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Attitudes Towards Money Can Cloud Family Business Decisions

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In our work with business families, we encounter a wide range of approaches for establishing financial targets and making financial business decisions. Interestingly, such practices often diverge from the financial realities of the business, instead reflecting the family's attitudes and values regarding wealth and money. Predictably, this often leads to challenges on both the business and familial fronts.

In this short article, we explore the relationship between a family's orientation towards money and wealth – what financial psychologists call "money scripts" – and financial decision-making in the business. Building on our previous contribution (https://www.familybusiness.org/content/punishment-reward-control-how-money-shows-up-in-the-business-fam) , we discuss how money scripts can shape financial objectives and financial business decisions, and we offer practical recommendations for business families and their advisors.

Money Scripts and Financial Business Decisions

Many of the conflicts faced by multigenerational business families are, in one way or another, linked to money. Whether it is figuring out how much money to take out of the business or deciding how much family members should get paid, financial choices at the crossroads of family and business bear great potential for conflict. In many cases, family members have different attitudes towards money and wealth – some view it as a source of status, others as a source of freedom; some feel shameful about being wealthy, while others flaunt their wealth without guilt; and some prefer to save, and others prefer to spend. Such attitudinal differences make it easy to judge one another, and very difficult to make financial decisions together, for example when it comes to determining the extent of financial distributions, establishing compensation for family members involved in the business, and defining the family's comfort level with debt.

Depending on their shared orientation toward money and wealth, each family sets their parameters for financial decisions. While some families prioritize paying generous dividends over re-investing profits to grow the business, others pride themselves in not making any financial distributions to the shareholders. Similarly, certain families are adamant about pursuing a zero-leverage strategy with no external capital, whereas others are comfortable with a significant level of debt. These decisions have a tremendous effect on long-term organizational outcomes: performance, growth, and employer attractiveness, to name a few. Yet we have a very limited understanding of the role family owners play in this process.

Money scripts – an individual's or a group's attitudes toward money and wealth – can help us understand business families' seemingly irrational financial decisions, such as underpaying a family employee or choosing not to distribute profits to shareholders. A family's collective money script can lead to financial choices that align with the family's identity and values, even if these choices seem to diverge from standard financial objectives. For example, a shared money script of *money avoidance* might manifest in setting conservative ROE targets, or not paying dividends to family shareholders. In these cases, family shareholders may view themselves as mere stewards of the business and may believe that pursuing profit is not worthwhile or morally justifiable.

For example, a recent survey conducted by *Family Business Magazine* shows that almost 20% of the nearly 300 respondents decided not to pay dividends. Or, when deciding on an appropriate level of debt, a tendency to avoid external debt could indicate a fear or disdain for relinquishing control. Remaining independent, as expressed by a lack of financial ties to outsiders, may be valued more than meeting growth or profit targets. Conversely, a *money status* orientation might drive a family to set ambitious financial targets or to take on significant debt, motivated by the family's desire for prestige, or based on unfounded assumptions of strategic market advantage. Agreeing on taking on high levels of debt or setting dividends that drain the company's financial resources might be a sign of a *money worship* orientation, where the family shareholders prioritize short-term access to financial resources over the long-term prosperity of the business.

The Black Box of Financial Decisions in the Family Business

Family shareholders are ideally involved in important financial business decisions such as setting ROE and profit growth expectations, deciding on the capital structure (*i.e.,* level of debt), and defining the dividend policy. Other financial topics they may weigh in on, but likely to a lesser degree, include investments (*i.e.,* risk proclivity, expected return), compensating family members working in the business, and granting loans to family members (*i.e.,* requirements, conditions).

What we observe in practice is that families often set financial targets that are at odds with other financial or non-financial goals, or simply unattainable, based on wishful thinking, poor judgment, or bad data. Take, for example, the family that sold part of their operating business for $30 million and who wanted to double their wealth over the next decade – with significant payouts, minimal risk, and zero leverage, since they *"did not want to sacrifice their independence."* A simple spreadsheet model showed the family that their financial goals, within the parameters they had set, were simply unattainable. The family went back to the drawing board and over several months decided on sustainable distributions, a more sensible timeline, and an appropriate distribution of risk across their investments.

Another scenario we come across frequently is a mismatch in financial distributions and growth expectations. We often encounter this in families that are adamant about maintaining a certain lifestyle for their family members – the same that prior generations enjoyed – fueled by cash infusions from the business. They decide on generous dividends, seemingly oblivious to the fact that they are effectively rendering their family enterprise incapable of growing. Because they are unwilling to renegotiate their financial needs and wants now, they rob future generations of owners of their family legacy. You cannot have your cake and eat it, too.

Three Simple Recommendations for Business Families and Their Advisors

1. Know Your Family's Money Script(s)

Identifying and understanding dominant money scripts within business families is vital, as these influence critical financial decisions including investment choices, growth targets, approaches to debt and equity, shareholder liquidity, and compensation policies. Understanding what (even if only partly) drives these decisions is an important step toward avoiding financial decisions that are driven by emotions and needs rather than grounded in reality. *Many tools available online can help structure and facilitate conversations that lead to more transparency around individual and shared money scripts in family groups, such as the Klontz Money Script Inventory.*

2. Set Reasonable Financial Goals

Many business-owning families neglect to intentionally set and communicate as well as periodically revise their financial (and non-financial!) expectations vis-à-vis the business. As the family grows (sometimes exponentially), we must adjust our financial expectations from the business. Too many families drag out this conversation – and it is a hard one to have! Telling your family members that they have to lower their financial expectations, which might potentially mean making adjustments to their lifestyle, is not easy, and often not received well. Not having the conversation, however, means taking away resources from the business that it needs to grow – so that it can provide something for future generations. *Long-lasting business families understand the importance of prioritizing long-term gains over short-term rewards, even if it requires sacrificing immediate benefits.*

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3. Encourage Financial Literacy

Making sound financial decisions requires financial literacy – something that has been consistently reported as lacking among current and next generations of family business owners and stewards. Financial literacy programs enhance the financial acumen of family members, ensuring that their understanding of financial matters is consistent with both family values and business objectives. *Many financial service providers offer webinars and in-person workshops for next gens looking to improve their financial understanding. For family members serving on the board, pre-board meetings with the CFO can be effective in helping them feel prepared and empowered to ask sensible questions during the board meeting.*

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