

# The Hidden Fault Lines That Threaten Family Enterprises

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From death and divorce to disruption and disrepute: these 12 hidden risks can weaken family enterprises over time.

Family enterprises are often admired for their long-term orientation, strong values, and ability to balance performance with purpose. Yet beneath these strengths lies a distinctive complexity: the constant interplay among family relationships, ownership structures, and business decisions.

When that interplay works well, it becomes a source of resilience and continuity. When it does not, tensions can quietly accumulate until they surface in ways that threaten both the business and the family behind it.

For decades, scholars and practitioners have observed that many of these breakdowns follow recognizable patterns. Joachim Schwass, Professor Emeritus at IMD Business School, captured this insight in his framework of the “6 Ds”: Death, Departure, Deterioration, Disinterest, Distrust, and Divorce. These are not isolated events, but recurring fault lines that shape family-enterprise continuity across generations.

Today, however, family enterprises operate in a more complex and transparent environment. Globalization, generational shifts, dispersed ownership, professionalization, and heightened reputational exposure are introducing new sources of tension, often interacting with the original six in subtle but powerful ways.

This article builds on Schwass’s work to propose an expanded “12 Ds” framework: a practical lens for leaders, owners, and advisers to anticipate risks, strengthen governance, and sustain continuity in an increasingly demanding context.

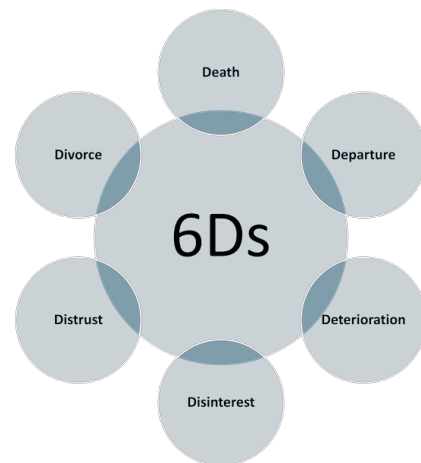


Figure 1: The original 6 Ds that can challenge the dynamics and continuity of ownership, family, and/or business structures. Adapted from “Wise Wealth” by Joachim Schwass (2010).

## Extending the Framework: From 6 to 12 Ds

Schwass’s original model remains a valuable point of reference. But contemporary family enterprises now operate in a markedly more complex environment, shaped by globalization, professional management, dispersed ownership, generational divergence, and reputational exposure.

The expanded 12 Ds framework adds six complementary dynamics — Dilution, Disconnection, Displacement, Disrepute, Disruption, and Divergence — that further influence continuity and harmony within the family enterprise. Taken together, the 12 Ds offer a more comprehensive way to assess resilience, identify risks, take preventive measures, and reinforce strengths before matters escalate.

Each “D” represents a potential point of disruption or inflection: a moment at which continuity, trust, or shared purpose may begin to fray. Clusters 1 and 2 focus

primarily on people and relationships; Clusters 3 and 4 address structure and strategy. Understanding which cluster is under pressure helps families prioritise their responses — whether through governance mechanisms, communication routines, education and development, or a calm and neutral external presence.

## Cluster 1: Emotional & Interpersonal

At the heart of every family enterprise lies a web of relationships that both strengthens and complicates the system. Emotional undercurrents — trust, connection, engagement, and family bonds — often shape decisions as much as strategy or governance. When these relational foundations weaken, tensions can undermine collaboration, cohesion, and long-term continuity.

### Disconnection (new D)

As families grow and globalize, emotional disconnection can become a quiet but powerful force. Geographic distance, generational gaps, and the absence of shared experiences gradually weaken family bonds. This is especially evident in globally dispersed families whose branches live, work, and socialise in very different contexts.

In one international family enterprise spanning Europe, Asia, and North America, ownership remained tightly held, but relationships did not. Younger family members had little contact beyond formal meetings, and many had never spent extended time together. Family gatherings became infrequent and highly structured, leaving little room for genuine connection. Over time, the family no longer even shared one common language. Decision-making became impersonal, trust weakened, and disagreements escalated more quickly. The business remained profitable, but the family system began to resemble a collection of satellites — connected by ownership, but drifting apart.

What helped arrest the drift was a renewed focus on connection rather than control. The family began with two fundamental questions: “Why are we better off together than alone?” and “What is the value proposition for future owners to stay together?” It then reintroduced regular rituals, rotating in-person gatherings, shared learning, informal interaction, storytelling, and collective reflection. It also created family-related services and activities that made the family enterprise feel like an attractive “members-only club” worth staying involved with, even for members whose ownership stakes were marginal.

### Disinterest (original D)

Disinterest, especially among next-generation members, often emerges not from lack of capability, but from lack of connection. When individuals feel detached from the enterprise’s purpose or marginalized in decision-making, enthusiasm wanes. Re-engagement requires more than encouragement; it calls for genuine opportunities to contribute, thoughtful mentorship, and a clear understanding of ownership and responsibility.

Charles, a next-generation member of a successful French family business, looked on paper like an ideal successor: well-educated, well-connected, and carefully prepared. In practice, he found himself questioning whether the enterprise’s direction aligned with his values. Governance discussions felt ceremonial; senior family members dominated the conversation; and innovation was acknowledged politely before being set aside. Charles began exploring impact-driven ventures outside the family enterprise, and other next-generation members soon began privately questioning their own relevance.

Disinterest can be contagious. Addressing it requires early, intentional engagement of the next generation across the wider family ecosystem. Involving them meaningfully in governance, projects, and strategic initiatives restores ownership and agency. Education, mentoring, and development opportunities equip them with skills, confidence, and motivation. When next-generation members are invited to help shape the future, rather than merely inherit it, interest tends to return.

### Distrust (original D)

Distrust is often the most corrosive challenge in a family enterprise. It may arise from perceived favoritism, limited transparency, unequal access to information, or long-standing grievances. Once trust erodes, it is difficult to restore, and decision-making can slow to the point of polite but determined paralysis.

In a multi-generational luxury goods business, tensions among G3 cousins centred on perceived favoritism in board appointments and unclear dividend decisions. G3 members felt excluded from decisions taken by G2. Rumors circulated about unequal compensation and undisclosed asset transfers — none officially confirmed, but all discussed with remarkable certainty. Family council meetings became performative, with substantive decisions made elsewhere and reported back only once

concluded.

Repairing distrust requires deliberate and sustained effort. Clear governance structures, transparent communication, regular family meetings, and independent chairs or advisers can help restore confidence when trust has been compromised and patience is wearing thin.

### **Divorce (original D)**

Divorce can destabilize both family and enterprise, particularly when ownership and leadership roles are intertwined. What begins as a personal matter can quickly enter boardrooms, shareholder meetings, and succession plans. Legal disputes and emotional strain can divide siblings, complicate decision-making, and test even carefully drafted family constitutions.

Arturo and Maria co-founded and jointly led a business in northern Spain. After their marriage ended, Maria regarded herself as an equal owner, but the legal documentation listed Arturo alone as shareholder. With no prenuptial agreement and incomplete formal records, the divorce triggered a contentious valuation process and uncertainty around control and succession. Employees took sides, strategic decisions were postponed, and their children, once aligned around succession, found themselves divided.

No agreement can prevent a marriage from ending. But thoughtful preparation can prevent the business from unravelling alongside it. Prenuptial or postnuptial agreements, supported by clear shareholder arrangements and open dialogue, help ensure that personal change does not become enterprise turbulence.

## **Cluster 2: Continuity & Succession**

Family enterprises must constantly navigate transition. Death, declining health, leadership change, and unexpected departures can create uncertainty that tests governance structures and family resilience. Thoughtful preparation helps preserve continuity even when circumstances shift suddenly or emotionally.

### **Death (original D)**

The death of a key family leader, especially a founder or CEO, is one of the most severe stress tests a family enterprise can face. Alongside personal loss, families confront operational uncertainty, unanswered questions, and decisions that cannot be postponed. Where

succession and contingency planning are unclear, grief can quickly become governance paralysis.

Following the sudden death of the CEO of a large Dutch conglomerate, the family discovered both the extent of the company's financial difficulties and the absence of a clear succession plan. Her husband and three children had varying levels of experience in the business. The board was divided over whether leadership should remain within the family or move to an external executive, with neither option commanding consensus.

Preparing for such moments requires foresight rather than optimism. A documented succession plan should identify potential successors, define the leadership-transition process, and be communicated before crisis strikes. Cross-training family members and key executives also helps the enterprise continue operating while the family grieves. A dedicated continuity task force — combining family members, shareholders, board members, executives, and trusted advisers — can be documented in the annex of a shareholder agreement.

### **Departure (original D)**

When a family member leaves the enterprise or family system, whether by choice or under strain, the effects ripple beyond the balance sheet. Ownership structures, emotional ties, and long-held assumptions are all affected. Without clear exit frameworks, departures risk becoming enduring fault lines rather than orderly transitions.

In one multi-branch family enterprise, a sibling chose to exit after years of feeling marginalized. On the surface, the departure was amicable. In practice, it exposed major gaps in ownership agreements and succession planning, including the risk that outside, non-family shareholders could enter what had previously been a fully family-controlled system. Voting rights had to be renegotiated, governance structures reworked, and long-term strategy revisited.

Managing departures well requires clarity in advance. Buy-sell agreements should define valuation mechanisms, intra-family discounts, timelines, transfer funding, rights of first refusal, and permitted buyer groups. These matters should be settled ex ante in shareholder agreements, not negotiated for the first time when someone wants to leave. With transparency and respect, departure can mark evolution rather than

rupture.

### **Deterioration (original D)**

Deterioration can involve declining health, reduced motivation, or gradual erosion of performance. In family enterprises, acknowledging such changes can be difficult, especially when strength and resilience are tied to identity. Silence, however well intentioned, rarely proves sustainable.

Tomas, a next-generation leader in his family's shipping business, was successful and well regarded until the company lost its largest client. His father's severe reaction triggered a downward spiral. Tomas began experiencing anxiety and depression, affecting his confidence and decision-making. Because the family avoided the issue, miscommunication increased, trust eroded, and decisions stalled. The enterprise was weakened not only by the commercial setback, but by the refusal to confront its human consequences.

Addressing deterioration requires preparation and compassion. Contingency plans should identify interim leaders who can step in without judgement or drama. Families must also normalize conversations about wellbeing and mental health. Support and accommodation can protect both continuity and dignity.

### **Displacement (new D)**

Displacement occurs when non-family executives or an external CEO assume leadership roles previously held by family members. This transition can strengthen professionalism, bring fresh perspective, and introduce rigor. But it can also trigger insecurity, identity concerns, and a sense that control is slipping away.

In a fourth-generation manufacturing family, the appointment of a first non-family CEO improved operational performance almost immediately. Less visibly, several family members withdrew, feeling the business was drifting away from them. Informal decision-making continued outside formal forums; the CEO received mixed signals from different branches; and board meetings became exercises in polite ambiguity. The issue was not competence, but clarity: No one had agreed how the family and professional management were meant to work together.

The relationship stabilized only when the family revisited its governance arrangements: establishing a clear family council; reaffirming the board's mandate; clarifying the

desired interaction among family, board, and management; and redefining the family's purpose beyond day-to-day management. When the family's contribution is explicit, displacement becomes less about loss and more about evolution.

### **Cluster 3: Governance & Ownership**

As families grow across generations, ownership and governance naturally become more complex. Differences in priorities, risk appetite, and financial needs emerge between branches and generations, while ownership becomes increasingly fragmented. Managing these dynamics requires frameworks that balance unity with diversity of perspective.

### **Dilution (new D)**

As ownership passes through generations, shareholdings fragment and influence becomes more diffuse. What was once a clear sense of responsibility can soften into something abstract. When individuals feel their stake is too small to matter, engagement declines. Stewardship becomes more theoretical than lived.

In a fifth-generation family enterprise in the food sector, ownership had spread across more than 30 cousins. Individual shareholdings were modest; voting rights felt symbolic; and decision-making seemed remote. Several family members expressed pride in the family name but little connection to the business itself. One put it simply: "I own shares, but I don't really feel like an owner." Attendance at family meetings declined, shareholder communications went unread, and informal commentary replaced formal engagement.

The turning point came when the family addressed dilution on two fronts. First, it invested in ownership education and clearer shareholder communication, reinforcing what ownership meant across generations. Second, it introduced flexible buy-sell agreements that allowed disengaged shareholders to exit on fair, transparent terms without jeopardizing family control. Those who remained did so by choice rather than default.

Managing dilution requires intentional design: periodic ownership consolidation, education programs tailored to life stage, transparent communication, and legitimate exit mechanisms. Families also need strategies to grow broader family wealth, so that even as each person's share of the pie decreases, the size of the pie grows

faster than the family itself.

### **Divergence (new D)**

Over time, family members or branches naturally diverge in values, financial needs, and strategic outlook. What once felt like a shared direction can fragment into differing visions. Divergence is rarely dramatic; it usually surfaces through mismatched priorities rather than open conflict.

In one long-standing, multi-generational family enterprise, some branches were closely connected to the operating company through board roles and historical influence, while others were primarily financial shareholders. Those closer to the business favored long-term transformation and reinvestment; others prioritized stability and higher dividends. Meetings remained courteous, but informal alliances formed, decision-making slowed, and frustration grew.

Managing divergence does not require uniformity. It requires clarity. Facilitated dialog and family retreats can surface differences constructively. A revised family charter and shareholder agreements can clarify shared principles, balance branch representation, and offer tactical options for shareholders with personal liquidity needs to sell some shares to branches with stronger affinity to the business.

## **Cluster 4: Strategic & Reputational**

Beyond internal family dynamics, family enterprises must navigate external pressures that shape their long-term trajectory. Technological change, market disruption, and reputational risks can challenge even the most established businesses and family legacies. Families that combine strategic agility with strong values and responsible stewardship are better positioned to protect both enterprise and name.

### **Disrepute (new D)**

Reputation is one of a family enterprise's most valuable and fragile assets. Built slowly over generations, it can be eroded with remarkable speed by scandal or irresponsible behaviour. When reputation falters, the impact is rarely confined to the business; it extends to the family name itself.

A striking illustration comes from a prominent European banking dynasty whose family-controlled financial group had been built over more than a century. The institution had long been regarded as a pillar of stability and trust.

Behind the scenes, however, a complex web of interconnected companies accumulated large, poorly disclosed debts. Reassuring signals to investors and regulators masked growing financial risks. The collapse of the flagship bank in the mid-2010s triggered regulatory intervention, criminal investigations, and significant investor losses. The family name became associated with scandal and mismanagement, eroding a reputation generations had built.

The lesson is clear: reputation is not only a business asset, but also a family asset. Protecting it requires strong governance, clear ethical standards, and willingness to confront risks early — before they escalate into crises affecting both enterprise and legacy.

### **Disruption (new D)**

External disruption — societal, technological, environmental, economic, or political — often arrives uninvited and at inconvenient moments. The challenge is rarely awareness alone. It is the difficulty of acting decisively when disruption threatens long-standing assumptions, successful business models, and comfortable ways of working.

A familiar example is the once-dominant imaging company that built its success around chemical film photography. The organization had pioneered early digital imaging technology internally, even developing one of the first digital cameras in the 1970s. Yet leaders hesitated to commercialize the innovation because it threatened the profitable core business that had defined the company's identity.

By the time the company pivoted, competitors had taken dominant positions in digital photography. The enterprise eventually entered bankruptcy protection and reemerged in much smaller form. The lesson is that recognizing disruption is not the same as responding to it. Emotional attachment to legacy success can delay necessary transformation.

## **Interpreting the 12 Ds: Implications, Dos & Don'ts**

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*Figure 2: Interpreting the 12 Ds, implications, and dos and don'ts.*

| 12 D  | Definition  | Implications for the family enterprises ecosystem                          | Dos & Don'ts for families  |
|---|---|--|--|
| <b>CLUSTER 1: EMOTIONAL &amp; INTERPERSONAL</b> |   |  |  |
| <b>Disconnection</b>                            | Emotional or geographic distance among family branches.   | Reduces shared identity and weakens unity across generations.              | <b>Do:</b> Maintain rituals, gatherings, and shared learning.<br><b>Don't:</b> Let distance replace dialogue.                                      |
| <b>Disinterest</b>                              | Loss of engagement, especially from next-generation members, due to lack of inclusion or purpose. | Weakens succession pipeline and emotional ownership.                       | <b>Do:</b> Involve NextGen members in governance, education, and purpose-building.<br><b>Don't:</b> Dismiss new ideas or impose legacy paths.      |
| <b>Distrust</b>                                 | Breakdown of confidence and transparency among family members or between family and management.   | Paralyses decision-making and breeds rumor cultures.                       | <b>Do:</b> Foster open dialogue, independent chairs, and transparent reporting.<br><b>Don't:</b> Ignore even small trust breaches.                 |
| <b>Divorce</b>                                  | Marital breakdown entangles business ownership and family unity.                                  | Creates legal uncertainty, emotional polarisation, and ownership disputes. | <b>Do:</b> Draft pre/postnuptial and shareholder agreements early.<br><b>Don't:</b> Assume personal issues stay outside the business.              |
| <b>CLUSTER 2: CONTINUITY &amp; SUCCESSION</b>   |   |  |  |
| <b>Death</b>                                    | Loss of a key leader without a clear succession plan.   | Creates leadership vacuums, uncertainty, and power struggles.              | <b>Do:</b> Establish transparent succession and contingency plans.<br><b>Don't:</b> Postpone uncomfortable discussions.                            |
| <b>Departure</b>                                | Voluntary or forced exit from ownership or leadership.  | Triggers ownership and identity shifts.                                    | <b>Do:</b> Define exit policies and buy-sell agreements.<br><b>Don't:</b> Personalise exits or leave them unstructured.                            |
| <b>Deterioration</b>                            | Decline in health, capability, or motivation.   | Causes secrecy, stalled decisions, and emotional strain.                   | <b>Do:</b> Normalise wellbeing conversations and plan interim leadership.<br><b>Don't:</b> Conceal declining capacity or stigmatise vulnerability. |
| <b>Displacement</b>                             | Replacement of family leaders by non-family professionals.  | Strengthens professionalism but may erode family identity.                 | <b>Do:</b> Clarify roles, boundaries, and shared purpose.<br><b>Don't:</b> Sideline family without redefining their contribution.                  |
| <b>CLUSTER 3: GOVERNANCE &amp; OWNERSHIP</b>    |   |  |  |
| <b>Dilution</b>                                 | Fragmentation of ownership and voting power across generations.                                   | Weakens accountability, engagement, and financial discipline.              | <b>Do:</b> Educate shareholders and consider consolidation mechanisms.<br><b>Don't:</b> Allow passive ownership or opaque share transfers.         |
| <b>Divergence</b>                               | Growing differences in values, goals, or risk appetite.   | Leads to competing priorities and decision gridlock.                       | <b>Do:</b> Facilitate strategic dialogue and family retreats.<br><b>Don't:</b> Suppress differences; surface and manage them constructively.       |
| <b>CLUSTER 4: STRATEGIC &amp; REPUTATIONAL</b>  |   |  |  |
| <b>Disrepute</b>                                | Reputation damage from ethical lapses or scandals.  | Erodes stakeholder trust, investor confidence, and family pride.           | <b>Do:</b> Establish ethics codes, crisis protocols, and unified messaging.<br><b>Don't:</b> Fragment responses or engage in public blame.         |
| <b>Disruption</b>                               | External shifts challenge legacy models.  | Pressures the family to innovate while preserving identity.                | <b>Do:</b> Encourage innovation labs and empower NextGen change agents.<br><b>Don't:</b> Cling to tradition at the expense of relevance.           |

Figure 2: Interpreting the 12 Ds, implications, and dos and don'ts.

[Click here for a high-resolution version of this chart.](https://eiexchange.com/api/submissions/1425/documents?file=Interpreting%20the%2012Ds.pdf&download=1)

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## Conclusion

Family enterprises do not usually fail because they lack strategy. More often, they struggle because underlying tensions — emotional, structural, or strategic — are left unaddressed until they become unmanageable.

The original 6 Ds showed that many breakdowns are relational at their core. The expanded 12 Ds framework shows that, in today's environment, relational dynamics are increasingly intertwined with governance complexity, ownership fragmentation, and external disruption. The implication for leaders and owners is

clear: continuity is not something to be assumed. It must be actively built.

In our work with enterprising families globally, those that sustain success across generations tend to focus on five critical practices:

- **Make the invisible visible.** Name and discuss emerging tensions early — whether around trust, engagement, or divergence — before they escalate.
- **Invest in governance as a strategic asset.** Clear structures, roles, and decision rights are not bureaucratic overhead; they are the backbone of long-term alignment.
- **Engage the next generation meaningfully.** Continuity depends not on inheritance, but on commitment. Ownership must be experienced, not just transferred.
- **Plan for internal and external disruption.** Succession, leadership transitions, health issues, exits, market shifts, and reputational threats should be anticipated with the same rigor as financial planning.
- **Protect both the business and the family.** The most resilient systems recognize that performance and relationships are interdependent, and manage both deliberately.

The goal is not to eliminate the 12 Ds. That is neither realistic nor necessary. The goal is to develop continuity capacity: the ability to navigate change, absorb shocks, and evolve without losing identity or cohesion. In a world defined by volatility and short-term pressures, this may be the defining advantage of family enterprises — if they manage it well.