



## WIFU\_compact\_26:

# The Branch Organisation of Business Families

The organisation of a business family in branches is considered by researchers to carry a high risk for both the family and the business; yet many older business families are structured in precisely this way. Contrary to expectations, it seems to work in many cases, which raises the question of the mechanisms by which these family branches cooperate, or at least coexist in a way that does not harm the joint business.

### How does a branch organisation emerge?

Other than financial motives, it is usually family-related considerations that lead to this structure.

- 1 An important motive is that of justice, often understood in families as equality. This leads to a mixing of the system logics of “business” and “family” and thus to the fact that, in the process of succession planning, the founder does not allocate shares in the business to their children according to individual ability or performance, but treats everyone equally (“fairly”). Even in the next generation, however, the shares of a family with many children are more fragmented than those of families with fewer children. Branches, on the other hand, preserve the predetermined ratio of shares.
- 2 Another important motive is the need for unity in shareholder matters. Otherwise, simple majority decisions are made at shareholder meetings which, especially in the case of large, scattered business families, by no means reliably lead to decisions in the best interests of the business. Moreover, there are then winners and losers in votes, and this leads not only to emotional upheaval but could also have an adverse effect on the reputation of the business as a whole.

### Common ancestors, or: What characterises a branch organisation.

It is generally accepted that the defining characteristic of a branch-led business family is the legal cementing of this form. Such arrangements may include the following provisions:

- Inheritance, donation and sale are only possible within one’s own branch; capital relations between branches are thus unchangeable.
- Each branch is represented by a representative at the shareholder meeting.
- Prior to the shareholder meeting, a decision-making process takes place within the individual branches.
- Each branch has defined rights of delegation to top management and/or supervisory and control bodies.

However, while the above rules are effective in establishing this form of organisation, they are less suitable for regulating *actual* family interaction between branches. This requires other – sometimes explicit, sometimes very subtle – rules of cooperation.

### Are the good intentions of the founding generation then doomed to failure from the start?

Not necessarily, but good intentions are strengthened when the consequences of the family system mindset are understood and managed. For example, if the founder, in the *role of father or mother*, has decided to treat all children equally as shareholders, they should ask themselves in the *role of entrepreneurs* how this model can ensure the continuity of the business and prevent branch feuds. Branch organisations can indeed have advantages that should be exploited and encouraged:

- The branch principle can strengthen the family’s decision-making capacity. Discussions are shifted to the branches, taking pressure off the official shareholder meetings. The branch representatives then represent the interests of their branch, which have already been agreed.
- The focus on branch interests rather than individual interests is likely to keep the shareholder meeting free of conflict. Any potentially heated or emotional discussions take place within the branch.
- The exchange of information within the branch is generally better than at the level of the larger family. Firstly, the leadership is preoccupied with other tasks than exchanging information with individual family members. Secondly, branch debates provide a forum for younger members to take part in the discussion without fear of embarrassment. Of course, branch leaders must carry out their role as spokespersons in both (!) directions responsibly.



- Belonging to a branch association has a strong integrating effect and gives the owners of even small shareholdings the security of belonging – an important safeguard against alienation and secession.

### Why, then, do violent branch conflicts occur so often?

Branch organisation has its pitfalls; if these are not recognised in time or are ignored, conflicts can escalate in a way that damages the organisation.

- One of the main causes of branch feuds is ‘frozen’ conflicts between siblings, i.e. the children of the founders. If these conflicts and rivalries are not addressed, they often develop into irreconcilable us-versus-them feelings. Sometimes the children are actively exploited; sometimes jealousy, anger and mistrust become an unspoken and unquestioned part of the branch tradition. Branch organisations resulting from multiple marriages of the founder are particularly vulnerable.
- A disadvantage of the branch principle is evident in stalemate situations. An even number of branches is particularly susceptible to stalemate, but an odd number of branches can also find themselves in a stalemate situation, depending on the majorities required. Business families may try to avoid such situations by avoiding controversial issues. Sooner or later, however, this proves detrimental to the business.
- The advantage of an intra-branch decision-making process can turn into a disadvantage – for example, when particularly assertive individuals dominate the discourse, and relevant arguments made by others are discounted. Diversity of opinion within the branch is then lost.
- Fixed appointment rights may be seen as the ancestral property of a branch to such an extent that positions are filled with unsuitable family members rather than being given to another branch.
- Finally, a serious risk arises when a shareholder wants to leave. If the other members of the branch cannot or do not want to take over these shares, the whole branch may decide to leave, just to avoid making another branch “stronger”. However, the payout of an entire branch may result in the business having to address a significant equity gap.

### What do well-functioning branch organisations do better than those in conflict?

In reality, branches cooperate better in some families than others. An explanation of where the differences lie can be found in the next episode of WIFU\_compact: Branch Organisations – A Matter of Type.

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#### Reference:

This episode of WIFU\_compact is based on the practical guide “Die Organisation der Unternehmerfamilie in Stämmen” by Jakob Ammer, published in 2022.