WIFU_compact_01: Mental Models

Family businesses of similar size and age, even within the same industry, often differ to an extent that is inexplicable at first glance. Their corporate governance models, which evolved over generations, show more differences than similarities.

How is this?

To explain these differences, WIFU uses a model now well established in research – encompassing the so-called "mental models".

What is it?

A mental model is an image of the world, its nature and an individual's place within it. This image is malleable and is shared and supported by the people around the individual. The mental model is the lens through which a person – or a group, such as a business family – views reality: their reality as a family and the reality of their business. This gives rise to heuristics by means of which the business family acts and takes decisions concerning business strategies, succession, the use of family wealth or many other issues. It is, therefore, an effective model in social systems and one that characterises communication and behaviour.

Which mental models exist?

Research and practice identify four distinct mental models, which are briefly described in this episode of WIFU_compact along with their characteristics and typical challenges. The sequence from "patriarch" to "investor" is not inevitable but is frequently observed in practice.

1 THE PATRIARCHAL LOGIC

This is based on the idea that "someone has to do it". The patriarch (still rarely the matriarch) is the leader. He knows everything and everyone; he takes the decisions and also the responsibility. This model reaches its critical phase in the transition phase of succession planning when the one-person principle is often replaced by the multi-person principle and the business family becomes more professional. The topic of "letting go" is important for both the leader and those around them.

2 MANAGING FAMILY

This operates under the guiding principle that "as a team we are invincible". In this model, often found in second- or third-generation businesses, the firm takes precedence over individual interests. For the family, its members must be represented in the management of the business. Sensitive issues in this model include balancing family and business, power and legitimacy, and addressing varying competencies and interests.

3 CONTROLLING FAMILY

This model is characterised by the idea that "we control, but we do not manage the business". Here, the business family is represented in controlling and supervisory bodies, but its identity as a family is no longer linked to active involvement in the business. The family needs, in this model, to remain capable of taking decisions as a family and to counteract a gradual loss of familiarity. Appropriate training for shareholders can develop the required competencies for participation in committees.

4 INVESTMENT FAMILY

"We manage and optimise our capital together" is the guiding principle of the investment family, meaning that ties to the firm of origin are weak or have diminished over generations. The focus is now on the return on the family capital rather than on positions in the business or its committees. In this model, the central task is to maintain family bonds and find a (preferably) meaningful way of managing capital.

Is such a model fixed forever?

No, a mental model emerges and fades with the people who live with and within it. For this reason, transition scenarios such as succession procedures are typically scenarios of erosion and transformation into another model. At such transition points, it becomes clear – sometimes dramatically so – that the previous model no longer commands confidence or is even rejected. The entire self-image of the business family is put on trial; ways of dealing with one another, traditional roles and patterns of decision-making will change.

Every business family would be well advised to clarify its current mental model. Every model is effectively twofold: it provides orientation, yet can equally lead to routine and stagnation. Change and transition to another model are only possible when business families acknowledge their current reasoning. Correspondingly, any modifications to family governance or corporate governance can only be successful when they are implemented in accordance with the specific mental model adopted.

Can’t we just continue with the traditional model?

Indeed, sometimes people try to adopt the familiar model used by the previous generation. They will find, however, that the framework conditions (for example, the size of the family or business, or the life plans of the successor generation) have changed meanwhile and it is no longer possible or sensible simply to continue past practice. If, on the other hand, a business family agrees to prepare for and/or accompany a change in the mental model with a family strategic process, the potential conflicts are considerably reduced.

How does a business family find an appropriate model?

The transition phase can prove to be prone to conflict as those involved are often unaware of both the frameworks of thinking and values that they are leaving behind and the new model they are heading towards. Every business family should take time to develop a well-considered family strategy. The change in mental model will follow inevitably. It is crucial for the survival of the family business that this change is shaped actively and purposefully.

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