

# It's Complicated: Managing Succession in Cases of Divorce and Adoption

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**KEYWORDS:** Family Business, Help with a family business, Running a family business tips, Successful family businesses, family business succession planning, family business conflict.

*Part 1 of 2* -- Family business succession planning clearly is among a family business's most challenging events and plenty of experts have weighed in on how to do it right. However, most of their recommendations are based on the classical, Western family ideal: a nuclear family with one or more biological children. But today, rapidly changing definitions of family -- including divorced couples and patchwork families with adopted children -- create additional challenges for business families. Running a fair succession process becomes more complex in these constellations, where risks of family business conflict are high.

These conflicts, unresolved, can jeopardize the family influence within the firm. To help families in these situations, we looked at what other researchers have found and unearthed some practical advice. We also interviewed 13 members of business families that have experience with adoption and divorce affecting family firm succession.

This article, the first of two, looks at how to create an environment that minimizes the chance of conflict over succession.

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## Recommendations to Avoid Succession Challenges

Patchwork business families vary substantially in their ability to run a smooth and successful succession process that appears "fair" to everyone involved.

Succession can be especially complex and difficult for business families in which some kids grew up in totally different environments than others. In these cases the key to a fair process involved finding a fine balance between acknowledging each next gen's individual personality while at the same time "standardizing" the upbringing of the different kids. In the following, we provide recommendations of how to achieve such balance. Our recommendations are also summarized in Figure 1.

**Figure 1: Recommendations to avoid conflict upfront under complex family constellations**

Objective: a fair succession process is based on limited differences in-between members of the next generation	
Typical Differences Within the Next Generation Emerging from Adoptions/ Divorces	Recommendations to Mitigate Differences and Avoid Conflict Upfront
Value construct	<ul style="list-style-type: none"> <li>Similar upbringing and traditions by setting the same example</li> <li>Shared custody</li> <li>Similar values of spouses</li> </ul>
Personal connection to the owner family	<ul style="list-style-type: none"> <li>Ensure maintenance of contact with owner family</li> <li>Physical proximity</li> <li>(Mandatory) family events</li> </ul>
Presence in socialization phases with firm	<ul style="list-style-type: none"> <li>Same access to information to family business</li> <li>Similar working opportunities within firm and participation in firm bound activities</li> <li>Similar competencies through workshops/ education</li> </ul>
Identification with the family firm	<ul style="list-style-type: none"> <li>Similar emotional connection with the family firm</li> <li>Same last name for all siblings</li> <li>Adoption only: minimal confrontation with adoption in everyday life</li> </ul>

Can be ensured during an early formulation of an owner strategy with open communication

All business family members and all family business advisors know that each next gen member has his or her own personal motivations to join the family firm due, shaped by character and preferences. But in patchwork families reconfigured by adoption and divorce, other factors can come into play. While the next gen's innate character and preferences are less influenced by family dynamics, families can and should eliminate disparities in how the younger generation members are treated. In particular, business family members need to pay attention to four important aspects: value constructs; personal connections; presence in socialization phase;

and identification with the family firm.

## Similar Value Constructs

Whether next gen members perceived a succession process as fair depended on whether they shared similar values regarding family and business. We observed patterns of values that seem to be particularly important to sustain a healthy family and business environment. Many of the observed owner families mentioned “*staying grounded*” and “*having respect for the company*” as core values. They also said religion (in this region: Christian) helped guide their personal lives.

Succession was often seen as fair in families where the next gen shared similar values. However, it was conflict-ridden in families where next gen family members had different sets of values. We noted that upbringing had a huge effect on whether the next gens shared similar values. The older generation conveys these values to next gens, through what they say and what they do. In cases of divorce, children often grow up in two very different environments, each with different sets of values. The amount of time spent with each parent influences the personal values of next gen members. Depending the child’s age at the time of the parents’ divorce, values might be shaped in very different ways, influenced by the time spent with each parent. We observed that those business families that instilled similar values in their children followed these recommendations:

- Critically assess the values in the different parts of the patchwork families (including values of new partners of divorced parents): Where do the converge? Where do they diverge?
- Engage in open communication about critical values in case of divorce.
- Shared custody might also be beneficial for exposing kids to similar values – and thus for the later succession process.
- Think about creative ways to introduce adopted children to the family’s values and traditions.
- Always remember that kids likely follow their role models.
- Make sure that, in case of divorce, all kids stay close to the “business-owning” parent (even if this is sometimes really hard for the other parent!)

## Continuous Personal Connection to

## the Owning Family

Adoption and/or divorce may also lead to differences in the next gen members’ personal connection to the owning family. To minimize these differences, make sure that all next gens have regular contact with the family members of the business-owning family. Understanding one another on a more personal level, and sharing traditions, cultivates strong bonds within the owner family. As one adopted child explains: “*During my entire childhood, in the whole phase of growing up, we experienced getting older with each other. Even if it wasn’t as intense with the cousins, we of course saw each other on a regular basis. Because it was so natural, I never grew up differently than my non-adopted relatives.*”

We noticed different ways to ensure such continued personal contact: informal family gatherings as well as more formal family events, with a focus on the underlying family firm. Especially within divorced families, formal pre-determined family get-togethers proved to be an effective measure to maintain close contact. These events provide a comforting consistency when children are immersed in difficult personal situations. It’s also important to have physical proximity between the individual members of the owning family even after the divorce or adoption. Again, several recommendations emerged from our observations:

- Ensure regular and frequent contact with all business family members.
- Physical proximity helps next gens feel a personal connection with the owning family – an important factor when thinking about relocation and boarding schools.
- Regular family events help to maintain connections even in difficult times. Consider both formal meetings and informal family celebrations.

## Socialization Within the Family Business

Besides connection with the *family*, divorce and adoption often affect if and how next gen family members get socialized with the *family firm*. Depending on how the parents handle the situation, next gens may or may not participate in company affairs after divorce or adoption. By participating in business meetings, representing the firm in events with clients, or simply spending time with the family firm’s employees,

members of the next generation learn valuable insights about the company. Potential successors familiarize themselves with work streams and the unique firm culture, and gain the knowledge and competence they need to run the family firm. In short, the level of socialization in the firm influences how willing and able the kids are to take over the family firm.

We saw that not all kids in complicated families had the same access to information regarding the family business. When children of the same family have unequal access to information, they will perceive unfairness in the succession process, making it even more challenging. To avoid such challenges, consider the following recommendations:

- Provide sufficient information about the family firm to next gen members. Give all of them the same access to information.
- Make sure that access to work opportunities is fair and equal for all kids, including those living far away. The same is true for company events and other occasions.
- Strive for equal competence development within the next gen. An owner strategy (which we will describe in part 2 of this series) might be helpful.

## Identification With the Family Firm

Lastly, we also observed that next gen members identified with the family firm differently. Divorce and adoption can complicate the creation of emotional bonds between the next gen and the family firm. It can be especially uncomfortable for adopted children when families make too big a deal about adoption in family discussions. One of our interviewees talked about a positive way to deal with adoption and avoid those problems: *“No distinctions were ever made as to whether I was adopted... in my specific case of adoption, it was never an issue, perhaps even never generally in my entire school or student career... But with me, no one really makes an issue out of it on any single day, and most certainly not within the family business... and I think if it had been different and my adoption had always been the subject in my personal life, then we would have had to approach [succession] quite differently.”*

Even if the family doesn't talk about adoption, giving the adopted child the family name makes a big difference in helping them feel like they belong. In both the adoption

and divorce cases, the last name highly impacts the next gen's identification with the firm, especially when the firm is named after the founding family. As a consequence, different last names might impede the emotional bonds of the respective next gens. We suggest the following recommendations:

- Critically assess how much the next gens identify with the firm. Try to achieve a healthy symmetry among them.
- Even though it is a tricky topic, try to give all kids the same last name – even if they have different parents or aren't biological kids. This fosters similar identification.
- Don't make adoption a central topic in family discussions.

## Conclusion

Divorce and adoption are often necessary, and sometimes even joyful (in case of adoption!) events. However, they often complicate the succession process for business families. While many business families struggle with these challenges, others have creatively found ways to treat all next gen members fairly and ensure a smooth succession process that everyone feels is fair.

*This article summarized some of the key recommendations that emerged from our interviews with family members about building family relationships that prevent conflict. In our next article, we will talk about how to mend families that are already struggling with it.*

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