social systems – family and business?

For a long time, such families had to solve these problems alone – the temptation was to create *ad hoc* rules for issues and conflicts that arose, rather than seeking solutions systematically, calmly, and with a sense of perspective. However, the understanding that a family strategy requires the same attention and care as business management is steadily growing. While 25 years ago, only a few pioneers addressed self-organisation and the professionalising of family businesses, thinking about family governance is now becoming the norm.

Not least, the broad range of research, publications, studies, lectures and interactive workshops from the Witten Institute for Family Business (WIFU) over the last two decades has greatly contributed to the move towards a comprehensive professionalisation of family businesses and business families in the German-speaking region. This practical guide assists members of business families to develop and critically reflect on their family strategy in a structured manner. It also suggests adjustments and further development to ensure the sustainability of the business and the family.


Prof. Dr. Tom A. Rüsen


Prof. Dr. Arist von Schlippe


Torsten Groth

I, together with my co-authors, wish you inspirational and exciting reading.

Tom A. Rüsen
Witten, March 2022

1 | INTRODUCTION: THE WITTEN MODEL OF FAMILY STRATEGY DEVELOPMENT

Every multi-generational business family has – explicitly or implicitly – a 'family strategy'. Every business family has at least a rudimentary family strategy, if only in its guiding principles or unspoken expectations. Members of the family often assume that their approach to family strategy matters is self-evident. Only when confronted with other possibilities they understand that they form a family community in which shared values, opinions and guiding principles concerning the common business have developed in a specific manner over time.[1]

This WIFU practical guide presents a process model to help the business family to develop a family strategy. This *Witten model of family strategy development* summarises the findings of more than 20 years of WIFU research on this topic, complemented and focussed by common questions and problems from practice.[2]

The Witten model is based on the premise that it is useful for members of a business family to address questions of future organisation, shareholders, and the family when formulating a family strategy. This includes a number of questions concerning identity, definitions and understanding. Many family heads may initially feel that they are poking a hornets' nest when they start to discuss understandings of business, treatments of tradition, definitions of the family, dividend payments, or committee appointments.

Such processes normally strengthen families. Members come to know each other better with all their similarities and differences, develop a common understanding of management, and learn to anticipate and handle conflict. Disputes are often perceived as processes of personal maturing and development.

[1] Fletcher et al. (2012).
[2] We thank Monika Nadler who contributed to this practical guide with great sensitivity, consistency and insight.

2 | A 12-STEP PATH

The *Witten model of family strategy development* described hereafter is based on various analyses of established family management systems, family constitutions and codices, as well as the authors' experiences with multi-generational business families. The model was guided by WIFU research projects including the analysis of 50 large, old family businesses in Germany[3] in the last decade and the study over a period of years of the family governance structures in several of the largest and most important German-speaking family businesses, as part of a workgroup.[4] Reflections on the findings of this research resulted in the Witten model, comprising 12 topics that may build on one another (see Fig. 1). Each building block concerns a central question that must be answered by the business family. Although it is not essential to address these topics in numerical order, it is advisable to answer the fundamental questions first, before tackling more detailed questions and, finally, organising cooperation.

Figure 1: The Witten model of family strategy development

[3] See Schlippe et al. (2011).
[4] The FSAG project (family strategy across generations) is described in Schlippe et al. (2017).

TOPIC 1: COMMITMENT TO THE FAMILY BUSINESS

The first topic discusses the family's basic stance on business and entrepreneurship. This first step is therefore about understanding what the business means to the family and what the family means to the business.

First, the family must formulate:

- its current practice,
- current ideas on the future orientation of the business,
- the role and function of the business family, and
- its assessment of its past, current, and future mental models.[5]

This step is crucial for the process because it determines the shareholder family's stance on the family business and how different generations and parts of the family involved in the process see their relationship to the business. It may also be useful to revisit the history of the business and the historic relationship between the family and the business. As well as historic documents, older shareholders may be a good source of information here.

Incompatible ideas within the family (between generations, branches of the family, etc.) may already start to show during this phase of the process. If it becomes clear at this stage that there are opposing positions or irreconcilable ideas between family members or groups, it may be useful to temporarily suspend the process and resolve these differences or points of conflict. As business families rarely have open conflicts, it is quite usual for old and unresolved conflicts to be addressed at this early stage. This is an important step towards finding a solution.

When working on this first topic, the question arises of how relevant and binding the results of the process should be: is everyone willing to follow jointly-established rules and be subject to the constitution prepared? It is worth considering here how to treat one-time and repeated non-compliance by family members. Considering the effects of the family document developed helps clarify how seriously the participants intend to treat its content.

It is clear that this first topic establishes the basis for family strategy considerations. The solutions found at this stage may have to be re-evaluated and validated again at the end of the process. The changes among participating family members caused by the process of developing a family strategy may lead to new positions and ways of thinking.

Some specific questions in Topic 1:

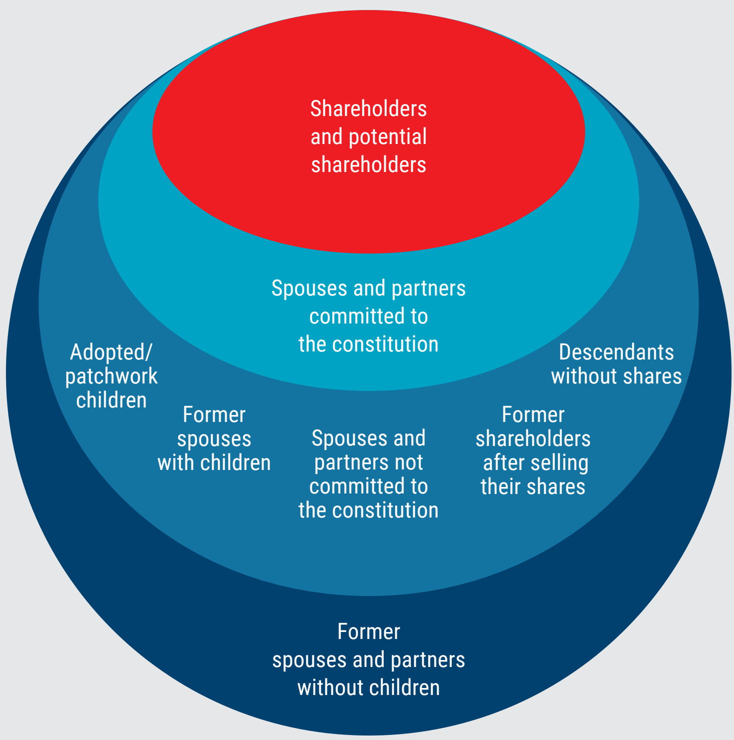
- **What do we think of when we think of the family business?**
- **In what direction do we want to take the business for the next generation of the business family?**
- **What is our stance towards each other and how do we see ourselves within the business family?**
- **Are there mottos and guiding principles to which we feel committed?**
- **How do we assess the current practice of family strategy management?**
- **Where do we see the need for change in the future?**

[5] This means how the business family sees itself in relation to the common family business. For further details, see Rüsen et al. (2019b).

TOPIC 2: DEFINITION OF FAMILY

Following the basic introduction, the next step is about the definition of family, in which it is necessary to define the divisions between the core family or families and the greater family, the conditions for membership of the business family and the requirements for becoming a shareholder.

The following figure illustrates the various differentiations which the family should discuss at this point to achieve a common understanding of these divisions.



Shareholder family:
Shareholders and potential shareholders (according to the shareholders' agreement)

Business family:
Shareholder family + spouses and partners committed to the constitution

Greater family:
Business family + descendants without shares; former shareholders who sold their shares; spouses/partners not committed to the family constitution; adopted and patchwork children; former spouses with children

Extended family:
Greater family + former spouses without children; former partners

Figure 2: Structures and divisions within business families (Rüsen, 2014)

Questions concerning future international residence of family members and the consequences of marriages outside of German law must also be discussed.

Related questions:

- What does family mean to us? What do we think of when we speak of family?
- Who exactly is part of the business family and who are the shareholders?
- Who do we consider part of the extended family and who should be included?
- What plans for marriages and homes outside of Germany are known?

Ideas of family may already differ here: traditional shareholders' agreements often think in terms of bloodlines and are based on former social norms, 'Only biological descendants born in wedlock may be shareholders'. However, social attitudes towards these issues have changed considerably.

Stance on adoption

The question of adoption requires special consideration. Only rarely are adopted children categorically excluded in modern business families. Disputes instead concern the conditions under which they may be admitted as shareholders. For many families, it is important for an adopted child to be sufficiently familiar with the family's values to share them. This may be demonstrated by expecting an adopted child to have spent at least 10 years with the family before becoming a shareholder. The age of those adopting such children as well as the age of the person adopted may also be a topic of discussion.

Stance on spouses and partners

The stance on spouses and partners remains central and the role intended for these additional family members often involves intense discussion. They exemplify the difference between the core family and the business and shareholder family. While in the past these family members occupied supporting roles, there is a growing inclination to integrate partners more into the institution. The number of cases in which spouses are given shares or positions on family or supervisory bodies is rising. It is becoming increasingly clear that a business family's ability to function cannot be ensured solely through the bloodline of the original shareholders and their descendants, but that spouses are key in instilling education and values in succeeding generations. Excluding them, while expecting them to adopt a positive attitude to raising their children according to the business family's beliefs is considered by many business families to be neither sustainable nor functional.

Central questions:

- **Can spouses/partners become shareholders or appointed to family bodies or supervisory bodies, and how do separation or death affect this?**
- **Can they serve in the business** (and with which restrictions)**?**
- **When must partnerships be recognised and are they equal to marriage?**
- **How are same-sex partnerships regarded?**
- **How should children brought into a marriage be treated? Should such children join the direct bloodline?**

There are no categories of ‘right’ or ‘wrong’ to be applied here. Many business families treat such questions very liberally, while others decide to exclude in-laws or other partners from access to shares or councils. Each family must find its own path for this question – but every business family should at least consider the price of excluding spouses and partners from all shareholder activities.

Stance on ‘dropouts’

How should family members who sell their shares be treated? Will they remain members of the business family or does their membership end completely when they leave the business? Due to the close relationship between the business family and the core family, selling shares may cause great irritation within the family. Such sales should therefore be discussed in advance.

Central questions:

- **How does the business family treat members who decide to leave the business?**
- **To which family system do such sellers and their descendants belong?**
- **In which events may they participate after the sale?**

The questions in this chapter affect intimate areas of relationships within a business family and, therefore, require sensitivity.

TOPIC 3: VALUES AND OBJECTIVES FOR BUSINESSES AND FAMILIES

The third topic will define the values that are important to the family and form the basis for the specific expectations and requirements of the family for the business. The family often wants its values (or most of them at least) also to apply in the business. The business family’s value foundation, as defined in this part, is key to the rest of the process: this is where the business family formulates crash barriers for the operative and strategic objectives of the business and for family members as they behave externally and internally and to each other. The decisions and conduct of executives and family members must all be based on these formulated values and objectives.[6]

Formulating values is one part but, without comparing how family members understand specifically how to bring them to life, these values risk being ineffective. For example, a clause found in many constitutions is:

‘The needs of the business have priority over the needs of the shareholder family, the needs of the shareholder family community have priority over individual needs ...’

These values may be interpreted as ‘nice’ (and irrelevant) or, for certain family members, may mean that the family allows no discussion of special privileges if this is not in the interests of the business, e.g. when claiming an executive position

[6] It is therefore important to determine how elements of the basic stance defined for the family strategy process can be integrated into existing legal contracts after the process is completed. For further details, see Topic 12.

in the business or requesting special dividends. Defining values in terms of consequences for the conduct or management of the business is especially important. Values formulated in a non-binding way in constitutions may prove counterproductive: each family member may interpret these vague values as he or she pleases. Values must be linked to observable consequences and actions. A good question might be 'How would non-family members know that we practise or don't practise value X?' An example from a business family's discussion of values is provided in Fig. 3 below.

1. **Personal freedom:** we allow every family member to live their life as they please. This freedom includes respecting the rules and values and protecting the business.
2. **Transparency:** we treat openly information and decisions concerning the business and central information concerning the family.
3. **Fairness:** we seek balanced solutions; we treat each other as equals with respect and appreciation.
4. **Reliability:** we keep our word.
5. **Objectivity:** we strive to see things objectively; we handle conflicts professionally (and may involve third-party experts).
6. **Trust:** we believe in good intentions within the family.
7. **Assistance and solidarity:** we are there for each other, no matter what the situation.
8. **Integrity:** we stand 100% behind our values, statements and actions; we speak with a united voice to outsiders; internally, we value critical discussion.
9. **Sustainability:** our actions are not intended for the short term but pursue cross-generational aims ('grandchild-readiness').
10. **Tolerance:** we respect differences of opinion, characteristics and views; we explicitly do <u>not</u> mean: breaking the rules or doubting our values.
11. **Humility:** we will remain a down-to-earth family; 'Wealth is without value. It is an expression of achievement based on values'.
12. **Virtue:** we treat others as we wish to be treated.

Figure 3: Example of the values of a business family (Rüsen, 2014)

Common questions for Topic 3 include:

- To which values does the family feel committed? What is important to us? What keeps us together as a family?
- What do we require of ourselves as a family and of our business?
- How do we know that we practise, or that someone does not practise, our values?

TOPIC 4:
ROLE AND FUNCTION OF FAMILY MEMBERS IN THE BUSINESS

The questions covered in this topic are some of those that lead to critical discussions in the process of developing a family strategy. This is about determining whether and, if so, under what conditions, members of the shareholder family can or should perform managerial tasks in the business. At its core, this is a test of the business family's mental model. Is there a mutual desire to work at the business? Or are only individual interests at play here? The sooner this is addressed, the better: if conditions and requirements around working in the business are only discussed when a family member already expects a position, it will be difficult to draw the line without hurting feelings.

Basic questions about this topic:

- **As a business family, what is our general stance on family members working at the business?**
- **Is it important to how we see ourselves (and our environment) for family members to work at the business?**

If it is desirable for family members to join the business, the permissible functions and hierarchy levels for such work must be determined. In most business families, the business can only be joined permanently at the highest, or one of the highest, executive levels, if at all.

If the family votes for members to join the business, the basic steps required for representatives of the descendants to join must be specified. This includes determining the skills required and the development expected within the business and perhaps introducing a coaching or mentoring programme. The steps necessary for family members should be specified in advance with some flexibility to prevent representatives of the successor generation from adhering to a single position.[7] It must also be determined who decides about promotions, performance assessments, wage adjustments and, if necessary (in the event of inadequate performance), the dismissal of a family member.

After the conditions for joining and the required competencies have been determined (ideally, through job descriptions with requirement specifications for each position in question), the shareholders must establish a clearly defined and transparent process to assess the competence and suitability of a family member applying for a certain position. This raises the question of how robust such assessment processes can be if competence is evaluated only by members of the family. Can the family be objective towards its members, or does it simply trust in its own judgement? A possible alternative whereby a council of non-family members evaluates suitability for managerial tasks is often met with the objection that non-family members cannot decide questions concerning the future management of the family business. No family is spared such disputes.

Experience with long-lasting family businesses suggests that decisions about work qualifications, positions in the hierarchy, performance assessments, etc. should not be made by another family member. The hurt thereby caused is the main source and accelerator of conflict in nearly every business family.

[7] Research on the subject refers to this as the 'successor's trap' (Kaye, 1996).

Central questions:

- At what level and with which career options do we admit family members?
- What competencies do we require for joining?
- Who decides suitability and further development (including of, and especially compared to, non-family candidates)?
- What do we want to do if a family member does not succeed in the business? How do we reintegrate him or her into the business family?

Figure 4 below features an excerpt of a family constitution illustrating the previous points.

OUR STANCE ON FAMILY MEMBERS JOINING THE BUSINESS

- We support family members joining the business, but only at the highest two levels (executive and division management).
- Family and non-family executives are treated equally in selection, performance assessment, remuneration and treatment of inadequate performance.
- Family members should not serve in the business below the second level.
- There should be no situations in which family members take or may take decisions about other family members; this applies to all management groups in the business and the evaluation of executives by the advisory council. For this reason, the personnel committee was created to be involved in such situations and given special rights by the shareholders.
- Remuneration is no different for family members.
- Family members should not hold an advisory or service-provider relationship with the business.
- Student internships or holiday jobs are welcomed and regarded as useful measures to develop professional ownership and help successor generations to gain an insight and understanding of the business. Internships lasting up to six consecutive months should therefore be possible.

Figure 4: Stance on family members joining the business (Rüsen, 2014)

TOPIC 5: ROLE AND FUNCTION OF FAMILY MEMBERS AS SHAREHOLDERS

In the fifth topic, the business family must consider its function as the owner of the business. Having determined who may serve as shareholders, these considerations now help shape the owner function, which will be determined primarily by corporate law. Significant differences in the thoughts, actions and feelings of different shareholders are often now revealed: those who emphasise the family will seek soft and informal rules, while those focussing on the shareholder function will push for clearer requirements.

Determining basic decision-making processes

How do we want to make decisions as a family? To answer this question, the forms and patterns of decision-making already practised should be examined. Families often take considerable pride in having made decisions by consensus for decades. This creates strength because the shareholders or the business family decide on or against something together. However, although it impedes the speed of decision-making, requiring consensus is not a permanent solution. There is a significant risk of severe damage to this harmony, as abstention or an opposing vote will be considered a 'severe disruption' of family unity. This high level of emotion, however, normally only shows that the shareholders have not yet found a way of handling controversial opinions. Specifically addressing decision-making processes and introducing consensus-finding procedures to determine majority opinions enables family members to recognise unilateral consensus as an illusion and helps them learn how to deal with differences and accept majority votes.

Central questions:

- **Which decision-making principles should apply to the business family and which to shareholders?**
- **When should consensus be abandoned in favour of decision-making ability?**
- **Which decisions are represented unanimously externally despite opposing votes and hostile discussions within the family?**

Regulating share subscription rights and integrating new shareholdersr

In addition to determining who may receive shares through inheritance or gifts, the best time for such transfers must also be determined. It is useful for each shareholder to decide when they want to transfer shares to their children, or when a representative of the senior generation will surrender their shares and related voting rights. The business family should at least roughly specify consistent rules so that all age cohorts and shareholders can meet and grow into their respective roles. Some families also have specific requirements for transferring shares to the next generation, such as signing the family constitution or completing internships, vocational training, or university.

Another question concerns the integration of new shareholders and how they learn to adapt to their new role. Larger business families, therefore, introduce the new cohort of shareholders from the various core families to their new roles as shareholders together, e.g. by having cousins attend seminars and training at which they grow together as a team.

Related questions:

- To whom may shares be gifted or bequeathed?
- At what age is it considered appropriate for descendants to assume the role of shareholder?
- What is the maximum age considered acceptable for exercising voting rights?
- Which requirements must a new shareholder satisfy when receiving shares?
- How should new shareholders be supported in growing into the role of shareholder?

Marriage rules

Traditional inheritance and transfers are increasingly being replaced by new forms of partnership. Although shareholders' agreements often require contracts (prenuptial agreements) for marriages or civil unions, whether these are actually concluded and are compatible with wills or other contracts is seldom checked. Structured discussions with representatives of the successor generation about the expedience of such unromantic rules are also rare. However, once adopted into the family's rules, such expectations of potential new members from outside the family may be still be presented and discussed before marriage or the establishment of a permanent partnership.

Central questions:

- In what form is a prenuptial agreement or equivalent required for other forms of marriage-like communities to regulate forced heirship waivers and modified communities of accrued gains?
- What happens to shareholders who do not want to sign such a contract?
- Who ensures that this is discussed with young shareholders and their partners?

Handling questions concerning the internationalisation of the business family

The globalisation of society raises several questions for business families which may have serious consequences for the role of the shareholder. Individual life decisions, such as moving abroad, international relationships and marriage, may affect the shareholder community as whole and must be coordinated at family strategy discussions.

A family member simply overlooking a former residence in Switzerland which they forgot to unregister after graduation may lead to a significant tax burden; likewise, living in the USA brings its own complications.[8] International marriages may require adjustments to prenuptial agreements or the rules on pension rights. The children of shareholders living abroad frequently have no, or only a limited, command of German, a fact often overlooked. How this should be handled for shareholder reporting or how bi- or trilingual shareholder meetings are organised are all issues needing consideration. Ignoring multiculturalism or clinging to one's German roots rarely strengthens family ties.

Central questions:

- Is there a central entity that handles the tax consequences of moving abroad?
- Is there a central entity that evaluates the legal implications of inheritance and international marriage and prepares the relevant contracts?
- How are shareholders with no or limited knowledge of German kept informed and integrated?

[8] For further details, see Gräfe & Jeschke (2016); Kirchdörfer & Lorz (2013, 2016); Layer & Claß (2014).

Rules for selling and fungibility of shares

Another fundamental question concerns the sale of shares after someone leaves the shareholder group. Contractual rules of the past often reflect the family's internal stance on this topic: leaving is considered a 'betrayal' of the joint family heritage and must be made more difficult through high deductions and long pay-out periods. However, a number of legal disputes and court rulings have shown that such contract clauses are not or not fully valid.[9] Attitudes towards the desire to leave and models for calculating the price of shares and modalities for the remaining shareholders to assume these shares should therefore be clearly specified. There may be different solutions, from complete fungibility by going public to dispensing with fungibility by transferring the shares to a new foundation.

Related questions:

- Under which conditions (price, pay-out modality) should it be possible to sell shares?
- Should shareholders be allowed only to sell all their shares at once or gradually over time?
- May individual shareholders assume shares (and if so, under which conditions), or will the family allow shares to be distributed equally?
- Under which conditions should a family foundation be established as a 'pad holder'?

Rules for treating non-family shareholders

In this topic, it must be determined whether, and under which conditions, it is conceivable for third parties (deserving managers, investors in the capital market, etc.) to become shareholders. In practice, allowing non-family shareholders is only acceptable temporarily, for example, as 'motivation' for non-family management during the term of employment, or as an emergency measure, if the necessary capital is unavailable. In the view of the controlling family, permanently surrendering shares is only permitted, if at all, to eliminate an existential threat. Business growth is even stifled out of fear of diluting the family's shares.[10]

Central questions:

- Should non-family members (top managers, employees, investors, etc.) be allowed to become shareholders? If so, should they also be given voting rights?
- Should non-family members only be allowed shares temporarily or permanently; if the latter, should they, therefore, be inheritable?

When answering the questions in Topic 5, it often becomes clear that the requirements of the shareholders' agreement, based on the parents' or grandparents' logic, no longer reflect the current reality of business families. Work on a family strategy, therefore, almost always results in adjustments to shareholder agreements.

[9] See Hennerkes & Kirchdörfer (2008) and Kirchdörfer & Lorz (2009).
[10] Wimmer & Groth (2008).

TOPIC 6: SETTING UP BODIES

This topic focuses on the management of both the business and the family and often results in the corporate governance of the family business and family governance of the business family. The business must determine which advisory, supervisory and monitoring bodies are considered useful and necessary for assisting and monitoring management.[11]

Function and composition of the advisory and supervisory bodies of the business

There are many reasons for introducing an advisory council, e.g. in the context of succession when the senior generation wants to transfer managerial responsibility but also to remain on board as a strategy guide and sparring partner.

The family strategy must consider which functions the supervisory or advisory council should perform. An advisory council that exceeds purely representative functions will always perform compensatory functions, that is, it will take on the functions which neither the business nor the family is capable of executing. In answering this question, the business family reflects on itself and the gaps in its abilities. Businesses managed by the family, therefore, tend to be opposed to a controlling body (even when made up of non-family members), overlooking the benefits of external competence in favour of not being told what to do. In the event of agreement on an advisory and supervisory structure, basic questions about its composition must be answered.

Related questions:

- **What arguments exist for and against establishing an advisory/supervisory council?**
- **What quality should an advisory council have (predominantly advisory or controlling)?**
- **Should the council be dominated by non-family or family members?**
- **Who looks for and chooses the non-family members? What are the search criteria?**

When first establishing such a body, there will be great uncertainty among the shareholders on, for example, the tasks and competencies or appropriate remuneration for members of the advisory council, providing adequate information to management through advisory council reports, etc. However, the greatest problem is finding individuals who meet the needs of both the business and the family shareholders. Since the family's circle of friends is exactly the wrong source of candidates for this task, family shareholders are faced with the question of how and where they can meet such trustworthy people. Alongside the professional expertise also possessed by experienced executives, or non-family managers of other family businesses, there is often a strong desire to install another family entrepreneur. Finding such a person who can also work constructively with the other members is the main challenge in establishing such a body.[12]

[11] Much has been published about this topic and is only considered by us in regard to matters concerning family dynamics. Of this extensive literature, we recommend extensive treatments referring to the specifics of business families, especially Hennerkes & Kirchdörfer (2015) and Kormann (2008, 2014).
[12] For further details, see Kirchdörfer (2018) and Obermaier (2019).

Function and composition of family councils

In addition to a body that acts as a sparring partner for management in strategic matters and questions of business management, and allows the family's voice to be heard in the business, it is useful, when a family exceeds around 15 people, to create a similar body focussed on family solidarity and implementation of the family strategy. In many business families, this important function is or was filled informally: one person, usually a woman, sent invitations to family meetings, handled each shareholder's concerns, mediated between conflicting parties, went on holiday with nieces and nephews, etc.

As a business family grows in size, the requirements for the so-called management of the business family also increase rapidly, and a large number of tasks can no longer be performed by a single person alongside their other responsibilities. This is when a body must be installed to handle and organise these tasks and activities.[13]

These tasks typically include:

- establishing communication links between councils close to the business and the rest of the business family,
- mediating in conflicts within the business family,
- further developing the family constitution,
- organising family meetings around the business,
- accompanying adolescent representatives of the next generation and developing, organising and supervising current measures for professional ownership development,
- integrating spouses and partners joining the family.

While these tasks are performed by a 'welfare officer' in small families, in larger business families their scope and significance normally require a body comprising several people, often referred to as a family council. This body should represent the family's diversity if it wants to be accepted by all parts of the business family, and including representatives of the senior and junior shareholder generation is therefore recommended. Shareholders not serving in the business and new family members (spouses and partners) should also be represented.

Central questions:

- **Which tasks could a family council/family representative perform?**
- **How should elections to the family council be conducted?**
- **How should work on the family council/as a family representative be remunerated?**

Figure 5 below shows an example of the structure of family business governance. This is where the shareholders' meeting elects its representatives for the advisory body (advisory council) and for the family body (family council). The personal union of two individuals active on both bodies enables feedback of information, questions, wishes and movements. From the shareholders' perspective, the supervisory council handles the concerns of the business, and the family council those of the family.

[13] For further details, see Rüsen & Löhde (2021).

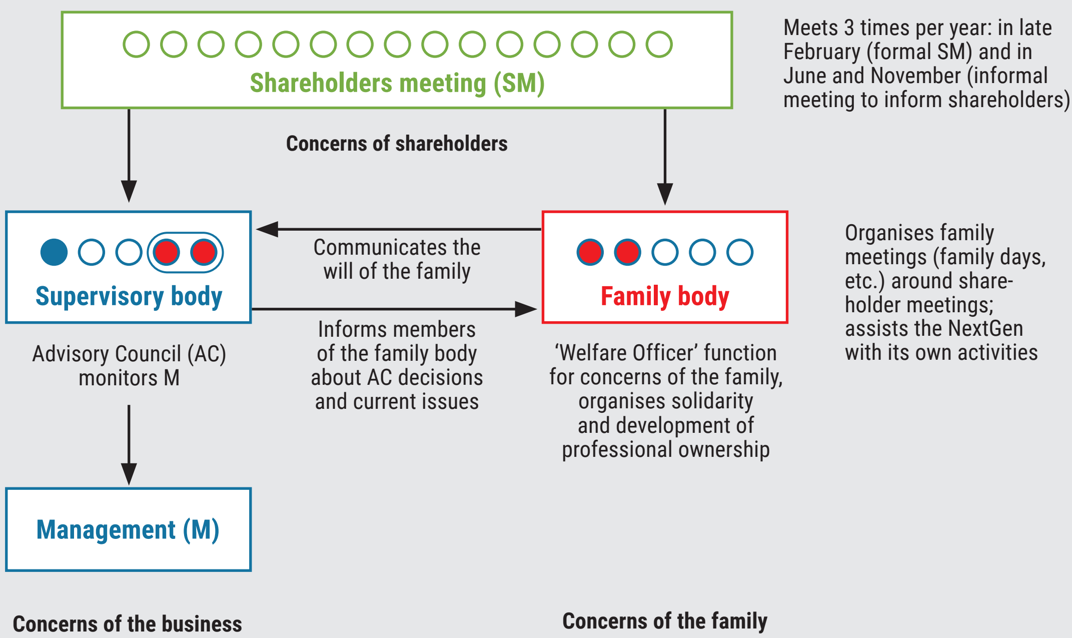


Figure 5: Family business governance scheme (Rüsen, 2014)

TOPIC 7: INFORMATION, COMMUNICATION AND CONDUCT

The seventh topic deals with family members' forms of communication and conduct concerning the business, each other and the public.

Information and exchanges about the business

Organising information and communicating business developments exceed the obligation to provide information under the shareholders' agreement. This additional effort is made especially to include members of the shareholder family in significant developments and to maintain or awaken interest in the business. Practical solutions, therefore, involve more than merely preparing monthly, quarterly or half-yearly reports, extending to participation in product presentations, fairs, visits to customers, business celebrations, etc. or telephone conferences at which active family shareholders explain current developments and relationships to interested but non-active family members. In addition, informal meetings are often organised at which shareholders can ask questions about business developments or details. Informative events beyond shareholder meetings are especially important for growing families with a decreasing number of active members in the business.

Information and communication about the family

In larger families, family newspapers or internal family online portals (family intranets) are used to keep up with new developments in different branches of the family. Especially for families spread across the world, these means of communication prevent family members from losing touch with each other because of distance. Individual and especially secured social media channels or specific family apps are one of the simplest ways to prevent family solidarity from withering away.

Rules of communication

Business families find it difficult to find specific forms of communication besides the family communication they have learned. In practice, the same forms are used in the context of the business or for shareholder matters as in the context of the core family, in which the conditions of an accepted 'disinhibition of communication' often predominate. However, what is acceptable in the family context may hinder decision-making in the business family context. For discussions between shareholders, business families must therefore formulate specific rules of communication that pave the way for decision-making communication.

Central questions in Topic 7:

- **Which information about the family business should be provided to which business family members and how frequently?**
- **In what form should informal exchanges about family business developments take place between shareholders outside shareholder meetings?**
- **How should internal communication be organised within the family (who is responsible, which software should be used)?**
- **What 'golden rules of communication' should apply within the business family?**
- **Which rules should apply to public communication (e.g. business celebrations, social media, etc.)?**

The following example from a family constitution about the rules of communication within the business family illustrates the issues described above:

1.	Everyone has the right to express their feelings, thoughts, and perceptions.
2.	In difficult topics, let us concentrate on the description of the problem and suggestions for solutions.
3.	We will avoid accusations of guilt.
4.	Everyone has the right and obligation to address difficult topics.
5.	Everyone has the right to halt discussions at 'sensitive' points, but also the obligation to help find constructive suggestions for solutions. The person who pushes the 'emergency stop button' is responsible for addressing this topic at the next opportunity.
6.	Every participant lets the others finish and may not interrupt the speaker because every contribution is valuable. Let us treat each other fairly and not use 'killer phrases'. We will stick to Rosenberg's principle of 'nonviolent communication'.
7.	We will keep the topics discussed to ourselves; however, we will talk about our experiences and feelings with our spouses. Let us determine together when and how we inform other relevant persons (advisory council, management, etc.).
8.	Let us only send emails that may lead to conflict after sleeping on them. We will limit the number of recipients and not copy or blind copy anyone in.
9.	Let us switch off our mobile phones during discussions/family meetings.
10.	Every family member, especially family councils, may remind us to follow the agreed rules.

Figure 6: Rules of communication within the business family (Rüsen, 2014)

As helpful as such forms of professionalisation of the business family may be, regulating the treatment of each other is likely also to be seen as a loss of familiarity. However, the family must function as an organised unit to remain a functional family.[14]

Public appearances

Business families are almost inevitably the focus of public attention. Setting rules for the public face of the business is important in avoiding unpleasant experiences with the press and preventing debates about jealousy. Clearly, specified agreements offer a farsighted strategy for managing communication, especially in critical business situations (for example, when employees must be laid off or product damage must be rectified). These include issues such as requiring all requests to shareholders concerning the business to be forwarded to management without comment.

Other regulations cover the public face of family members in the business, during internships and at business events. The appropriate form of honorifics and which close relationships within the business are considered acceptable must be specified. An increasingly important question is that of appearance and conduct on social media (*e.g.* on Facebook, LinkedIn, Instagram *etc.*). Apart from the potential embarrassment for family members, there is a significant risk of being targeted for espionage or crime.

[14] Cf. Schlippe et al. (2017).

TOPIC 8: CRISIS PREVENTION AND CONFLICT MANAGEMENT

The eighth topic serves as a form of 'dry run' of the worst possible outcomes when developing a family strategy. Thus, procedures and rules are specified for how to proceed in case of emergency if family members cannot participate due to illness, death, or conflicts among shareholders. A worst-case scenario test or a family stress test will help reveal gaps in the procedures governing the co-operation and solidarity of the business family. As these topics often concern matters that have long been taboo, particular sensitivity and sound judgment are required.

Rules for conflict prevention

How the family wants to handle conflicts, or at which levels conflicts should be handled by family members or with third-party assistance, should be determined at this stage. This involves, for example, specifying rules of conduct for how a family member should manage a situation in which they feel hurt or insulted. As indicated in Topic 7, rules of conduct that are binding for all family members to prevent conflicts from escalating and 'uninhibited family communication' must be determined. For example, the well-known 48-hour rule (within which conflicts must be reported to a confidant) both address the problem and prevent confrontation with those involved in the conflict which may further aggravate the situation. The mediator involved who, depending on the severity of the incident, may be from within or outside the family, must then start processing the issue.

Common questions about conflict management:

- **What should be done within the family in case of conflict?**
- **Which support options from outside the family should exist to manage conflict?**
- **Should decision-making authority over contentious matters be delegated to non-family third parties (e.g. an advisory council, arbitration body, etc.) after a certain degree of escalation?**

Other topics include delegating special rights to non-family third parties in case of conflict. This refers to specific decision-making rights in top management or individual rights of shareholders. The ability to make decisions in the business or by shareholders must be maintained despite conflict within the family. The shareholders, therefore, agree to temporarily transfer their voting rights to third parties (e.g. non-family members of the supervisory council) for the benefit of the business instead of threatening its future existence by joining the conflict. To be legally effective, such considerations should be included in the respective contracts.

Crisis prevention

In this part, systematic considerations are proposed about changes caused by the lack of participation of family members in the case of illness or death and whether the necessary legal safeguards are in place. In practice, there are still entirely unregulated situations into which any business family may fall. There is often no emergency plan for substitutes.[15] Family businesses without a supervisory or controlling body or those based around a 'patriarch' then have no functional alternative for management in the event of an emergency.

Some questions about crisis prevention:

- **How is the shareholders' decision-making ability secured if the heads of the family are unavailable?**
- **Who has the central passwords and decision-making power and who can take over temporarily?**
- **Is there an 'emergency kit' containing all legal and contact information centrally?**

Considerations about crisis prevention or family-internal risk management normally result in the creation of an 'emergency kit' with all essential legal documents (*e.g.* articles of association, advisory council rules, inheritance contracts, prenuptial agreements, wills, *etc.*), names and details of persons to be contacted or important trusted persons, and an overview of all important assets, insurance policies, passwords, access codes, key locations, *etc.*

TOPIC 9: DIVIDEND POLICY AND ASSET STRATEGY

In this topic, the business family considers the structure and (conceivable) diversification of existing joint assets. The dividend policy of the business must therefore be discussed.

Stance on the wealth attached to the business

The family's basic stance on the assets attached to the business and generated through profit, and on all available family assets, must first be determined. The wealth created by the previous generation is likely to cause major uncertainty and may even be treated as a taboo. Particularly in business families where earnings achieved by the business are for the most part reinvested, i.e. used to finance growth and innovation, the senior generation is frequently concerned about 'spoiling' the next generation and stifling its entrepreneurial ambition by giving it 'too much' wealth. Descendants are often unsure about how the considerable wealth accumulated by their ancestors 'may' be used.

The main task of the family strategy discussion about wealth is to further specify any previously agreed messages concerning the maintenance of wealth or education about wealth, and this may quickly reveal different standards between the core family and its various branches. The ensuing discussions are critical because they may greatly affect individuals' circumstances.

Basic questions in this topic:

- **What do ownership and property mean? Does the wealth of the business belong to me/us or are we merely custodians of this wealth for the next generation?**
- **How should joint assets (real estate, stock portfolios, shares in other companies, etc.) which are not owned by the business be treated?**
- **What private asset management and resulting lifestyle changes are permitted for each person?**

[15] May & Ebel (2016).

Scope and treatment of dividends

Dividends are a sensitive topic: they affect the financial needs of shareholders but run contrary to the financial needs of the business. Depending on the scope, structure, and form of available wealth, it may be useful to clarify the financial or pension needs that each member expects to be met through dividends. Whether expectations of regular dividends are an acceptable 'basic income' for the shareholder family must also be determined. If members of the shareholder family consider this to be a central condition of permanent shareholder membership, it must also be decided how such payments will be made in situations in which the business has an increased need for capital or suffers losses. Particularly in times of crisis for the business, it is fatal if certain shareholders have to clear their capital accounts to maintain their lifestyle. This is regarded as very bad conduct by the other shareholders and leads to a destructive aggravation of the crisis.[16]

Central questions:

- **As a family, what is our stance on dividends vs financing business growth?**
- **How and by whom is the dividend amount determined?**
- **In what form are dividends made available to the business as loans, and are there expectations for how dividends should be treated?**

Managing wealth not attached to the business

When discussing the treatment of available wealth, it must also be decided whether the family allows each shareholder to manage his or her own wealth, or whether these assets will also be jointly invested. The establishment of a joint asset management for all family members, *e.g.* by a family office, may strengthen ties within the family and also allow members of the business family to recognise the benefits of professional protection of individuals against unprofessional structures which may be damaging to the asset holders.

Another consideration in this regard is asset diversification. In the early generations of business families, most – if not all – of the family's wealth is attached to the business. Although this stance often strengthens the internal financing of the business in practice, it rarely leaves alternative means of financing for business crises, gift or inheritance tax, non-egalitarian succession planning or adjustments to the shareholder group that may be used to save the business or pay settlements to leaving family members.

Figure 7 below offers an example of a business family's considerations about forms of wealth, components of each 'sphere', and the family internal stance on each wealth component.

[16] For further details, see Rüsen (2008).

CLASSIFYING THE BUSINESS FAMILY'S WEALTH BY TYPE

	I	II	III	IV
Form	**Joint wealth owned by the family business**	**Joint wealth of the business family**	**Private wealth of individuals/ core families**	**Family foundation for promoting community and charitable engagement**
Content	Equity, shareholder loan accounts, investments of the family business	Joint wealth managed professionally (family office), alternative investments Emergency fund (emergencies, taxes)	Private real estate, capital investments	Investments in the family community and charitable donations; x% of earnings after tax are to be used for this each year
Stance	We see ourselves as trustees; this wealth 'belongs' to the business. Dividends are a 'trustee's fee'. We expect modest, but regular payments.	We use our secondary wealth to diversify asset risk, make tax provisions and create an 'emergency fund'.	Until now, everyone has managed their own wealth. We want to use the benefits of joint management in the future.	In the future, we want to use our wealth for communal and charitable engagement as a family.

Figure 7: Schematic representation of the form and content of and stance on wealth components (Rüsen, 2014)

TOPIC 10: PRESENT FAMILY MANAGEMENT SYSTEM

In this topic, work on internal family communication, ties and solidarity, based on the approaches and ideas developed during this process, are further specified, summarised into institutions and transferred to a family management system. The business family must now solidify the rules and procedures determined by allocating dates for activities. If it is not already clear, this is when it becomes evident how much free time members of the business family must leave in their calendars, and how much detailed work each idea may require.

Typical questions:

- **How has the family been managed until now and how must the family be managed in the future based on the family strategy?**
- **Which family institutions have proven their effectiveness and will be kept, which must be modified, and how?**
- **How many meetings should there be in addition to the shareholder meetings?**

As an example of institutional rules that may be practised, the organisation of a family day and creation of a family calendar are illustrated below.

The family day

A family day has the primary function of keeping the business family emotionally 'alive'. People who would not normally see each other regularly have the chance to get to know each other, with all their life plans, attitudes, strengths and weaknesses. Even where there is little sympathy for one another, there will be increased certainty about expectations: family members know what to expect from others.

Annual reunions at shareholder meetings are not sufficient for this process of mutual management of expectations. The rules in the context of the business and a well-developed family constitution only function effectively if they are bolstered emotionally by informal togetherness. As well as establishing a history that, ideally, is enriched by shared experiences on family days (trips, presentations, company tours), it is also important for family members to experience and continue the business family's history and values together.

In addition to focussing on ties, expectations and building trust among family members, a second focus is on the business. Family days are essential for maintaining a sense of solidarity with the business. They can and should be used to allow family members to become familiar with production sites, technologies, products and strategic challenges and to get to know employees and executives.

A recurring question in the planning of family days is who should participate. This may expose divisions within the family: apart from the shareholders, who may participate in the family day and who should be excluded? Family days allow more generous attendance than shareholder meetings; they enable spouses, partners and children to be introduced to the world of family business.

The family calendar

In addition to the family day, another essential element is the introduction of a family calendar in which all family activities in which participation is expected are scheduled in advance and notified to all members. Business families often stumble because dates are treated loosely within the context of the business family. Training, application deadlines for internships and family fairs are missed, and the agreed family day is overlooked when planning holidays. Establishing a family calendar that is always up to date provides every family member with an overview of the activities (in addition to shareholder information events) of the business family (see the following sample family calendar).

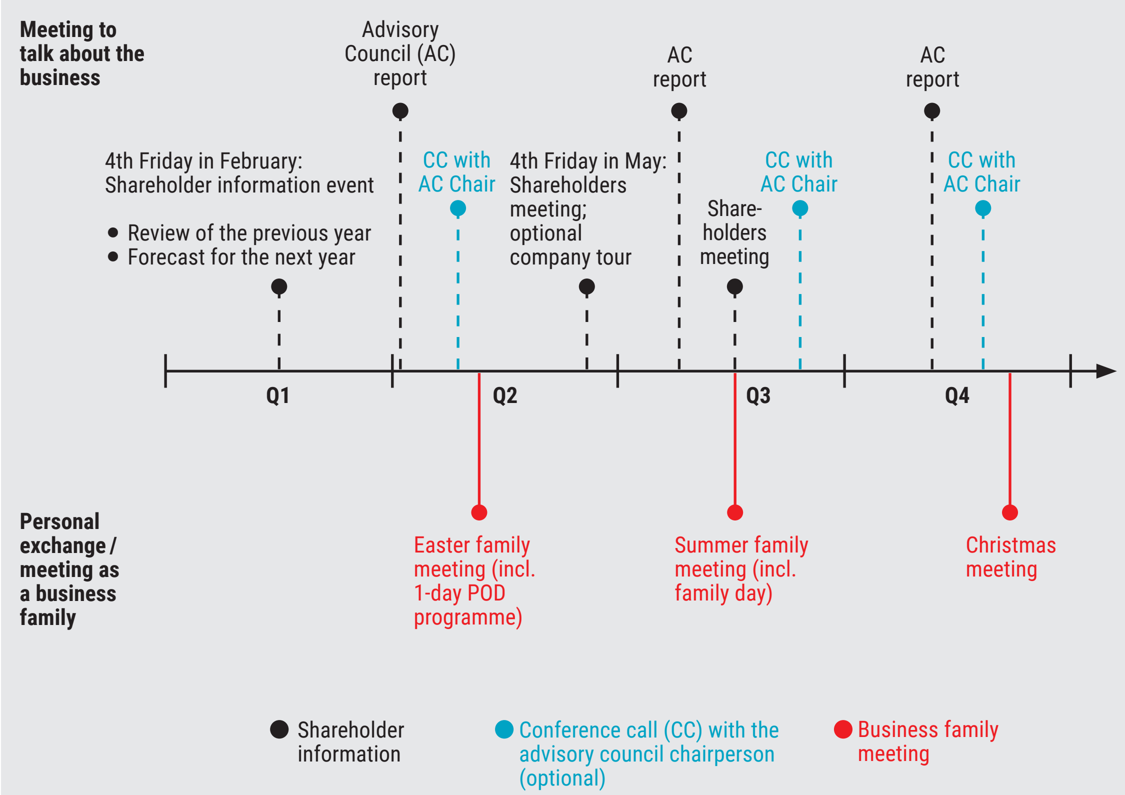


Figure 8: Family calendar of a business family (Rüsen, 2014)

TOPIC 11: PROFESSIONAL OWNERSHIP DEVELOPMENT

To ensure that all the rules and institutions detailed above can function on an on-going basis, competent shareholders are essential. In this topic, the business family develops its own training and further education programme to establish and maintain professional ownership. The implementation of the content defined here (professional ownership development (POD)) is one of the central tasks of an established family management system after completing the process of developing a family strategy if there are potential family shareholders not currently, but interested in, serving in the business.[17]

The scope of establishing a specific programme for the training and further education of competent shareholders is strongly related to the readiness for commitment and work, previous educational approaches and prior training received by those bearing responsibility in the future. This task is thus a fundamental part of the educational work within every core family.

IDEAL CONTENT OF A POD PROGRAMME[18]

How might an ideal training programme for members of a business family look? Certain components may be seen as elementary educational matters,[19] but these general aspects must be made specific to the needs of the business or shareholder role.

Getting to know the business 'from the inside'

According to many accounts, familiarisation with the business family often starts in early childhood. This is more the norm in business families with active family members than in those removed from the original business establishment. Regular visits to the business, production sites and certain departments, etc. establish emotional ties to the business which may be further strengthened by holiday jobs while at school and internships while at university. This, sometimes simple work may indeed help individuals to get a feel for and understand the working conditions and world of employees at the lower levels of the hierarchy.

Especially in business families in which shareholders no longer have emotional ties to the business, the expectations of investors and the ideas of the shareholder role often become incompatible with the beliefs of the previous generation. In addition, it is harmful for the business culture and hardly comprehensible for the employees and management of a business family if a shareholder generation has no knowledge of the business or the business environment. This may lead to a loss of trust between employees and the shareholder family.

Acquiring the ability to assess and manage executives

In addition to getting to know the business from the inside, measures through which members of the shareholder family can meet executives outside the workplace must be devised. Whether at a Christmas dinner with authorised representatives or a

[17] See also: Groth & Schlippe (2011).
[18] For further details, see Rüsen (2019).
[19] Astrachan & Pieper (2011) and Horváth, Kirchdörfer & Schlippe (2015).

barbecue for executives, opportunities must be created for family members to become personally acquainted with top executives and, often, their spouses. It may be useful for younger family members to serve the executives at such events. This shows an appreciation of management and allows younger members of the shareholder member to meet this central group of persons informally.

It is also advisable and useful to have active and passive management experience from outside the business family. This may be obtained from any line of work or charitable engagement.

Understanding the business strategy and interaction between elements of the business

Irrespective of their own profession, their education and extensive dealing with the business should enable all shareholders to categorise, assess and evaluate central decisions or suggestions of management.

A good approach for determining the content of a POD programme is to use general business aims and classic key questions about business strategy as a guide.[20] This content, alongside basic business school knowledge, must be conveyed to shareholders as a priority. Only after the basic strategic conditions of the business have been understood, should basic business knowledge be taught based on the family business. Basic knowledge of management, organisation, corporate and tax law, accounting, financing, asset management and business report writing must be provided. An increasingly important element of the programme is establishing 'digital readiness' among shareholders:[21] acquiring knowledge and skills related to the digitisation dynamics of the market, competitive environment and throughout the value chain of the family business.

Understanding the role of family shareholder and system competence

Ownership of a family business is more than an investment in a company, but how it differs to other business forms and other families must be determined by each member of the shareholder family. The interrelation between business and family logic can then be recognised as such. Unless this has already been completed as part of the process for developing a family strategy, the so-called 'mental model'[22] of the business family should be specified and critically evaluated together. The resulting consequences and expectations may be regularly reviewed and discussed, for example, at a family day.

Establishing personal communication competence

A central development task for members of business families is that of professionalising their own conduct towards both close and distant relatives. In practice, family communication frequently slips into discussions of the family council or shareholder meeting. This becomes problematic when opposing expectations collide. It is important for family members to have conflict-free exchanges about different expectations and to treat and identify communication about ties and decisions for what they are. It has also proven helpful to ensure that at least one member of the family body is familiar with moderation techniques to handle internal family conflicts.

[20] Kormann (2015).
[21] For further details, see Bretschneider et al. (2019) and Rüsen et al. (2019a).
[22] For further details, see Rüsen et al. (2019b).

The content of a POD programme may be specified when developing the family strategy. The budget to be provided by and for members of the business family in terms of time and content, and which groups may participate in the programme, must then be determined.

Typical questions:

- **What kind of POD programme should be offered: voluntary or mandatory?**
- **Which programme should be systematically offered?**
- **Who should bear the costs of the POD programme?**
- **In which form should a specific training and further education programme be offered for council members (family advisory councils, family councils) in addition to a general and further education programme?**

TOPIC 12: RULES FOR COMPLIANCE WITH AND AMENDMENT OF RULES

Finally, two central questions must be answered: firstly, how should the results of the process of developing a family strategy be regularly revised and further developed (review cycles, adjustment forms, etc.) and, secondly, what are the consequences of non-compliance with the family's self-imposed rules.

Business families often think too little about what will happen if a family member signs the family constitution but then does not feel bound by it and, for example, presents a public face that is incompatible with the values of the constitution or the family.[23] Family systems are then overwhelmed by the task of sanctioning a member with no valid basis in form of 'family compliance'. Approximately 50 % of respondents in the current WIFU study on 'family strategy in business families' said that integrating the family constitution into daily life was a challenge, and 42 % even found it difficult to see the rules on which everyone should base their conduct as binding.[24] The special feature of established family systems that are written down as constitutions, codices or guidelines is that these are not intended to be legally binding documents. What should the response be to gross misconduct that continues even after several discussions?

Possible treatment of such 'impossible' situations is outlined below.

[23] Cf. Rüsen & Löhde (2021).
[24] For further details, see Rüsen (2017).

Figure 9: Treatment of breaches of family compliance; source: based on Rüsen (2017)

In practice, five conceivable steps of treatment may be effective in such cases. First, representatives of the business family must actively request and organise a discussion of the incidents with the offending family. Because few members of large families have time for, or are interested in dealing with, a single relative’s misconduct, such offences are often not addressed or punished and therefore tacitly tolerated.

A discussion about the offence may significantly relax the situation. The reasons are determined; a warning is issued; possibilities for preventing such offences in the future are discussed, and measures for making amends are agreed. However, this requires intervention already to be considered as acceptable by all when developing the family strategy.

If such discussions fail, despite external assistance, or there are further offences despite an apparent resolution, the business family often has no choice but to exclude the offending member from certain activities of the business family.

However, if this person is also a shareholder, their shareholder rights may not be impaired by their exclusion from the business family; they must, therefore, continue to be fully informed about all facts relevant to the business.

Exclusion from joint family activities often leads to reflection on the part of the person excluded. Therefore, there should also always be an offer to return. But if the offending family member has no interest in being part of the business family, the relationship has often already been damaged severely. In this case, it must be determined how constructive cooperation with the shareholders may be possible, or whether leaving is preferable.

Central questions:

- **How should the family constitution be amended/adjusted/updated?**
- **Is there a cycle along which the business family should critically reflect on and review the family constitution for possible changes?**
- **How does the family treat one-time and repeat breaches of the family constitution and its rules?**

3 | FROM A FAMILY DOCUMENT TO A FAMILY STRATEGY IN PRACTICE

After the family constitution has been formulated, existing contracts (articles of association, inheritance rules, prenuptial agreements, etc.) may have to be adjusted to integrate family strategy considerations into existing contracts. It must be ensured that no unintended relationships are created between the family document and existing contracts by writing and signing a family constitution.[25] This may prove to be contentious, at least if the shareholders' agreement and the family constitution are explicitly linked to one another (e.g. through a reference in the preamble of the shareholders' agreement). In this case, the constitution may be considered part of the agreement in critical disputes between shareholders. The same applies if clear relationships between shareholders are regulated by a constitution instead of the shareholders' agreement.

However, it should be assumed that, in the case of dispute, a judge will use the family constitution to comment on and interpret existing contracts. It must, therefore, always be considered how the constitution may be understood by non-family members and how it may be used in arbitration and court decisions. It is, therefore, also important to have the results of the development of a family strategy reviewed critically by legal advisors before signing the family constitution. In some cases, it may be appropriate to formulate the solutions as additions to the current shareholder agreement or to adjust the entire shareholder agreement to the basic ideas developed in creating the family strategy.

A schematic overview of the implementation and 'practice' of the family strategy is provided in Figure 10:

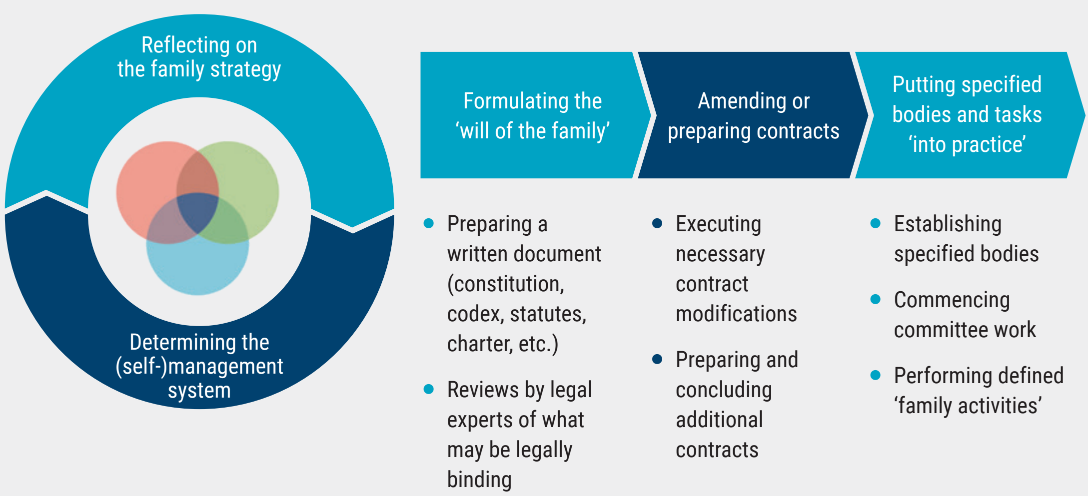


Figure 10: From a family strategy to family management in practice

[25] For further details, see the WIFU practical guide on the legal implementation of the family constitution as part of family governance, Rüsen et al. (2019c).

4 | INSIGHT INTO PRACTICE: EXCERPTS FROM THE 2019 WIFU STUDY

How do German family businesses shape relationships between the family business and the business family? To answer this question, the Witten Institute for Family Business (WIFU) conducted a study in April 2018 on the status quo of 'family strategies in business families'. This research project aimed to identify which elements of a family strategy are applied and to examine how family governance is implemented and practised by the business family and whether its intended purpose is fulfilled. Through their responses, 214 participants provided an insight into the practices of their businesses and families.[26]

This study made clear that the respondents were indeed aware that the relationship between the family business and the business family should be shaped purposefully. More than half of respondents (57 %) have articles of association that also define the good conduct of the family. Furthermore, family days (59 %) appear to be of great importance for strengthening solidarity between the family and the family business. At least 53 % of respondents have a 'welfare officer' or corresponding body from within the family.

OVERVIEW OF THE STUDY'S MAIN FINDINGS

The top 3 most frequently represented governance mechanisms:

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

The top 3 most-important governance mechanisms for the family:

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

The top 3 reasons for a family strategy:

I. Safeguarding the future of the business (93 %)
II. The increasing complexity of the business family (82 %)
III. Concern about solidarity within the business family (81 %)

The top 3 challenges of implementing a family strategy:

I. Integrating the rights and obligations of all members of the business family into daily life (50 %)
II. Communication within the business family (45 %)
III. Recognising rules as binding and the basis for everyone's actions (42 %)

The top 3 reasons why there is no family strategy yet:

I. Has not been necessary (46 %)
II. The business family is too small (39 %)
III. No agreement among shareholders (22 %)

[26] For further details, see Rüsen & Löhde (2021).

5 | FINAL REMARKS: FAMILY STRATEGY AS A PERMANENT TASK

This practical guide demonstrates that merely listing general values and institutions, or having an external advisor write a constitution, is not enough to support the complex relationship between a family and a business in a sustainable manner. The simple 'constitutions' often found in practice, frequently drafted during a 1 or 2-day workshop (sometimes only by one person before asking for it to be signed by the family), do not satisfy the needs of either family businesses or business families to create awareness and rules.

During such a process a business family may recognise that it no longer has common expectations. In these cases, it must be determined whether, and under which conditions, members of the family association may leave by selling their shares, after which shareholders will be limited to those parts of the family with a joint strategic vision as a business family. If the number of remaining family members is too small, or if the asking prices exceed the available financial means, the business must often be sold completely. The task of the family strategy is then to develop a new self-image or identity.

This practical guide aimed to explain the importance of the process of developing a family strategy for the future of the family business or business family.

What is the alternative? Those who continue to make family strategy decisions as before will have to hope that the familiar solutions remain applicable to their family situation and environment. Those who start a family strategy process will have to communicate a great deal within the family and face disputes and conflicts until a family strategy is decided. The far greater reward, beyond formulating the family strategy, is that the family will learn how it learns. It can then rely on this competence when faced with incidents and challenges that, until now, it could only imagine.

6 | BIBLIOGRAPHY

This practical guide is a translation of the German practical guide from 2019 and does not seek to represent the international literature on this subject.

- Astrachan, J. H. & Pieper, T. M. (2011): Developing responsible owners in family business. In: EQUA-Stiftung (Hrsg.), Gesellschafterkompetenz – Die Verantwortung der Eigentümer von Familienunternehmen. Bonn: Unternehmer Medien, pp. 102-110.
- Bretschneider, U.; Heider, A.; Rüsen, T. A.; Hülsbeck, M. (2020): Digitalisation strategies in family businesses – On specific digitalisation approaches for business families and family businesses. Practical Guide of the Witten Institute for Family Business (WIFU).
- Fletcher, D., Melin, L. & Gimeno, A. (2012): Culture and values in family business – A review and suggestions for future research. In: Journal of Family Business Strategy, 3, pp. 127-131.
- Gräfe, M. & Jeschke, D. (2016): Die internationale Unternehmerfamilie – eine Herausforderung der besonderen Art. In: May, P. & Bartels, P. (Hrsg.): Nachfolge im Familienunternehmen. Köln: Bundesanzeiger Verlag, pp. 255-276.
- Groth, T. & Schlippe, A. v. (2011): Gesellschafterkompetenz als Systemkompetenz. In: Equa-Stiftung (Hrsg.): Gesellschafterkompetenz. Die Verantwortung der Eigentümer von Familienunternehmen. Bonn: Unternehmer Medien, pp. 9-24.
- Hennerkes, B.-H. & Kirchdörfer, R. (2008): Der Verkauf des Familienunternehmens. In: Moll, W. (Ed.): Festschrift für Hans-Jochen Lüer zum 70. Geburtstag. München: Beck, pp. 535-560.
- Hennerkes, B.-H. & Kirchdörfer, R. (2015): Die Familie und ihr Unternehmen. Strategie, Liquidität, Kontrolle. Frankfurt: Campus, pp. 362 ff.
- Horváth, P., Kirchdörfer, R. & Schlippe, A. v. (2015): Gesellschafterkompetenz – der gut informierte Gesellschafter. In: Familienunternehmen und Stiftungen, 4, pp. 3-6.
- Kaye, K. (1996): When the family business is a sickness. In: Family Business Review, 9 (4), pp. 347-368.
- Kirchdörfer, R. (2018): Der Beirat in Familienunternehmen. Brückenschlag zwischen Rationalität und Emotionalität. WIFU-Praxisleitfaden. Witten: WIFU.
- Kirchdörfer, R. & Lorz, R. (2009): Freiwilliges und erzwungenes Ausscheiden von Gesellschaftern aus Familienunternehmen. In: Kirchdörfer, R., Lorz, R., Wiedemann, A., Kögel, R. & Frohnmayer, T. (Hrsg.): Familienunternehmen in Recht, Wirtschaft, Politik und Gesellschaft. München: Beck, pp. 343-367.

- Kirchdörfer, R. & Lorz, R. (2013): Die internationale Unternehmerfamilie - was ist zu beachten? In: Familienunternehmen und Stiftungen, 3, pp. 127-134.

- Kirchdörfer, R. & Lorz, R. (2016): Die internationale Unternehmerfamilie. Neuere Entwicklungen, Gestaltungsfallen und Vermeidungsstrategien. In: Familienunternehmen und Stiftungen, 6, pp. 114–121.

- Kormann, H. (2008): Beiräte in der Verantwortung. Aufsicht und Rat in Familienunternehmen. Berlin: Springer.

- Kormann, H. (2014): Die Arbeit der Beiräte in Familienunternehmen: Gute Governance durch Aufsichtsgremien. Berlin: Springer.

- Kormann, H. (2015): Strategie: Was ein Gesellschafter über Strategie wissen muss. In: Familienunternehmen und Stiftungen, 5, pp. 70-73.

- Layer, B. & Claß, G. (2014): Vermögen im Ausland – was sind die steuerlichen Folgen? In: Familienunternehmen und Stiftungen, 3, pp. 91-98.

- May, P. & Ebel, K. (2016): Der Notfallplan – ein unverzichtbares Element der Nachfolgeplanung. In: May, P. & Bartels, P. (Eds.): Nachfolge im Familienunternehmen. Köln: Bundesanzeiger Verlag. pp. 277-288.

- Obermaier, O. W. (2019): Familienunternehmer als externe Beiräte. Empirische Untersuchung einer häufig gewählten Besetzung: Wie gut ist sie wirklich? Wittener Schriften zu Familienunternehmen, Band 26. Göttingen: Vandenhoeck & Ruprecht Unipress.

- Rüsen, T. A. (2008): Krisen und Krisenmanagement in Familienunternehmen: Schwachstellen erkennen, Lösungen erarbeiten, Existenzbedrohung meistern. Wiesbaden: Gabler Verlag. pp. 150 ff.

- Rüsen, T. A. (2014): Typische Inhalte und Regelwerke in Familienverfassungen. Unveröffentlichter Vortrag im Rahmen der 20. Trägersitzung des Wittener Instituts für Familienunternehmen (WIFU).

- Rüsen, T. A. (2017): Family Compliance als Bestandteil der Familienstrategie. In: FuS – Familienunternehmen und Strategie, 04/2017, pp. 120-125.

- Rüsen, T. A. (2019): Professional Ownership in Business Families – The success factor for long-lasting family businesses. Practical Guide of the Witten Institute for Family Business (WIFU).

- Rüsen, T. A. & Löhde, A. S. (2021): The Business Family and its Family Strategy – Insights into the lived Practice of Family Governance. Study of the Witten Institute for Family Business (WIFU). Witten: WIFU.

- Rüsen, T. A.; Heider, A.; Hülsbeck, M. & Bretschneider, U. (Rüsen et al. 2019a): Die digitalisierte Unternehmerfamilie – Spezifische Einflüsse und Herausforderungen für Digitalisierungsdynamiken in Familienunternehmen. In: FuS – Familienunternehmen und Strategie. 03/2019, pp. 90-95.

- Rüsen, T. A.; Schlippe, A. v., Groth, T., Gimeno A. (2020): Mental Models of Family Business – How Business Families see themselves and their connection to the Family Business. Practical Guide of the Witten Institute for Family Business (WIFU).

- Rüsen, T. A.; Schlippe, A. v.; Richter, A. & Hueck, T. (Rüsen et al. 2019c): Die Familienverfassung als Instrument der Family Governance und ihre juristische Umsetzung. WIFU-Praxisleitfaden. Witten: WIFU.

- Schlippe, A. v.; Rüsen, T. A. & Groth, T. (2021): The Two Sides of the Business Family. Governance and Strategy Across Generations. Springer International Publishing.
- Schlippe, A. v.; Groth, T. & Plate, M. (2011): Entscheidungsfähigkeit sicherstellen: Familienstrategie und Familienmanagement in Familienunternehmen. In: Plate, M. et al., Große deutsche Familienunternehmen. Göttingen: Vandenhoeck & Ruprecht, pp. 522-562.
- Wimmer, R. & Groth, T. (2008): Wachstumsschmerzen. Wie Familienunternehmen Wachstum bewältigen. In: Unternehmermagazin, 10, pp. 28-29.

CONTACT

EDITOR

The WIFU Foundation

The non-profit WIFU Foundation, founded in 2009, is committed to promoting not only research and teaching, but in particular practice transfer in the field of family entrepreneurship. Our most important supporters include around 80 family businesses from German-speaking countries. The focus of our activities is the acquisition, communication and dissemination of high-quality and current-issue-related knowledge on family businesses and business families.

Our funds are primarily used to establish and maintain chairs, to support research projects and to award scholarships to young scientists. One focus of our funding is to support the work of the Witten Institute for Family Business (WIFU), based at Witten/Herdecke University, with its three research and teaching areas of business administration, law and psychology/sociology. The WIFU has been making a significant contribution to the cross-generational sustainability of family businesses in the field of research and teaching for almost 25 years.

Another focus of our work is the organization and execution of congresses and other events on family entrepreneurship-related topics. Practice-oriented knowledge and skills to promote succession in the management of family businesses within the business family are conveyed in working groups, training courses and other formats. Our events are characterized by a protected framework which provides room for an intimate and open exchange. A comprehensive and active public relations work for research results in the field of family entrepreneurship completes the range of tasks of the WIFU Foundation.

AUTHORS

Prof. Dr. Tom A. Rüsen
Managing Director of the WIFU
CEO of the WIFU Foundation

Prof. Dr. Arist von Schlippe
Holder of the WIFU Endowment Chair of Leadership and Dynamics in Family Businesses

Witten Institute for Family Business (WIFU)
Department of Management and Entrepreneurship
Faculty of Management, Economics and Society
Witten/Herdecke University
Alfred-Herrhausen-Strasse 48
58448 Witten
Germany

Email: tom.ruesen@uni-wh.de
Email: arist.vonschlippe@uni-wh.de
Tel: +49 2302 926-513

Torsten Groth
Independent organisational consultant
Groth Consulting
Rudolf-Schmitz-Weg 39
48165 Münster
Germany

WWW.WIFU.DE

Alfred-Herrhausen-Strasse 48
58448 Witten
Germany
Email: herausgeber@wifu.de
Tel: +49 2302 926-510

www.wifu.de
https://de.linkedin.com/company/wifu-stiftung