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# How to Fix Succession Conflicts Stemming From Complicated Families

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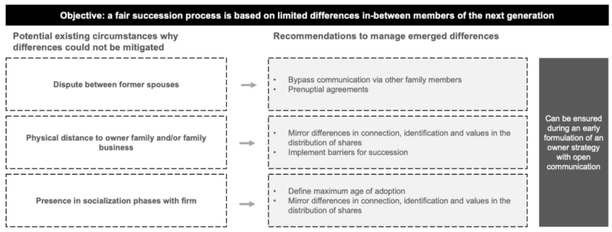
*Part 2 of a two-part series. Read part 1 here (https://familybusiness.org/content/its-complicated-managing-succession-in-cases-of-divorce-and-adop) .*

Family business succession planning is a difficult process – and it is even more challenging in cases where divorce and adoption complicate family constellations. In our last article (https://familybusiness.org/content/its-complicated-managing-succession-in-cases-of-divorce-and-adop) we offered some recommendations for how to avoid family business conflict upfront. They included bringing up both adopted and biological family members so that they shared similar values, experienced similar levels of connections to the owning family and the family firm, and achieved similar levels of knowledge and competence.

But what if these recommendations come too late? What if conflicts among family branches are so entrenched that it requires fixing a problem rather than avoiding it? Emotional disputes between former spouses, family members who might live in far-flung parts of the country or the world, and not socializing adopted children early enough to the family business are just three factors that can complicate a smooth and fair succession process. In the following, we will provide some guidance on how to handle such situations, summarized in Figure 1 below. It's based on our study of what other researchers have found and on our interviews with 13 members of business families that have experience with adoption and divorce affecting family firm succession.

Figure 1: Recommendations to manage already occurred conflicts




## Disputes Between Former Spouses

Divorces often end in conflict between the former partners, which can be quite emotional. Such conflict might lead to one or more children feeling alienated from the family business. To avoid such problems, one of experts that we interviewed stressed the importance of differentiating between the *partner* level and the *parent* level. A divorced couple with children should thus always interact with their children on the parent level, keeping potential emotional damage on the partner level aside. The cases that we observed varied in how successfully the divorced couple could keep emotional disputes away from their kids.

One conflict-ridden business family found a remarkable way to ensure steady communication with all children. As parents were not willing or able to talk with the child about the family business, other family members took over the task. Specifically, aunts and uncles became neutral, continuous communicators and thereby bypassed the divorced, arguing parents. Other business families tackled this problem by setting up shareholder contracts that required prenuptial agreements. While these may not prevent conflict, they can foster continuity of contact through the specified custody agreements. We offer the following recommendations:

- Create a communication strategy. Along with defining *what* needs to be communicated, it should also define the responsible *persons* and the communication *channels*. If parents are unable to communicate, define a “bypass,” including other trusted family members.
- Enforce prenuptial agreements that ensure custody and continuity of contact in case of divorce.

## When Families Move Far Away from the Business

As our first article points out, physical proximity strengthens personal connection to the owner family and makes contact with the family firm easier. But sometimes divorced parents move to faraway cities or even countries, and their children don’t have the same chances to become motivated and competent decision-makers in the family firm.

Our observations showed that kids growing up in these far-off families might still perceive the succession process as fair – if they get a fair share of ownership. This step, however, carries substantial risks, so there is no “one-size-fits-all” solution. In particular, children who own shares but do not have strong bonds to the business might make business-related decisions that are not in line with their relatives. For instance, they might aim to optimize their own wealth, rather than thinking of the family as a whole or caring about firm continuity or other stakeholders. As such, parents need to carefully think about identity-building measures (such as family business and business family events) when they give shares to “distant” next-gens. Rules requiring certain professional competencies or external work experience for certain family business posts might make the succession process “fairer” from the perspective of the next gens. We recommend:

- Openly discuss your share-distribution strategy within the family and have it challenged by experts.
- Invest in identity-building measures for *all* kids.
- Invest time and effort to come up with fair assessments for family decision-makers. Related requirements can include formal education and work experience outside the family firm.

## Socialization and Age at the Time of Adoption

Many business families found constructive ways to deal with adoption – for example, by not over-emphasizing this topic in day-to-day life. We saw that one factor complicated succession in several cases: the age at the time of adoption. Children adopted at a later age missed the important socialization phase with the firm. One next-gen member told us that the biological and adopted children in the family had different experiences in early childhood, which shaped how they felt about the family business. Children who are adopted at an oder age might share different values, might not know the firm well, and might not fully identify with it.

As a consequence, some owner families exclude non-biological children – including step-children – from becoming successors. This may be understandable, although it seems harsh. Other business families set up clear roles. For instance, they distinguish between different reasons leading to adoption, such as a) unfulfilled desire to have biological children; b) adoption of step-children; c) desire to influence planned share distribution. Many business families also set maximum ages for adoption, such as six years, if the child is to be a future shareholder of the business. They argue that kids who are adopted at pre-school age might still experience the same socialization as their non-adopted siblings. Again, many business families carefully thought about different adoption ages when setting up their share distribution strategies. In sum, we recommend:

- Discuss and define: Who is or can become a “full” member of the owner family?
- Consider defining maximum age limits for adoptions, specifically for the conditions under which adopted kids can become full members of the owner family.
- Discuss if different adoption reasons might lead to differences regarding owner family membership status. For example, business families might differentiate between adoption of babies or small children due to fertility issues vs. adoption of stepchildren who are teens or adults when coming into the family.
- Include considerations of different adoption constellations in the share distribution strategy.

## Benefits of an Owner Strategy and Communication

Divorces and adoptions can lead to challenges in



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families. This is especially true for business owning families, where personal family affairs influence the associated business. In particular, divorce and adoption might complicate succession processes. Challenges lead not only to personal conflict, but may also negatively impact the family business. In order to ensure longevity of the family business, these challenges have to be managed in a sustainable way.

The above recommendations may help ensure a fair succession process in cases of divorce or adoption. However, they won't be successful without strong communication within the owner family. Communication is one of the key factors to successfully manage the succession process in patchwork families. However, finding the right setting for open communication is not easy. Formulating an owner strategy is a good way to start. It will can help the family define certain standards, such as participation in family events or the maximum age of adoption. Moreover, developing and finalizing the strategy helps foster communication among family members. We've seen that including all stakeholders, even former and new spouses, in formulating this strategy helps families resolve any succession conflicts far more effectively.

## Conclusion

Succession remains one of the fundamental challenges for family businesses, and too many advisors haven't taken into account the impact of today's complex families. Our research illustrates the importance of mitigating differences between members of the next generation because of adoption or the parents' divorce. When all children shared the same values, personal connection to the owner family, socialization phase with the firm, and identification with it, only personal interests and preferences affected their succession ambitions. However, we saw that succession problems arose when divorce or adoption caused visible differences between members of the next generation.

Partone(https://familybusiness.org/content/its-complicated-managing-succession-in-cases-of-divorce-and-adop) of our report showed ways to minimize these differences so that succession doesn't become an issue down the road. However, those measures are difficult to use when families live far away or divorced couples are rancorous towards each other. This second part of our study showed what to do when it's too late to put in preventive measures, and how to address problems that have already flared in the business family. Finally, our research told us that owner strategies, developed with input from all family members, help everyone communicate better and minimize misunderstandings over succession.



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