Father to Son
The Mediation of Family Firm Succession Conflict

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Hans-Georg Berkel

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Approved on the application of

Prof. Dr. Ivo Schwander

and

Prof. Dr. Martin Hilb

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The President:

Prof. Ernst Mohr, PhD
Hans-Georg Berkel

Father to Son

The Mediation of Family Firm Succession Conflict
Für meine Familie
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President of the Deutsche Gesellschaft für Mediation, professor Lloyd Shefsky of the Kellogg Graduate School of Management at Northwestern University, and professor William L. Ury of the Program on Negotiation at Harvard Law School were prepared to liberally share their knowledge and experience with me. It has been an extraordinary privilege, and pleasure, to learn from all of them.

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Nürnberg, November 2007
Hans-Georg Berkel
Preface

This dissertation has been written for family firm experts and mediators alike. It aims at providing each of them with insights from the respective other’s experience. It thus aspires to contribute to the successful resolution of family firm succession conflicts. It also hopes to find readers among family firm members, because it is ultimately them that this dissertation seeks to serve.

Family firm research has shown that the cooperative resolution of conflict between the incumbent entrepreneur and his successor is crucial for the survival of the family firm. Dispute resolution research suggests that a third party acting as mediator can provide valuable support to their efforts. The dissertation synthesizes insights from both lines of research to propose when, and how, mediation can contribute to the resolution of family firm succession conflicts. These insights are based on a thorough review of family firm and dispute resolution literature as well as on interviews with 14 experts on family firm succession and/or mediation.

I argue that succession, by nature, requires the finding of an equilibrium to three dilemmas. The often opposing demands of family, owners, managers, and supervisory board members must be reconciled (role dilemma). Because incumbent and successor play multiple roles simultaneously, both are likely to experience this dilemma internally (inner dilemma). And because succession consists of the passing on of power from one to the other, they mutually need each other to find the equilibrium (relationship dilemma).

I argue that the equilibrium must be maintained in a continuous process which is only complete once responsibility, authority, and ownership control have been passed on. The middle step, the transfer of authority, is identified as the “litmus test” of the whole process, because it is most likely to challenge the commitment of both incumbent and successor. I then explore the different bases of commitment (affective, normative, and calculative), and identify factors that can constrain, or promote, the commitment of incumbent and successor. Their commitment is affected by a combination of available information, their individual personalities, and their relationship with each other. It is through dialogue that incumbent and successor can overcome their respective constraints and promote their common commitment. The passage of
time has a natural tendency to weaken their commitment, creating an “optimal” time window for succession to take place.

I then argue that the weakened commitment of either or both protagonists causes overt succession conflict to break out. In this case, each of the three imbalanced dilemmas will lead to a specific conflict, and they will combine to form the three dimensions of the succession conflict: The role dilemma leads to task and process conflict, the internal dilemma leads to internal conflict, and the relationship dilemma leads to relationship conflict.

I then identify constructive roles that a third party can play in resolving each of the three dimensions of the succession conflict. Task and relationship conflict can be addressed by problem-solution activities; internal conflict can be addressed by activities aiming at the individual growth of the parties; relationship conflict can be addressed by activities aiming at the growth of the incumbent-successor relationship. In line with the time window for succession, an optimal period for conflict resolution is identified. I then argue that mediation, in contrast to both business consulting and therapy, is the professional intervention that incorporates all three activities. In this context, a relatively recent form of mediation, “transformative mediation” is explored, that may be new to many European readers. Finally, I identify specific methods for mediating the family firm succession conflict.

It is important to note that this dissertation deals only with the succession between one entrepreneur and one successor, with the former being the father and the later his son. Its approach is structural, in that it seeks to identify the factors that are common to all family firm succession conflicts between father and son. Because mediation can only be dealt with in the context of the conflict it tries to resolve, the analysis of these commonalities forms the basis of the dissertation.
# TABLE OF CONTENTS

1. INTRODUCTION 1
   1.1 Research Problem 1
   1.2 Purpose of Dissertation 3
   1.3 Research Approach, Methodology, and Sources 4
   1.4 Structure of Dissertation 8

2. THE THREE DILEMMAS OF SUCCESSION 11
   2.1 Introduction 11
   2.2 The Family Firm 11
   2.3 The Role Dilemma 18
   2.4 The Internal Dilemma 28
   2.5 The Relationship Dilemma 30
   2.6 Conclusion 40

3. THE THREE DIMENSIONS OF SUCCESSION CONFLICT 43
   3.1 Introduction 43
   3.2 The Commitment to Succession 43
   3.3 The Factors Constraining Commitment 47
   3.4 The Factors Promoting Commitment 60
   3.5 The Influence of Time on Commitment 70
   3.6 The Three Components of Succession Conflict 72
   3.7 Conclusion 78

4. THE THREE ELEMENTS OF THIRD PARTY INTERVENTION 79
   4.1 Introduction 79
   4.2 The Role of the Third Party 79
   4.3 The Timing of Intervention 91
   4.4 Professional Conflict Resolution 94
   4.5 The Method of Mediation 105
   4.6 Conclusion 116

5. CONCLUSION 117

APPENDIX A: INTERVIEW PARTNERS 121

APPENDIX B: QUESTIONNAIRES 127

BIBLIOGRAPHY 133
# Table of Figures

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1. INTRODUCTION</strong></td>
<td></td>
</tr>
<tr>
<td>1.1 Research Problem</td>
<td>1</td>
</tr>
<tr>
<td>1.2 Purpose of Dissertation</td>
<td>3</td>
</tr>
<tr>
<td>1.3 Research Approach, Methodology, and Sources</td>
<td></td>
</tr>
<tr>
<td>1.3.1 Approach</td>
<td>4</td>
</tr>
<tr>
<td>1.3.2 Methodology</td>
<td>5</td>
</tr>
<tr>
<td>1.3.3 Sources</td>
<td>7</td>
</tr>
<tr>
<td>1.4 Structure of Dissertation</td>
<td>8</td>
</tr>
<tr>
<td><strong>2. THE THREE DILEMMAS OF SUCCESSION</strong></td>
<td>11</td>
</tr>
<tr>
<td>2.1 Introduction</td>
<td>11</td>
</tr>
<tr>
<td>2.2 The Family Firm</td>
<td></td>
</tr>
<tr>
<td>2.2.1 Introduction</td>
<td>11</td>
</tr>
<tr>
<td>2.2.2 Two-circle Model</td>
<td>12</td>
</tr>
<tr>
<td>2.2.3 Three-circle Model</td>
<td>13</td>
</tr>
<tr>
<td>2.2.4 Four-circle Model</td>
<td>14</td>
</tr>
<tr>
<td>2.2.5 Conclusion</td>
<td>17</td>
</tr>
<tr>
<td>2.3 The Role Dilemma</td>
<td>18</td>
</tr>
<tr>
<td>2.3.1 Introduction</td>
<td>18</td>
</tr>
<tr>
<td>2.3.2 Family vs. Management</td>
<td>22</td>
</tr>
<tr>
<td>2.3.3 Family vs. Ownership</td>
<td>23</td>
</tr>
<tr>
<td>2.3.4 Family vs. Supervision</td>
<td>25</td>
</tr>
<tr>
<td>2.3.5 Conclusion</td>
<td>27</td>
</tr>
<tr>
<td>2.4 The Internal Dilemma</td>
<td>28</td>
</tr>
<tr>
<td>2.5 The Relationship Dilemma</td>
<td>30</td>
</tr>
<tr>
<td>2.5.1 Introduction</td>
<td>30</td>
</tr>
<tr>
<td>2.5.2 Transfer of Power</td>
<td>30</td>
</tr>
<tr>
<td>2.5.3 Authority as Litmus Test</td>
<td>35</td>
</tr>
<tr>
<td>2.5.4 Mutuality</td>
<td>37</td>
</tr>
<tr>
<td>2.5.5 Conclusion</td>
<td>40</td>
</tr>
<tr>
<td><strong>2.6 Conclusion</strong></td>
<td></td>
</tr>
<tr>
<td><strong>3. THE THREE DIMENSIONS OF SUCCESSION CONFLICT</strong></td>
<td>43</td>
</tr>
<tr>
<td>3.1 Introduction</td>
<td>43</td>
</tr>
<tr>
<td>3.2 The Commitment to Succession</td>
<td></td>
</tr>
<tr>
<td>3.2.1 Introduction</td>
<td>43</td>
</tr>
<tr>
<td>3.2.2 Calculative Commitment</td>
<td>44</td>
</tr>
<tr>
<td>3.2.3 Affective Commitment</td>
<td>45</td>
</tr>
<tr>
<td>3.2.4 Normative Commitment</td>
<td>46</td>
</tr>
<tr>
<td>3.2.5 Conclusion</td>
<td>47</td>
</tr>
<tr>
<td>3.3 The Factors Constraining Commitment</td>
<td>47</td>
</tr>
<tr>
<td>3.3.1 Introduction</td>
<td>47</td>
</tr>
<tr>
<td>3.3.2 Information Constraints</td>
<td>47</td>
</tr>
<tr>
<td>3.3.3 Personal Constraints</td>
<td>48</td>
</tr>
<tr>
<td>3.3.3.1 Personal Constraints of Incumbent</td>
<td>50</td>
</tr>
<tr>
<td>3.3.3.2 Personal Constraints of Successor</td>
<td>54</td>
</tr>
<tr>
<td>3.3.4 Relationship Constraints</td>
<td>55</td>
</tr>
<tr>
<td>3.3.4.1 Relationship Constraints of Incumbent</td>
<td>56</td>
</tr>
</tbody>
</table>
TABLE OF FIGURES

1: The Structure of the Dissertation 10
2: The Two-circle Model of the Family Firm 13
3: The Three-circle Model of the Family Firm 14
4: The Four-circle Model of the Family Firm 15
5: A Four-circle Model of a Family Firm with a Dual Board System 16
6: The Family Firm Dilemma 19
7: The Family Firm Dilemma in the Four-circle Model 20
8: The Dilemmas of Incumbent and Successor 31
9: The Transfer of Power in Succession 32
10: The Transfer of Power through Responsibility, Authority and Ownership 35
11: Focus on the Transfer of Authority 36
12: The Three Dilemmas of Succession 42
13: Weakened Commitment of Incumbent 54
14: Weakened Commitment of Successor 55
15: Succession Conflict 59
16: Strengthened Commitment through Dialogue 68
17: Commitment to Succession relative to Age of Incumbent and Successor 71
18: Succession Dilemmas and Conflict 78
19: Constructive Third Party Activities 82
20: The Three Dimensions of Succession Conflict Resolution 90
21: The Optimal Time for Conflict Resolution Intervention 92
22: Three Types of Professional Intervention I 96
23: Three Types of Professional Intervention II 104
24: The Three Elements of Succession Conflict Mediation 104
25: The Sequence of Steps in Mediating the Succession Conflict 114
1. Introduction

1.1 Research Problem

Family firms are among the most prevalent forms of business in many countries of the world. They are believed to account for more than 50% of the gross domestic product of the world’s most advanced economies.\(^1\) In Switzerland, for instance, the Swiss Institute for Small and Medium-Sized Enterprises at the University of St. Gallen\(^2\) found family enterprises to dominate the economy.\(^3\) Family firms are estimated to make up 88% of all enterprises in the country. However, it is difficult to compare numbers across countries. As of yet, there is no common understanding of what constitutes a family enterprise, so each statistic may be based on a different definition.\(^4\) Accordingly, between 54% and 89% of companies in the USA\(^5\) and between 75% and 90% of companies in Germany\(^6\) qualify as family firms.

Regardless of the exact definition used in the statistics, all these businesses have one thing in common. The “family” part of the family enterprise, of course, consists of individual persons. These individuals live through different phases in their personal and professional life, and, in contrast to the life of the legal person “corporation”, their lifetime is limited. Eventually, every entrepreneur has to step down. At that time, the question arises of what should happen to the enterprise and the family’s involvement in it. Because of the crucial role which family enterprises play in many countries in the world, successful succession is important for the economy at large in these countries.\(^7\)

Consequently, a number of organizations have recently begun to systematically monitor the economic dimension of the succession question.\(^8\) For example, the state bank of the federal German State of Baden-Württemberg has conducted a large scale analysis of generational change in the enterprises in this state.\(^9\) It concluded that

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\(^1\) Aronoff, C. E., Astrachan, J. H. and Ward, J. L., Family Business Sourcebook, 2002, i
\(^3\) Fueglistaller, U. and Halter, F., Familienunternehmen Schweiz, 2005, 35
\(^4\) The definition problem is addressed in detail in section 2.2
\(^6\) Neubauer, H., Family Business Western Europe, 2003, 269
\(^7\) For instance, Fueglistaller, U., Müller, C. and Volery, T., Entrepreneurship, 2004 argue that this is the case in Switzerland, Germany and Austria (p. VI)
\(^8\) For an overview refer to Ibid., p. 173
\(^9\) Baden-Württemberg Landeskréditzbank and Universität, M., Generationenwechsel in Baden-Württemberg, 2003
11 – 15 % of all enterprises in Baden-Württemberg are being handed over to a successor between 2002 and 2007, followed by an average of 10 – 14 % of all companies in the years 2007 – 2012. At the same time, both private and public organizations have begun to offer information and advice on the issue.

There is widespread agreement that “succession is the ultimate test of a family business.” Succession has been said to raise the elemental questions of life, and many scholars agree that planning and implementing the process is a delicate task that breeds conflict. Accordingly, the challenges associated with generational change can be overwhelming, and conflicts between incumbent and successor may seem inevitable. Hence, conflict management and resolution becomes an essential skill for the family firm to survive.

Family business research has become increasingly rigorous and sophisticated in recent years. However, the area of conflict in the family firm appears to be under-researched:

“Research shows that conflict plays pivotal roles (both productive and destructive) in family and business health and prosperity. Yet there has been little research and scant useful theory on the sources and effects of conflict in family business.”

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10 Ibid., 4
14 Mueller-Harju, D., Family Business Generational Change, 2002, 79: "Bei der Unternehmensnachfolge werden Grundfragen des Lebens aufgeworfen". Note: Quotations from texts in the German or Spanish language were translated by the author with the original text appearing in the respective footnote.
15 Aronoff, C. E., Letting go, 2003, 57
17 Astrachan in: Introduction to Kaye, K., Family Business Dynamics, 2005, 1
Consequently, a need to better understand how conflict impacts the family firm has been expressed.\textsuperscript{18} More specifically, calls for research on effective conflict resolution mechanisms have been made,\textsuperscript{19} especially with regard to succession conflicts.\textsuperscript{20} Scholars from the conflict resolution field, on the other hand, have expressed concern that insights are not being made available to other disciplines.\textsuperscript{21} From this field, too, calls for greater interdisciplinary exchange have been voiced.\textsuperscript{22}

**1.2 Purpose of Dissertation**

This dissertation seeks to contribute to this interdisciplinary effort by exploring how a specific conflict resolution mechanism, mediation, can be of help in the resolution of conflicts arising in the course of family firm succession. Insights from both family business and dispute resolution research are synthesized in order to propose when and how mediation can contribute to the resolution of family firm succession conflicts.

As of yet, no theory on the mediation of family firm succession conflicts exists. In order to contribute to the building of such a theory, this dissertation explores the conflict that arises in the most basic scenario: succession between the founder-entrepreneur and his successor, where the incumbent entrepreneur is the father of the successor. In this scenario, consensual conflict solution is necessary for succession to succeed. Hence, mediation – as the process aimed at supporting the parties reaching consensus – would seem ideally suited to help the parties achieve that solution.

The research question, therefore, is: “When and how can a conflict between an entrepreneur and his son on the issue of the son’s succession in the family firm be resolved through mediation?”

\textsuperscript{19} Sharma, P., Family Business Research, 2004, 18
\textsuperscript{21} Bush, R. A. B. and Bingham, L. B., Knowledge Gaps, 2005, 101
\textsuperscript{22} Moffitt, M. L. and Bordone, R. C., Dispute Resolution Perspectives, 2005, 8
1.3 Research Approach, Methodology, and Sources

1.3.1 Approach

This dissertation addresses the research questions in two steps. It first seeks to understand the nature of family firm succession conflict and how it can be resolved. This understanding is then used to analyze when and how mediation can be used to achieve a resolution.

Any attempt to synthesize the insights from two fields as vast and disparate as family business and dispute resolution research will inevitably be incomplete. These findings are also very diverse. For instance, neither field has so far developed a universally accepted definition of the two notions that are central for this dissertation, “family firm” and “mediation”. At the same time, there are many methods by which a conflict can be analyzed, such as behavioural or psychoanalytical methods. The research question can therefore be approached from a wide variety of angles. For example, one might explore succession conflict as it relates to the industry or size of the company, or as it relates to the nationality and specific culture of the family.

While all these factors shape the nature of succession conflict, this dissertation takes a more general approach. It seeks to explore the structure that is common to all family enterprise, regardless of such factors. What all family firms have in common are the different roles in which their members interact with each other. Family firms are composed of family members, owners, employees and managers, and – if the company does have the corresponding corporate governance system – members of the supervisory body. This dissertation will show that it is certain dilemmas which are inherent in this structure that cause conflicts to arise during succession. Each dilemma contributes a specific dimension to the succession conflict. Hence, the conflict appears to be structural and can therefore be seen as characteristic for family firm succession. On the other hand, the structure in each individual case depends heavily on aspects such as the culture and the industry of the family firm.

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23 Berkel, K., Konfliktraining, 2005, 24 ff
24 Klein, for instance, cautions that succession conflict will play out quite differently in a Calvinist Swiss family and a Catholic Spanish family. Klein, S. B., Interview, December 18, 2006
25 The focus on the structural, and therefore characteristic, aspects of the research subject allows for the usage of sources from countries as diverse as the United States, Switzerland, and Germany, on which this dissertation mainly relies.
While this dissertation will not address such aspects, it proposes a general framework that, when used to empirically analyze a specific case, would be capable of taking them into account. This structural framework also develops an understanding of what would generally be necessary to resolve the conflict, especially through the intervention of a third party. In a second step, this dissertation then analyzes when and how a specific method of third party intervention, mediation, can help in resolving the succession conflict.

1.3.2 Methodology

No theory explaining the research question has yet been proposed, much less tested. Grounding theory-building research on empirical evidence is therefore imperative. This dissertation induces its findings from both literature review and qualitative empirical research in the form of expert interviews thus synthesizing the insights gained in both fields.

In accordance with Eisenhardt’s recommendations for case study research, the literature review helped shape the initial design of theory-building research.26 After a review of selected literature from both the dispute resolution and the family business fields, interviews were then employed to both refine the research model and to develop propositions for future testing. The interviewees were selected through a process on which case study research regularly relies,27 “theoretical sampling”. As explained in the seminal work of Glaser and Strauss, theoretical sampling is a process of data collection for generating theory in which the analyst jointly collects, codes, and analyzes his data and decides what data to collect next and where to find them, in order to develop his theory as it emerges.28 As Handler notes, this procedure may appear biased and uncontrolled to the quantitative researcher.29 However, in contrast to statistical sampling, theoretical sampling is led and controlled by the structure of the emerging theory.30

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26 Eisenhardt, K. M., Case Study, 1989, 536
27 Eisenhardt, K. M., Comparative Logic, 1991, 624
29 Handler, W. C., Succession, 1990, 39
To that end, a conflict scenario was created for the expert interviews. This scenario captures what Ward calls the classic conflict during succession from the first to the second generation:\[31\]

\begin{quote}
In the family enterprise XY the baton has been passed from the incumbent to the successor. While the successor is now in charge of managing the company, the incumbent still holds most of the equity and is often present. The successor feels that the incumbent is improperly interfering with his leadership. Arguments become more and more frequent. Finally, a point is reached where the conflict threatens both the company and the family.
\end{quote}

In a first round of interviews, this scenario was submitted to family firm experts along with a set of exploratory, open-ended questions designed to analyze the nature of the conflict and the possible role of a third party in its resolution. All family firm experts were presented with the same scenario and questions, and were asked to share their experience and understanding during the interview.

In the subsequent second round of interviews, the same method was employed to capture insights from professional mediators. Some professionals from the family business consulting and family therapy fields were also interviewed to explore the similarities and differences between the different types of professional third party intervention which are available to the family firm for helping to resolve succession conflict. However, because in the first round of interviews all experts had emphasized cases where the incumbent was the father of the successor, which also appeared to be the case most commonly analyzed in literature, the case scenario was specified accordingly for the second round of interviews.\[32\] This round of interviews aimed at exploring more closely when and how mediation may be employed successfully in the resolution of the conflict.

In both rounds of interviews, the experts were confronted with the same scenarios and asked the same initial questions.\[33\] The interviews were then conducted

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\[31\] Ward, J. L., Interview, November 1, 2006; all interviewed family firm experts would later agree to this characterization: Davis, J. A., Interview, November 28, 2006; Halter, F., Interview, January 23 & 30, 2007; Kellermanns, F. W., Interview, December 11, 2006; Klein, S. B., Interview, December 18, 2006; Mühlebach, C., Interview, December 12, 2006; Shefsky, L. E., Interview, November 21, 2006

\[32\] In the second round of interviews, the first sentence of the case description then read “In the family enterprise XY the baton has been passed from father to son.” For details refer to Appendix B.

\[33\] For an the names of the interviewed experts refer to the subsequent Section; for more details on their professional background and contact data, refer to Appendix A; for details on the questionnaire used, refer to Appendix B.
in a non-directive manner, and non-scripted follow-up questions were asked as they arose during the conversation. As the emerging theory took shape, it influenced the direction of these follow-up questions. It is important to note that any one of the possible approaches to understanding conflict is only capable of addressing specific aspects of its subject, and can only arrive at hypotheses regarding the mediation of succession conflicts.\textsuperscript{34} This is especially the case when the chosen approach employs non-directive interviews in the described method of theoretical sampling. This dissertation, therefore, arrives at a set of propositions regarding success factors for mediating family firm succession conflicts.\textsuperscript{35}

\subsection*{1.3.3 Sources}

As has been noted, this dissertation draws from literature reviews of family business and dispute resolution research, and is supplemented and enriched by insights gained in exploratory interviews with eminent experts from both fields.

A review of the family business literature was conducted to explore the nature of family firm succession conflicts and of possible third party interventions. The corresponding interviews were conducted with seven distinguished scholars from the family enterprise field. These experts are (in alphabetical order): Professor John A. Davis of the Harvard Business School (USA), Frank Halter of the University of St. Gallen (Switzerland), professor Franz W. Kellermanns of Mississippi State University (USA), professor Sabine E. Klein of the European Business School (Germany), Dr. Corinne Mühlebach of the University of St. Gallen (Switzerland), professor Lloyd Shefsky of the Kellogg Graduate School of Management at Northwestern University (USA), and professor John E. Ward of the Kellogg Graduate School of Management at Northwestern University (USA). For a detailed overview of the interviewees refer to Appendix A.1.

A review of dispute resolution research was carried out in order to gain insights into mediation success factors. The corresponding interviews were conducted with nine distinguished scholars and practitioners form the fields of family enterprise consulting, therapy, and mediation. The interviewees are (in alphabetical order):

\begin{itemize}
\item Berkel, K., Konflikttraining, 2005, 31
\item The empirical testing of these hypotheses is beyond the scope of this dissertation and must be left to future research.
\end{itemize}
Professor Douglas C. Breunlin of the Family Institute at Northwestern University (USA), professor Katheryn M. Dutenhaver of the College of Law at DePaul University (USA), professor Stephen B. Goldberg of Northwestern University Law School (USA), Dr. William E. Hartgering, JAMS L.L.C. (USA), Dr. Kenneth Kaye, president of Kaye Family Business Associates, Inc. (USA), Dr. Reiner Ponschab, CEO of the European Institute for Conflict Management (Germany), Dr. Frank H. Schmidt, president of the Deutsche Gesellschaft für Mediation (Germany), professor William L. Ury of the Program on Negotiation at the Harvard Law School (USA), and professor John E. Ward of the Kellogg Graduate School of Management at Northwestern University (USA). \(^{36}\) For a detailed overview of the interviewees refer to Appendix A.2.

1.4 Structure of Dissertation

Chapter 2: The Three Dilemmas of Succession

This chapter will show that the family firm, by nature, faces three distinct but intertwined dilemmas in times of generational change. Section 2.2 (The Family Firm) will demonstrate that the nature of the “family business” can best be understood by examining the different roles that the firms’ individuals play. For this, the various role (two-, three-, and four-circle) models of the family firm are explored. Section 2.3. (The Role Dilemma) will demonstrate that the different roles (family, management, ownership, and supervision) that define the family firm place conflicting demands on the individual, therefore leading individuals to experience “role dilemmas” between them at times of succession. Section 2.4 (The Internal Dilemma) will demonstrate that the different roles that define the family firm lead individuals to experience an “internal dilemma” at times of succession because the individuals have to play different roles at the same time. Focussing on the transfer of power from incumbent to successor, section 2.5 (The Relationship Dilemma) will demonstrate that incumbent and successor face a “relationship dilemma” in addition to the other two dilemmas, because of the mutual role adjustment required from them.

Chapter 3: The Three Dimensions of Succession Conflict

Chapter 3 will analyze the conflict that arises if incumbent and successor are not committed to jointly finding an equilibrium to the dilemmas.

\(^{36}\) Professor Ward was first interviewed in his capacity as a family firm scholar and later in his capacity as advisor to family firms.
Section 3.2 (The Commitment to Succession) will show that it is the commitment to succession that determines whether incumbent and successor jointly balance their dilemmas. Three types of commitment are distinguished: calculative, affective, and normative commitment. Section 3.3 (The Factors Constraining Commitment) will show that there are three factors that can constrain commitment: information constraints, personal constraints, and relationship constraints. Section 3.4 (The Factors Promoting Commitment) will show that there are three factors that can promote commitment: information promoters, personal promoters, and relationship promoters. Section 3.5 (The Influence of Time on Commitment) will show that passage of time creates an optimal time period for succession to be completed. Section 3.6 (The Three Elements of Succession Conflict) explores the consequences of weak incumbent or successor commitment for the succession process. It will show that from each of the three dilemmas a specific conflict dimension (task, internal, or relationship conflict) is likely to arise.

Chapter 4: The Three Elements of Third Party Intervention
Chapter 4 will show the constructive roles that a third party can play in supporting incumbent and successor in resolving their conflict. In line with the goal of this dissertation, the chapter will then focus on mediation and explore when, and how, mediation can be used to resolve succession conflicts. Section 4.2 (The Role of the Third Party) will identify the general activities that can contribute to resolving each of the three dimensions of the succession conflict. It will explain that a specific activity can be employed for each of these conflicts (task, internal and relationship). Section 4.3 (The Professional Intervention) will explore to what extent the professional third party interventions of therapy, consulting and mediation employ the activities identified as helpful for resolving the different elements of the succession conflict. More specifically, it will show when mediation is the right type of intervention. Section 4.4 (The Timing of the Intervention) will explore how the passage of time creates an optimal time period for intervention. Section 4.5 (The Method of Mediation) explains that mediation is the only third party intervention that can address all three elements of succession conflict. The last section takes a closer look at the methods that can be used to that end, leading to the conclusion how exactly succession conflict can be mediated.
Chapter 5: Conclusions

As the last chapter of this dissertation, Chapter 5 seeks to draw the conclusions from the above findings by formulating propositions and offering suggestions for further research.

The structure of this dissertation with regard to its sources can be summarized as follows (see Figure 1):

Figure 1: The Structure of the Dissertation

1. Introduction
2. The Three Dilemmas of Succession
3. The Three Dimensions of Succession Conflict
4. The Three Elements of Third Party Intervention
5. Conclusion
6. Appendices & Bibliography
2. The Three Dilemmas of Succession

2.1 Introduction

The three dilemmas of succession will subsequently be explored as follows. Section 2.2. analyzes the nature of the family firm by looking at the different roles that individuals play in the organization. Section 2.3 shows that these roles often impose conflicting demands on the individuals, thereby leading to the fundamental dilemma of the family business, and explores the role dilemmas that arise between individuals during succession. Section 2.4 demonstrates that the same dilemmas are also experienced internally by the individuals in the firm. Section 2.5 analyzes the relationship dilemma that exists between incumbent and successor because neither of them can fulfil the demands of his roles without the other one. This leads to the conclusion that family firm succession can only be successful if incumbent and successor together find an equilibrium to the dilemmas of succession (see section 2.6).

2.2 The Family Firm

This section will demonstrate that the nature of the “family business” can be understood by examining the different roles that the firms’ individuals play.

2.2.1 Introduction

What exactly is a “family firm”? The terms “family business”, “family enterprise”, or “family firm” are used interchangeably (and will likewise be used herein). A variety of definitions has been offered to give these terms meaning. So far, no single definition prevails. Hence it has been stated that family business research has been riddled by a definitional problem with regard to its subject.

There are two approaches to solving this problem. The traditional approach is to identify the factors that differentiate a family from a non-family firm. One proposal is to use the number of family members affected by business decisions or the number of generations active in the business as differentiating factors.

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An alternative approach to the definition problem holds that there is no clear demarcation between family and non-family firms and no single definition would be capable of capturing the distinction between the two types of entities. Proponents of this view suggest measuring the level of family involvement on a continuous scale instead of dichotomizing family vs. non-family firms. Astrachan, Klein and Smyrnios suggest measuring the level of family involvement on the “F-PEC Scale of Family Influence”. The scale distinguishes between different types of family firms, thereby permitting an analysis of their differences and similarities. While the scale is a valuable research tool, however, it does not solve the definition problem.

Although there is an ongoing debate about the nature of this distinction, there is widespread agreement that family involvement does make a family business different. A family firm possesses unique organizational characteristics in that it can combine family and business resources to create a distinct performance-enhancing culture and competitive advantage. While these unique characteristics can vary in accordance with the level of family involvement in the firm (and therefore measured on the F-PEC Scale), the scope of variations is not unlimited. A continuous scale of family influence will have its endpoints. At one end there are companies that would not qualify as family firms under any definition, and at the other end there are companies that would be regarded as family firms by all definitions. The struggle to accurately define a family firm is a testament to the difficulty of drawing the line between these two endpoints. However, the ranking of firms does not substitute for a decision as to where this line should be drawn. The conventional approach to the definition problem attempts to draw this line, which is subsequently explored in greater detail. The attempt to properly define “family firm” has lead to the development of a number of multi-circle models. Two-, three-, and four-circle models have been introduced over time, and they are consecutively presented below.

### 2.2.2 Two-circle Model

Having conducted an extensive review of the field, Sharma concluded that most definitions revolve around the role the family plays in creating resources and

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41 Ibid., 46
42 Chua, J. H., Chrisman, J. J. and Steier, L. P., Theoretical Horizons, 2003, 331
44 Mühlebach, C., Familiness, 2004, 118
capabilities, and in developing the vision and control mechanisms of the business. The heart of these approaches is the differentiation between two systems: The family and the business, two qualitatively different social institutions. Each system has its own structure, rules, and characteristics. Where they overlap, individuals are challenged to fulfil the requirements of both systems. This understanding can be graphically depicted in the classic two-circle model of the family firm (see Figure 2):

Figure 2: The Two-circle Model of the Family Firm (Lansberg, 1983)

2.2.3 Three-circle Model

Taiguri and Davis introduced another aspect to the model by distinguishing between the business organization and its owners. They argued that this distinction was needed to more accurately characterize the business side of the family firm. Working in a company (as manager or employee) and owning the company are two very distinct functions that are embodied in different social entities, and their interplay may define the family firm as much as the relationship between family and firm.

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45 Sharma, P., Family Business Research, 2004, 18
46 Lansberg, I. S., Institutional Overlap, 1983, 44
47 This can lead to the “family business dilemma” that is discussed in detail in section 2.3.1 below
This approach has been widely accepted as portraying a more accurate picture of the family firm.\textsuperscript{50} Consequently, a three-circle model has evolved (see Figure 3):

![Figure 3: The Three-circle Model of the Family Firm (Gersick et al., 1997)](image)

2.2.4 Four-circle Model

\textit{Hilb} draws attention to the need to differentiate the business-circle even further and adds an additional aspect. He points out that the business circle includes both the executive and supervisory responsibilities of its members.\textsuperscript{51} In legal systems where both responsibilities are condensed into one legal entity, the board of directors, both can be conceptualized as part of the same circle. This is the case in the USA.\textsuperscript{52} In other countries, such as Switzerland, the managing board and the supervisory board are two separate bodies.\textsuperscript{53} To adequately depict the family enterprise in these countries, a fourth circle needs to be added to the model as follows (see Figure 4):\textsuperscript{54}

\textsuperscript{51} Hilb, M., New Corporate Governance, 2004, 34
\textsuperscript{52} Weimer, J. and Pape, J. C., Corporate Governance, 1999, 154
\textsuperscript{53} Hilb, M., New Corporate Governance, 2004, 46
\textsuperscript{54} In line with the three-circle model of Gersick et al (1999), of which the four-circle model is an extension, the “management” circle is understood to also include employees without leadership responsibilities.
In a third set of countries, the management board and the supervisory board are not only separate legal entities, but membership of these bodies may even be mutually exclusive. This is for example the case in Dutch and German corporations.\textsuperscript{55} Hence, the four-circle model of a family firm enterprise in these countries includes two circles, leadership and supervision, that cannot overlap (see Figure 5):

\textsuperscript{55} For Germany refer to § 105 Aktiengesetz (German Stock Companies Act). Note that a sampling taken by Klein in 1995 suggests that only a minority of German family firms are in fact corporations; however, their number increases dramatically with the size of the firm. See Klein, S. B., Familienunternehmen, 2004 pp.113 – 115; for the Netherlands refer to the overview offered by Weimer, J. and Pape, J. C., Corporate Governance, 1999, pp. 157 – 158.
Both four-circle models illustrate the basic roles available in the family enterprise: Family-members, owners, members of the management and supervisory boards. “Family” can be defined as a group of persons who are the offspring and legally adopted children of one couple (no matter what generation) and their in-laws. “Ownership” means ownership of stock or company capital. “Management” refers to the company board that manages or runs the business entity. “Supervision” stands for the supervisory board of the company.

Klein offers a definition that is based on all four roles. A family enterprise is one on which a family exercises decisive influence. Decisive influence stems from the ownership, management and supervisory circles. This influence does not have to be additive, i.e. total control of any one circle suffices for rendering the firm a family firm (as long family does hold some of the capital). If, however, the influence of the family in each of the three domains is less than 50%, as measured in number of board seats and voting stock, then the business is not a family business.

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56 Definitions based on Astrachan, J. H., Klein, S. B. and Smyrnios, K. X., Family Business Definition, 2002
57 Klein, S. B., Familienunternehmen, 2004, 17 – 18; the definition is still presented in this edition because it was used in an empirical study for a previous edition of the book (Klein, S. B., Familienunternehmen, 2000) although Klein had in the meantime amended her approach and been instrumental in establishing the “F-PEC Scale of Family Influence” that is not being followed herein for the abovementioned reasons.
Many scholars maintain that a family firm by definition also possesses a normative element, “continuity.” According to Gallo, a firm only qualifies as a family firm if the owning family wishes to continue being bound to the company in the future. This wish rests on common values that may be hard to identify in practice. However, the presence of “continuity” can be assumed if at least two generations are actively involved in the firm, thereby expressing the intention to keep the firm in the family.

The four-circle model, as specified in the modular definition of Klein, offers the most comprehensive understanding of the roles that individuals play in a family firm. It is therefore the approach to the definition problem that allows for the most concise analysis of interpersonal interaction. Hence, this dissertation understands “family enterprise” to mean an enterprise that fulfils the modular definition of Klein. Continuity, as defined by Gallo, will be a given in any intra-family succession process. By definition, therefore, this normative element will be fulfilled by the firms that are analyzed herein. Accordingly, and in addition to the modular definition of Klein, a family enterprise is understood to be one where at least two generations of the same business-owning family are active in the management and/or supervisory board, thereby expressing the family’s decisive influence on the firm. This understanding forms the basis for the research conducted herein. The interviews carried out for this dissertation were based on the description of a case that fulfilled this definition. Both the incumbent and the successor come from the same family and are active in the company. The successor is the new leader and the incumbent controls most of the equity. Intra-family succession conflicts focus, by definition, on the transfer of the business from one generation to the next. Accordingly, the element of “continuity” will always be fulfilled in the resulting scenarios.

2.2.5 Conclusion

Section 2.2 has shown that the family firm can be defined through the four major roles that its individuals play. The next section will explore the interplay of the four family firm roles at the time of succession.

58 Kellermanns, F. W., Interview, December 11, 2006; Ward, J. L. and Aronoff, C. E., What is a family business?
59 Gallo, M. Á., Empresa Familiar, 1997, 54
60 This concerns both the family firm expert interviews and the mediator/advisor interviews. For details on these case descriptions refer to Appendix B.
61 As was explained in the introduction and shown in Appendix B.2, the second round of interviews narrowed down the case scenario from incumbent and successor from the same family to “father” and “son”.
2.3 The Role Dilemma

Section 2.3 will demonstrate that the different roles that define the family firm place conflicting demands on individuals, therefore leading them to experience a “role dilemma” at times of succession.

2.3.1 Introduction

Family firms vary dramatically in terms of size, age, and industry, but the multitude of roles played by the individual is common to all of them. This unique organizational character is a source of competitive advantage, but it can also disadvantage the firm. Family and company are separate institutions with clearly different objectives:

“The primary objective of a family is the happiness of its members, and the primary, albeit not single, objective of an enterprise is to create wealth. In fact, the for-profit organization is practically the only societal institution that carries this responsibility – and it is evident that the rules for creating happiness are not the same as the rules for creating wealth.”

These different rules lead to what can be called the fundamental dilemma of the family business:

“Both the family and the business have their own needs and goals; each has its own life and each has its own beliefs. In fact, it may be helpful to recognize that the rules of effective families and the rules of effective business can be contradictory. Families are governed by equality, inclusiveness and caring feelings. Businesses, on the other hand, are governed by meritocracy, selectivity and critical analysis.”

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63 Gallo, M. Á. and Amat, J. M., Empresas Familiares Centenarias, 2003, 74: “La principal finalidad de la familia es la felicidad des sus componentes, y la primera, aunque no única, finalidad de las empresa es crear riqueza económica, de hecho la empresa de negocios es prácticamente la única institución intermedia de la sociedad que tiene esta responsabilidad, y es una evidencia que las reglas para crear felicidad no son las mismas que las reglas para crear riqueza.”
64 Kenyon-Rouvinez, D. and Ward, J. L., Family Business Key Issues, 2005, 4
It is important to note that the result of these differences is frequently more than a mere tension. As will be elaborated in greater detail below, the different goals of family and business may not be realizable simultaneously. Calling the resulting problem a “dilemma” is therefore proper. The family business dilemma can be depicted as follows (see Figure 6):

Figure 6: The Family Firm Dilemma (Kenyon-Rouvinez and Ward, 2005)

The degree to which a firm is capable of balancing the contradictory demands of family and business determines its success. For instance, family teams can develop special trust and efficiency, and display a specific commitment to integrity and reputation. At the same time, family firms face a heightened risk of nepotism, strategic freeze, and conflict. Paradoxically, then, it is from this dilemma that both the strength and the weakness of the family firm spring. “There are two sides to the story” as Mühlebach concludes her analysis of the advantages and disadvantages characteristic of a family enterprise.

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65 See sections 2.3.1 – 2.3.3 below
66 Scherer, S., Blanc, M., Groth, T., Kormann, H. and Wimmer, R., Familienunternehmen, 2005, 104
67 Chittoor, R. and Das, R., Succession Performance, 2007, 65
68 These problems, in as far as they relate to succession, will be described below in sections 2.3.1, 2.3 and 2.4, respectively.
A better understanding of this paradox may be reached when it is depicted in the four cycle model introduced above (see Figure 5). As we have seen, the business-cycle consists of three sub-systems: Supervision, ownership, and management. The demands of all three may be different from the demands of the family. At the same time, the three business-related cycles may conflict with each other. Accordingly, the three business-related circles all “pull away” from the family circle, albeit each in a slightly different direction. These contradictory demands can therefore be graphically depicted in the four circle model as follows (see Figure 7):

Figure 7: The Family Firm Dilemma in the Four-circle model

The family firm dilemma becomes especially virulent during times of generational change for a number of reasons. As Gersick, Davis, McCollom Hampton and Lansberg point out, it is the passage of time that leads to many of the dilemmas that the family enterprise faces. As the family members get older, the question arises whether family and firm will stay together in the next generation. If so, it must be decided how leadership and ownership are to be passed on.

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70 See sections 2.3.1, 2.3 and 2.4.
This development is known as succession.\textsuperscript{72} It consists of a multitude of different processes in the company and the firm. Succession in leadership and succession in ownership are generally distinguished, with the former normally preceding the later. These processes take place in the family and business arenas of the firm simultaneously; they overlap and are interdependent. Sometimes, no family member is qualified or prepared to take over the leadership of the company. At other times, the entrepreneur delays succession planning until he is incapacitated. Even when there is a willing and able successor, and the incumbent has started the process in due time, it can still be extremely difficult to get through the transition phase after the baton has passed. “Succession is the ultimate test of a family business.”\textsuperscript{73}

One reason succession is so challenging is that the generational change in the family often coincides with, or even triggers, important changes in the business.\textsuperscript{74} The succession process requires, and may represent a unique opportunity for, a strategic re-orientation of the firm.\textsuperscript{75} In fact, some scholars maintain that for the balanced development of a successful family firm, generational change must go hand in hand with diversification and growth.\textsuperscript{76} If the owner is content with a mature business, he may prevent others from making the necessary changes. In this case, the decline of the firm in subsequent generations may be inevitable:

“He ... has left the second generation a moribund enterprise, an enterprise that is strategically beyond remedy, although its liquidity and lack of debt can hide this just as make-up may hide other types of defects. The efforts of the sons, who do all they can to reverse the situation, come late and, with luck, prevent the closing down of the family firm - but the grandchildren will nevertheless inherit a body in decay, and they will have no other choice than to bury it in accordance with the law.”\textsuperscript{77}

Strategic reorientation is not the only challenge of succession. Its legal, tax-related and financial questions are in themselves delicate tasks that can generate tension.

\textsuperscript{72} Aronoff, C. E., McClure, S. L. and Ward, J. L., Succession, 2003, 4
\textsuperscript{74} Ibid., 107
\textsuperscript{75} Klein, S. B., Succession and Strategic Renewal, 213
\textsuperscript{76} Gallo, M. Á. and Amat, J. M., Empresas Familiares Centenarias, 2003, 125
\textsuperscript{77} Ibid., 117: “Él (…) ha dejado una empresa moribunda a la segunda generación, una empresa desahuciada estratégicamente, aunque su liquidez y falta de endeudamiento lo escondan como un maquillaje puede esconder otro tipo de defectos. Los esfuerzos de los hijos, que hacen todo lo que pueden para revertir la situación, llegan tarde y, con suerte, logran que no se cierre la empresa de la familia pero, a pesar de ello, los nietos heredarán un cadáver en descomposición y no les quedará más remedio, porque es legalmente obligatorio, enterrarlo.”
However, the most challenging aspect of succession is that it functions as a catalyst. Succession bundles and increases conflicts that are inherent in both the family and the business subsystems. In any firm there can be conflicting interests among the business circles, between owners and managers, for example. The same is true for family firms. For instance, family management can reduce agency costs and allow for a long-term orientation of the firm. At the same time, family management can promote leadership irresponsibility, expropriation from minority shareholders, hubris, and excessive risk taking. What sets a family firm apart from other businesses is that there can be incompatibilities between the demands of the family and the demands of each of the three business circles. Each of these incompatibilities can create its own set of dilemmas. What these dilemmas may look like is subsequently explored.

2.3.2 Family vs. Management

Family demands may be very different from the demands of management, providing fertile ground for dilemmas. A prominent example is the so-called “founder’s shadow.” There is often a strong link between the personality of the leader and the culture of an organisation. In family firms, this link is particularly strong when the leader is also the founder:

“Minerva, the Roman goddess of wisdom, is said to have sprung full-blown from the forehead of Zeus. Similarly, an organization's culture begins life in the head of its founder - springing from the founder's ideas about truth, reality, and the way the world works.”

Hence, the personality of the entrepreneur plays a central role in founding the firm and thereafter. The values on which he has built the company determine its culture and competitiveness. Successful family enterprises possess an “organizational

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78 Klein, S. B., Familienunternehmen, 2004, 338
79 Vilaseca, A., Shareholder Role, 2002
80 In as far as these conflicts are not materially different in family firms, they will be disregarded herein; in as far as they are, they will subsequently be discussed in detail.
81 Miller, D. and Le Breton-Miller, I., Family Governance, 2006, 155
82 Coutu, D. L. and Kets de Vries, M. F. R., Leader, 2004, 68
84 Fueglistaller, U., Müller, C. and Volery, T., Entrepreneurship, 2004, 30:
awareness” of their distinct culture, which is the source of their competitive advantage. What is foremost in determining the continuing success of a family firm across generations, therefore, is the continuity of the founder’s values. This phenomenon has been described as “founder’s shadow” and has been found to remain in force beyond the first, and even the second, generation of a family firm. The protection and preservation of the founder’s shadow is therefore crucial from a management perspective.

At the same time, the continuing influence of the incumbent creates a great problem for the family. For instance, a “compulsion to succeed” may force the entrepreneur to continue for the sake of continuing. This may prevent him from accepting the limitations of his age and cause him to ignore health problems. On the other hand, the successor, especially one who is the offspring of the incumbent, may have difficulty generating self-respect and autonomy. In extreme cases, the business can become “an illness afflicting the family. These are the cases in which keeping it going means keeping the family sick. These owners use their business to retard the normal development of their children and themselves.”

Even when they are not strongly affected by such problems, families – especially the incumbent and successor – often find it difficult to maintain healthy relationships in times of succession. In fact, Davis and Harveston have found that the generational shadow of the founder (i.e. his continuing influence) is the primary mechanism driving the increase in social conflict among families that lead a business in the second-generation.

### 2.3.3 Family vs. Ownership

Family and ownership often display conflicting demands. They are frequently at odds with each other when it comes to estate planning. Both the timing and the principles of the transfer of ownership are concerned.

85 Scherer, S., Blanc, M., Groth, T., Kormann, H. and Wimmer, R., Familienunternehmen, 2005, 25
88 Shefsky, L. E., Entrepreneurs, 1994, 204
90 Kaye, K., Family Business Dynamics, 2005, 76
91 The challenges to their relationship are looked at in greater detail below in sections 3.3.4.
92 Davis, P. S. and Harveston, P. D., Family Firm Conflict, 1999
In a classical study of the performance of family firms over time, Ward found that long-living companies were characterized by a concentration of ownership and management in the hands of only a few family members, or even just one person. Because families generally grow over generations, this finding is remarkable. While it is not clear whether the concentration was due to deliberate decisions or to circumstances (e.g. the owner having only one child) in the observed cases, it apparently minimizes the risk of conflict between siblings or cousins over the business. These findings led Gallo to suggest that ownership concentration stabilizes the firm and promotes its longevity.

Ownership of the firm may therefore be best protected by what Scherer, Blanc, Groth, Kormann and Wimmer call a “dynastic” approach to estate planning. However, ownership demands more than its concentration in the hands of as few heirs as possible. The firm’s equity must also be protected from liquidity outflows. In many countries, concentrating the estate in one heir mandates compensation for the entitled hereditary beneficiaries. Because many business-owning families reinvest most proceeds from the business back into the business, the funds for this compensation often flow from that business. Hence, estate planning would seek to prevent the liquidity outflows from compensation payments. From purely an ownership perspective, it would also be desirable to prevent other heirs from being compensated, or, where this is legally impossible, to limit their compensation as much as possible.

However, many families would reject this notion as unfair. While equally dividing everything down to the last penny and piece of silver may seem unnecessary and impossible to many parents, most do strive to treat their children equitably. Such equitable treatment is incompatible with “dynastic” estate planning and may therefore come at the expense of the firm’s ownership dimension.

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93 Ward, J. L., Healthy Family Business, 1997, 12
94 Gallo, M. Á. and Amat, J. M., Empresas Familiares Centenarias, 2003, 79
95 Scherer, S., Blanc, M., Groth, T., Kormann, H. and Wimmer, R., Familienunternehmen, 2005, 32
97 Scherer, S., Blanc, M., Groth, T., Kormann, H. and Wimmer, R., Familienunternehmen, 2005, 167; Contrasting this scenario with the sale of the firm to outsider, Bjuggren, P.-O. and Sund, L.-G., Tax Law Considerations, 2005 emphasize that not passing the firm on within the family diminishes its value because idiosyncratic knowledge is lost (pg. 307).
98 Ayres, G. R., Estate Planning, 2002, 185
99 As Davis, J. A. and Klein, S., Succession, 2005, emphasize, the magnitude of the trade-off is also determined by the quality of professional advice received by the parents (pg. 70).
The business and family-subsystems also express contradictory demands regarding the timing of ownership-transfer. Inheritance tax can be a substantial strain on the family business in many countries. For instance, the tax levied in Germany on inherited shares may threaten the capital base of the company.\textsuperscript{100} It has already been pointed out that many business-owning families reinvest the profits into their company. Accordingly, heirs often have to rely on company funds for paying the tax. An effective way of minimizing the tax impact lies in transferring assets during the owner’s lifetime. The situation in the United States is similar, leading \textit{Ward} to recommend that business-owners engage in “aggressive gifting,” i.e. giving away as much ownership as possible as early as possible.\textsuperscript{101}

On the other hand, the entrepreneur will regularly seek to safeguard his wealth.\textsuperscript{102} The entrepreneur and his wife need a secure source of income to provide post-retirement comfort and confidence.\textsuperscript{103} Because of the high levels of re-investment found in many family businesses, the personal wealth of the entrepreneur is often concentrated in the firm. In order to secure the main source of income, ownership should be given away as late as possible, and preferably not until the successor has proven his ability. If the entrepreneur and his wife depend on the company assets to maintain their lifestyle, they cannot afford to pass the business on at all.\textsuperscript{104} If this problem is not avoided by timely financial planning, it will constitute a persistent family firm dilemma.

\subsection*{2.3.4 Family vs. Supervision}

Good corporate governance is also often at odds with the wishes of the family, providing a particularly fertile breeding ground for dilemmas. As has been pointed out above,\textsuperscript{105} the supervisory body of a firm depends on the corporate governance legislation of the country where it is located. Indeed, it has been argued that no single corporate governance arrangement would fit the multifaceted needs of companies embedded in widely different cultural, historical, and institutional settings.\textsuperscript{106}

\begin{thebibliography}{9}
\bibitem{100} For a detailed description of the situation refer to: Scherer, S., Blanc, M., Groth, T., Kormann, H. and Wimmer, R., \textit{Familienunternehmen}, 2005, pp. 34 - 44
\bibitem{101} Ward, J. L., \textit{Perpetuating the Family Business}, 2004, 81
\bibitem{102} Fueglistaller, U., Müller, C. and Volery, T., \textit{Entrepreneurship}, 2004, 181
\bibitem{103} Aronoff, C. E., McClure, S. L. and Ward, J. L., \textit{Succession}, 2003, 15,
\bibitem{104} Sorenson, R. L., \textit{Family and Financial Success}, 2000, 139; another important limitation of the entrepreneur’s freedom can be rooted in his personality, see section 3.3.3.1
\bibitem{105} See section 2.2.4.
\bibitem{106} Corbetta, G. and Salvato, C. A., \textit{Board of Directors}, 2004, 120
\end{thebibliography}
Whatever the respective corporate governance structure of the company, a common problem in family firms is that the supervisory board can be so dominated by the family CEO that it has de facto little influence.\textsuperscript{107} Even after the dominant CEO has left the stage, effective supervision may continue to be an issue. This can be the case when the departing CEO proceeds to head the supervisory board, making room for a relative to succeed him as head of the company.\textsuperscript{108} From the family’s perspective, there are of course many reasons to favour family members over outsiders in the business. The most obvious reason is the belief that the firm should benefit the family:

“When businesses are founded, they are rarely conceived of as ‘family businesses’. Instead, they are typically expressions of an entrepreneur’s desire for independence. He or she views it as ‘my business’ or ‘my company’. The family, while a source of support and perhaps even of employees, remains in the background. Yet there eventually comes a time when these same entrepreneurs yearn to leave their business as a legacy to their children.”\textsuperscript{109}

The most important motivator for that yearning is the desire to pass on opportunity to the children.\textsuperscript{110} Furthermore, as the entrepreneur grows older, his role in the family changes. It has been proposed that aging family members feel a growing need to belong to a multigenerational family system in a manner that sustains the meaning and value of their lives.\textsuperscript{111} Shared family activities and rituals can contribute to a legacy that can help the elder maintain a meaningful sense of their own place in a connected and continuous multigenerational family.\textsuperscript{112}

The family business offers the perfect platform for the creation of a family legacy. However, connecting with younger family members and engaging in shared activities in the company-context is, of course, only possible if and when these members are active in the firm. Consequently, a retiring entrepreneur may favour a relative as his successor irrespective of other factors.

\textsuperscript{107} Blumentritt, T., Boards, 2006, 71
\textsuperscript{108} The dilemma subsequently discussed as a governance problem could of course also present itself in a slightly different manner as a management problem in accordance with section 2.2.1.
\textsuperscript{109} Ward, J. L., Healthy Family Business, 1997, 15
\textsuperscript{110} Ibid., 16
\textsuperscript{111} King, D. A. and Wynne, L. C., Family Integrity, 2004, 10
\textsuperscript{112} Ibid., 13; however, growing owner age seems to be a two-edged sword, as there is evidence suggesting that older owner age results in a less cooperative interaction style with the younger generation, see Marshall, J. P., Sorenson, R., Brigham, K., Wieling, E., Reifman, A. and Wampler, R. S., Owner age paradox, 2006
The entrepreneur’s place in the family is also secured by another mechanism. Individuals who identify strongly with a group have often been found to cause other group members to show greater in-group loyalty, which in turn confirms their own group identity.\textsuperscript{113} A leader who thus acts as “one of us” by showing strong in-group favouritism is not only more socially attractive, but is also provided with legitimacy.\textsuperscript{114} Kets de Vries observed what seems to be a common result of all these mechanisms: “Senior owner-managers often show a remarkable capacity for closing their eyes to the weaknesses of their beloved sons or daughters.”\textsuperscript{115} Some scholars maintain that the hiring of a relative is as such neither good nor bad for the firm.\textsuperscript{116} However, hiring a relative who may be less than qualified is generally seen as one of the great dangers to the family enterprise.\textsuperscript{117} Although it can certainly be argued that such nepotism is not in the interest of the family either, the fact of the matter is that families often lean towards it.

A supervisory board that permits nepotism causes serious problems for the organisation. The firm will suffer the inadequacies of the family member who has been put in charge.\textsuperscript{118} At the same time, nepotism introduces adverse selection in the internal “labour market,” threatening to undermine merit-based promotion policies.\textsuperscript{119} Nepotism, therefore, is not only a management failure, but also a governance failure. In sum, good corporate governance often requires the succession process to be handled in ways that can seem incompatible with the demands of the family.

\section*{2.3.5 Conclusion}

Section 2.3 has shown that, especially during succession, the family circle can often demand something that is at odds with the demands of the other business-related circles. The resulting problems are typically not limited to the two original circles. Instead, they easily “spill over” to other circles. The “founder’s shadow” may be most problematic for the succeeding generation, but its effects on the wider organization may make it a management problem. Estate planning will have a big

\begin{thebibliography}{119}
\bibitem{Hogg2001} Hogg, M. A., Social Identity Theory & Leadership, 2001, 188
\bibitem{Hogg2001b} Ibid., 189
\bibitem{Kets2002} Kets de Vries, M. F. R., Family Firms Dynamics, 2002, 336. The attitude of the incumbent will be explored in greater detail in section 3.3.4 below.
\bibitem{Vinton1998} Vinton, K. L., Nepotism, 1998, 199
\bibitem{Karofsky1997} Karofsky, P., Conversation with Levinson, 1997, 414
\bibitem{Lubatkin2005} Lubatkin, M. H., Schulze, W. S., Ling, Y. and Dino, R. N., Parental Altruism, 2005, 320
\end{thebibliography}
effect on the heirs to the company, but its effect on persons that do not inherit ownership may become even greater (especially when the wealth is not perceived to be transferred equitably). The nepotistic choice of an inept CEO may be a governance failure, but it will probably also lead to negative consequences in both the management and the family circles. In all these cases, a “role dilemma” between individuals that permeate to different circles is likely to emerge.

The role dilemmas described above are not the only ones that a family firm has to face in succession. The next section will explore how the individuals internally experience the conflicting roles of the family firm.

2.4 The Internal Dilemma

Section 2.4 will demonstrate that the different roles that define the family firm lead individuals to experience an “internal dilemma” at times of succession. A family firm is not only characterized by the fact that its members play different roles, but also by the fact that they have to play them simultaneously. This regularly causes these individuals to experience the conflicting demands of their roles as an inner, or internal, dilemma. What this means and how individuals are affected by this fact is subsequently explored.

Individuals who identify with their role in the organization can be expected to be drawn towards the demand of “their” circle. For instance, a family member may favour nepotistic behaviour (like the promotion of his nephew to director), and a non-family supervisory board member may oppose it. The problem in the family firm, of course, is that its members are simultaneously part of at least two circles. In the above example, the uncle may be sitting on the supervisory board himself. This is what Aronoff emphasizes when he states that succession takes place in a “rich stew of social, cultural, financial, legal, strategic, moral, and other dimensions”\textsuperscript{120}. Looking specifically at family and managerial roles, \textit{Greenhaus and Beutell} found that:

\textsuperscript{120} Aronoff, C. E., Megatrends, 1998, 181
“A manager is expected to embody self-reliance, emotional stability, aggressiveness, and objectivity. A family member is expected to be warm, nurturant, emotional, and vulnerable in his interaction with the other family members... If a person is unable to adjust behaviour to comply with the expectations of different roles, he or she is likely to experience conflict between the roles.”

For example, the retiring CEO may wish for his son to succeed him. At the same time, he may know that an outside candidate might be much more qualified. In cases like this, individuals may be drawn to conflicting goals, and consequently experience the family firm dilemma within themselves. In other words, they experience an inner dilemma.

It is important to note that Greenhaus et al. looked at work-family conflicts in families that where not business-owning families. The managers in their study did not have to play opposing roles at the same time. For them, the demands of these roles can at least be separated sequentially. In a family firm the various roles are played simultaneously, making the ensuing dilemma constantly present. In succession, therefore, the members of a family enterprise are likely to experience a constant inner dilemma due to the demands placed on them by their respective roles.

While other family members and company stakeholders play a crucial role in succession, the roles played by incumbent and successor are decisive. Their agreement is the condition sine qua non for successful succession: if they do not agree to complete the process, succession will by definition fail. A third party may be able to support or even destroy this agreement, but he or she cannot substitute for it. The greater the level of agreement between incumbent and successor, the more likely it is that the process will be successful. In sum, this section has shown that individuals experience an “internal dilemma” during succession. Focussing on incumbent and successor, the next section will explore what this means for their relationship.

121 Greenhaus, J. H. and Beutell, N. J., Work - Family Conflict, 1985, 81
122 The role of third parties in succession is explored in detail in Chapter 4.
2.5 The Relationship Dilemma

Section 2.5 will demonstrate that incumbent and successor also face a “relationship dilemma” in addition to the role and internal dilemmas already described.

2.5.1 Introduction

Section 2.5.2 will show that succession is transfer of power from incumbent to successor. Section 2.5.3 then focuses on the question of authority. Lastly, section 2.5.4 will demonstrate that the mutual role adjustment required for the transfer of authority leads to a dilemma inherent in the incumbent - successor relationship.

2.5.2 Transfer of Power

This section analyzes succession as a process of power transfer that takes place in three sequential steps: the transfer of responsibility, authority, and finally ownership control. The moment in time chosen for the analysis determines in which business-related subsystem the protagonists will be found. For instance, if the incumbent has moved on to head the supervisory body and his son has succeeded him as CEO, the following picture emerges (see Figure 8):\(^{124}\)

\(^{124}\) As will be detailed below in section 2.5.3, this is the scenario on which this dissertation will focus.
In this scenario, both father and son are also owners of the company. The incumbent is part of the supervisory body, and at the same time he is the father of the CEO. Likewise, the successor is not only the new CEO of the company, but also the son of the head of the supervisory body. The result will be multiple dilemmas of the kind seen above. Either’s view on an issue may depend on whether they look at it primarily as family members, as owners, or from the perspective of leadership or governance. Such inner dilemmas are likely to be experienced by both protagonists.

However, Figure 8 only depicts a specific scenario, namely the period of time when the son already leads the company and the father has moved on to the supervisory function.125 By definition, the incumbent passes the leadership role on to the successor, and the successor receives it from him. In turn, the successor reports to, and is controlled by, the incumbent who now supervises his leadership. This scenario only provides a “snapshot” of a particular sequence in the course of succession.

125 Note that this scenario will vary slightly with the governance structure of the firm; however, while a Swiss or US-based firm would be more adequately depicted in the other three or four-circle models introduced in section 2.2.4 above, the essential constellation would still be the same.
It is, however, imperative to look at generational change as a process that develops over time. During the succession process, the incumbent typically moves from being the CEO (and perhaps sole owner of the business) to a dominant role on the supervisory board, and finally to full retirement. The successor moves to the top of the company, and, when the incumbent retires, often assumes ownership of the company. In the process, the incumbent passes on more and more power to the successor. The power that the successor receives generally comes at the expense of the incumbent’s power, and he can only receive power from the hands of incumbent. The incumbent therefore determines the timeline for the process. It is his decision (and therefore his responsibility) to initiate the transfer of power and it is his eventual departure from the firm that determines the end of the process. Accordingly, the transfer of power can be graphically depicted as follows (see Figure 9).

Figure 9: The Transfer of Power in Succession (Aronoff, McClure, Ward, 2003)

The vertical line depicts the succession plan. The term is understood here in its broadest sense, namely as the agreed-upon transfer of power between the two main protagonists. In as far as the increase of the successor’s power comes at his expense, the incumbent does control the process.

127 Aronoff, C. E., McClure, S. L. and Ward, J. L., Succession, 2003, 10
128 This table is based on the concept depicted in Ibid., 46.
However, as Shefsky points out, “people who have power often do not provide for a successor to the power - maybe a successor to the throne, but not necessarily to the power.”\textsuperscript{129} If the incumbent fails to transfer enough power before he leaves the company, a power vacuum is likely to ensue, which would pose a major threat to the company. It is therefore important that the succession plan does not fall short of full transfer of ownership. Graphically speaking, it is important that the vertical line reaches the lower corner of the “power” square.

As has been pointed out, the transfer of power generally starts with the delegation of responsibility and ends with the transfer of ownership control. At the same time, leadership succession is not limited to the transfer of responsibility. As Davis and Taiguri emphasize, there is a difference between responsibility and authority,\textsuperscript{130} and succession requires both. This is also what Shefsky meant when he cautioned that transfer of power should not be limited to the “throne”.\textsuperscript{131}

Likewise, Dyck, Mauws, Starke and Mischke maintain that the baton of leadership is much more than simply the title of “President” or “CEO”, which are transferred relatively easily.\textsuperscript{132} Longenecker and Schoen have made a similar observation:

“When a son replaces his father as president of the family business, succession in the leadership position has, of course, taken place in the organization. On the other hand, a major conclusion of succession studies has been that the leadership role of an organization does not transfer as easily or absolutely between the incumbent and successor as does the leadership title.”\textsuperscript{133}

In their terminology, “leadership position” stands for responsibility and “leadership role” stands for authority. Leadership succession is completed in a last, “mature” succession stage:

\textsuperscript{129} Shefsky, L. E., Interview, November 21, 2006. In sections 3.3. and 3.4 the personality of the entrepreneur will be explored in greater detail.
\textsuperscript{130} Davis, J. A. and Tagiuri, R., Life Stages, 2002, 435
\textsuperscript{131} Shefsky, L. E., Interview, November 21, 2006
\textsuperscript{133} Longenecker, J. G. and Schoen, J. E., Management Succession, 2002, 64 [emphases added]
“That is, the major portion of a successor’s development or socialisation is considered to be completed when two conditions are met: (1) the successor has assumed the leadership role in the organization as well as the leadership position and (2) the successor is relatively autonomous in that role, particularly in terms of his relationship to his predecessor father.”134

Ownership control will often remain with the incumbent even when responsibility and authority have been passed on and leadership succession is de-facto accomplished. The incumbent may retain ownership until a later point in life (for instance, until the successor buys him out),135 or he may not transfer it in his lifetime. Either way, until ownership-control of the company is transferred from incumbent to successor, the transfer of power is not complete.136 Depending on the corporate governance structure of the firm, the incumbent will exercise ownership-control informally or formally (e.g. as chairman of the supervisory board).137

In conclusion, three components of power can be distinguished: Responsibility, authority, and ownership control, which are passed on successively.138 In reality, however, the process is unlikely to be completely linear, as Figure 9 may suggest. The process regularly begins when the successor enters the company, often as early as in his school holidays, and learns about the business step by step. Rather than featuring a linear process, the succession plan will often start slowly and gain impact over time until a tipping point is reached, after which it slows down again. The tipping point would be the moment when the leadership baton is passed on, i.e. when the responsibility for leadership is transferred to the successor.

Accordingly, the line that depicts the transfer of power will often look like this (see Figure 10):

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134 Ibid. [emphases added]
135 Fueglistaller, U., Müller, C. and Volery, T., Entrepreneurship, 2004, 177
137 The transition from CEO to chairman of supervisory board is personally challenging (see e.g. the case described by Aronoff, C. E., Letting go, 2003, 47) and is explored in greater detail in sections 3.3 and 3.4.
Once the responsibility to lead the company has been transferred to the successor, the incumbent will lose power exponentially until ownership is relinquished. In that moment the question of who has the authority to de facto lead the company will arise. This question is explored in the next section.

### 2.5.3 Authority as Litmus Test

This section shows that the passing on of authority can be seen as the “litmus test” of the whole succession process. It also explains that this dissertation will henceforth focus on this step, because it is the step that can best clarify the incumbent – successor relationship. The transfer of power mandates that incumbent and successor both resolve their respective dilemmas throughout the process. Each step poses its own challenges. For instance, the transfer of ownership is a complex and challenging process in its own right.\(^\text{139}\) It can also be extremely difficult for many entrepreneurs to even begin succession planning.\(^\text{140}\)

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\(^\text{139}\) In this step tax considerations play a crucial role, see e.g. Zwick, G. A., Transaction Planning, 2002 (Taxation of related-party transactions in the USA); Bjuggren, P.-O. and Sund, L.-G., Tax Law Considerations, 2005 (Transfer of SME ownership during lifetime of entrepreneur); Scherer, S., Blanc, M., Groth, T., Kormann, H. and Wimmer, R., Familienunternehmen, 2005, pp 351 – 450 (Ownership Transfer and Taxation in Germany).

\(^\text{140}\) In detail see Lansberg, I., Succession Conspiracy, 2002; Aronoff, C. E., Letting go, 2003 (pg. 10) identifies ten reasons for this fact; Malone, S. C., Business Continuity Planning, 2002 (pg. 42) found that lack of succession planning often goes hand in hand with lack of planning in the business strategy area.
Even after the leadership-baton has been passed on, the definite withdrawal and retirement, as exemplified in his “moving out of the corner office”\textsuperscript{141} and the handing over of his personal keys,\textsuperscript{142} can be extremely challenging for the incumbent. This dissertation focuses on one of these steps, the transfer of authority (see Figure 11):

\textit{Figure 11: Focus on the Transfer of Authority}

This period of time is being focused on because the transfer of authority constitutes something like a “litmus test” for the whole succession process, as it is the step that most frequently causes conflict.\textsuperscript{143} As with the other steps, the transfer of authority has its own specific challenges, the most common one being, perhaps, that “entrepreneurs who founded, grew and actively operated a successful business often have difficulty separating governance from executive functions.”\textsuperscript{144} At the same time, this step captures the most essential dilemmas of the whole succession process. It is the first time that the desire to maintain family–firm continuity is being tested in earnest. After the leadership baton has been passed from incumbent to successor, each has to live up to the demands of his new role individually. Now the incumbent must, for the first time, refrain from exercising his old responsibilities, truly let go of his authority, and prepare for the last act, the eventual transfer of ownership.

\textsuperscript{141} Aronoff, C. E., Letting go, 2003, 53
\textsuperscript{142} Halter, F., Interview, January 23 & 30, 2007
\textsuperscript{143} All interviewed family firm experts agreed on this point, and some called it the “classic” succession conflict.
\textsuperscript{144} Aronoff, C. E., Letting go, 2003, 48
The successor, on the other hand, must now really assume the granted responsibility, earn the authority that comes with exercising it correctly, and prepare for accepting the risk of owning the equity. The question of authority arises, for example, when it comes to deciding who deals with major customers or creditors, or in whose presence top management meetings are to be conducted. If the transfer of authority does not proceed, the incumbent may be tempted to resume responsibility, and the successor may be tempted to leave the company.

2.5.4 Mutuality

This section shows that the transfer of authority is essentially a process of mutual role adjustment between incumbent and successor, and that this mutuality leads them to experience a “relationship dilemma.” It is helpful to use a popular analogy for the succession in order to clarify what the mutual role adjustment process looks like. Succession is often compared to a relay race. The incumbent may have difficulty letting go of the leadership baton, and the successor may have difficulty taking it over. In any case, there is a need for agreement on what is being given by the incumbent and what is being accepted by the successor, which is simply the power to lead the company.

However, the relay race analogy has its limitations. Succession is not a one-time transaction, but rather a development. Management succession evolves over a lengthy, almost life-long period of time, and is only complete with the subsequent transfer of ownership.

What the analogy does capture, however, is the duality that is inherent in the process. Both successor and incumbent need the other one in order to define their own role. This is immediately obvious with regard to the successor. As the new leader of the company, he needs to prove his worth and find his own way. This means that he has to do things differently from the incumbent. At the same time, he needs to identify the essential strengths that were created by the incumbent, and he must learn how to maintain and increase them. This means that he has to do things just like the incumbent would have done them.

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145 Similar challenges are faced also by companies with no family involvement; what differentiates the nature of the dilemma is, of course, that there is no “family circle” involved, so that incumbent and successor are hardly ever related.

146 The interviews with the family firm experts were based on this scenario; for details please refer to Attachment B.

147 Longenecker, J. G. and Schoen, J. E., Management Succession, 2002, 65
On a deeper level, the essence of what is being transferred to the successor was brought into existence by his predecessor. When the successor takes over the leadership role, many of his actions will be motivated by the desire to do something either like or unlike the incumbent. Over time, this impulse may very well decrease, but until the succession process is completed, it should be expected to be a major issue. Whatever the successor does until then will be defined, positively or negatively, in relation to the incumbent.

For the incumbent, this effect is perhaps less pronounced, but nevertheless it is essentially similar. In supervising the new leader, the incumbent needs to acknowledge the described duality of the successor’s behaviour. Reacting to this duality, he must decide in which instances it is appropriate to concur with the successor and do things differently. Beyond his new supervisory function, the incumbent also needs to accept that he no longer leads the firm. His former duties now belong to the successor, and his new role requires that he take into account the successor’s actions. The incumbent’s feelings of appreciation, as well as much of what he does before he finally transfers ownership of the company (if he at all plans to do that during his lifetime), will be influenced by whether the successor is proving his worth by doing things the same or differently.

Hence, incumbent and successor must each balance their new roles and internal dilemmas in light of the how the other one balances his dilemmas. An example may illustrate this point. The question of who has the real leadership authority is often exemplified by the decision of who negotiates with major customers. In such a case, the incumbent, as the new head of the supervisory body may be reluctant to hand over this crucial relationship for fear of it being mishandled by the successor. The successor, on the other hand, may insist on this crucial aspect of his leadership responsibility. Beyond the dilemma that exists between their respective new roles in the firm, both may experience corresponding inner dilemmas. For instance, the successor may be hesitant to cut out his father from a long-cherished business relationship, while the incumbent may wish to give his son a chance to live up to his new role. It is obvious that each can only resolve these dilemmas in relation to how the other one resolves his.

Ward, J. L., Interview, February 17, 2007
The complexity of the situation often results in ambivalence towards the succession process. Indeed, this constellation seems to be an example *par excellence* for the belief that the most critical issues facing business-owning families are family-based issues rather than business-related issues. It is therefore not surprising that all interviewed family firm experts agreed that the true challenge of succession is the personal adjustments required from individual family members. Since this adjustment is required from both incumbent and successor and can only be achieved in relation to the other one, it has been described as a process of mutual role adjustment.

It is important to note that this mutual role adjustment process is a voluntary process for both sides. In contrast to earlier time periods, family relationships in western societies have become more negotiable, and decision-making has become more “democratic” in the sense that it increasingly arises from communication. In line with this development, family business scholars have identified the voluntary commitment to the firm as one of the defining elements of the family firm. By definition, the family firm requires that the involved individuals agree to keep it in existence.

If that agreement is not maintained, an individual may decide to disfranchise himself from his role in the succession process. For instance, the successor may decide to leave the firm. If incumbent and successor do not continue in their mutual role adjustment, they may find themselves deadlocked in development. This is a common problem, as in this case described by Dyck et al.:

“There was confusion as to whether a meaningful succession had actually taken place. While Incumbent supposedly handed over the reins of power to Successor, a complete transition of

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149 See e.g. Lansberg, I., Succession Conspiracy, 2002, 46. The personalities of incumbent and successor exert considerable influence on the extent to which this ambivalence is, in fact, experienced; this issue will be explored in detail in Sections 3.3 and 3.4 below.

150 This belief is voiced e.g. by Ward, J. L., Perpetuating the Family Business, 2004, 6

151 Davis, J. A., Interview, November 28, 2006; Halter, F., Interview, January 23 & 30, 2007; Kellermanns, F. W., Interview, December 11, 2006; Klein, S. B., Interview, December 18, 2006; Mühlebach, C., Interview, December 12, 2006; Shefsky, L. E., Interview, November 21, 2006


153 Gilding, M., Family Change, 2000, 241

154 Note that there are often limitations on the ability of the individual to leave the firm, such as the absence of a market for equity in the enterprise, that may make it difficult for a family member to e.g. sell his shares. Nevertheless, as is discussed in greater detail in 3.3.2 below, the compulsion to stay does not substitute for the commitment to stay in terms of achieving the necessary balance.
management practices and systems never occurred. Rather, there was a partial transfer of responsibility and power, characterized by only a tentative commitment by both parties to the transfer. Both individuals struggled as they tried to overcome the firm’s obstacles and their own interpersonal difficulties. Incumbent was not about to let go of the baton until he was sure it was not going to be dropped. Successor, on the other hand, felt he had a firm grip on the baton and desperately wanted Incumbent to let go of it so he could run his leg of the race. There was a need to ensure that the “letting go” and “taking up” of control of the organization proceeded smoothly, but this did not happen.”

The relay race metaphor, therefore, becomes more fitting if it is slightly altered. Rather than picturing the baton being passed on in one brief instant, it may be more apt to imagine the transition taking a number of laps. As the successor gradually gets a grip on the baton, the incumbent lets go of it equally gradually. All the while both have to run together, synchronizing their every move, without stumbling or dropping the baton. It seems no exaggeration to even imagine them having to take a number of hurdles on their way.

2.5.5 Conclusion

Section 2.5 has demonstrated the “relationship dilemma” that incumbent and successor face during the transfer of authority.

2.6 Conclusion

Chapter 2 has shown the role, internal, and relationship dilemmas that incumbent and successor have to face during succession. The dilemmas are interwoven and often become apparent in the transfer of authority.

An example, similar to the one just used, can illustrate this point. The successor may have assumed the formal responsibility of leading the company, but he will not have achieved full authority in the firm as long as he does not, for instance, single-

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handedly conduct the negotiations with the main creditor. In this situation, the family may nevertheless demand that the incumbent play an important role in the creditor-relationship so he does not feel “cut out”, and the owners may demand the same out of fear that the creditor may take advantage of the less experienced successor. In order to resolve this “role dilemma”, the different actors must decide which demand shall be given priority.

At the same time, the successor himself is a member of the family, and also one of the company-owners. He may be torn between the competing demands, experiencing the “internal dilemma”. He may for example think “Management will not follow my lead if I still need Dad to help me in these negotiations. On the other hand, it is crucial that we get good conditions on this credit, and the bank may take advantage of me if I cannot rely on Dad’s experience”.

Furthermore, even if the successor makes up his mind and decides which demands to give preference, he can only do so if the incumbent, who has to deal with his own dilemmas, agrees. Both are therefore also caught in the “relationship dilemma”. For example, the incumbent may think: “It really is risky to have him negotiate the credit by himself, but if I come with him, he will never learn how to do it.”

From this the conclusion can be drawn that successful succession requires that the incumbent and the successor must resolve their various dilemmas together. One can distinguish between dilemmas of an inter- or intra-personal nature. It seems reasonable to assume that in its manifestation, the intra-personal dilemma will not be as obvious to an observer as the inter-personal one. At the same time, one can assume that the resolution of his inner tensions will determine how an individual interacts with his environment.

Based on these assumptions, the three dilemmas of succession can be graphically depicted in an iceberg-model as follows (see Figure 12):
The next Chapter will explore the succession conflict that can arise out of these dilemmas, when incumbent and successor are not committed to resolving them together.
3. The Three Dimensions of Succession Conflict

The previous chapter demonstrated that succession is the attempt by incumbent and successor to jointly overcome the described dilemmas. Being committed to succession, therefore, means being committed to that joint process. Chapter 3 will analyze factors that can weaken, or strengthen, this commitment. It will then show that dialogue can establish common commitment. If there is not common commitment, succession conflict will emerge, and each dilemma will lead to a specific aspect of succession conflict.

3.1 Introduction

Section 3.2 explores the nature of both incumbent’s and successor’s commitment to the succession process. Section 3.3 analyzes the factors that can constrain it, and Section 3.3 explores the factors that can promote it. Section 3.4 explains the effect of time on the common commitment. Section 3.5 explains that, in the absence of joint commitment, the three dilemmas of succession will lead to three dimensions of succession conflict: Task, inner, and relationship conflict.

3.2 The Commitment to Succession

3.2.1 Introduction

As has been pointed out above, it is the commitment to succession that determines whether incumbent and successor jointly balance their dilemmas. As is subsequently explained, three different types of commitment can be distinguished: calculative (see 3.2.2), affective (see 3.2.3), and normative commitment (see 3.2.4).

In „Los secretos de las empresas familiares centenarias“ („The secrets of centenarian family enterprises“) Gallo and Amat identify the key factors for the success of multigenerational family enterprises. They conclude that “the continuity of a family business depends on the capacity of the family who owns the company to reach unity and commitment between its members.”\(^\text{156}\)

\(^{156}\) Gallo, M. Á. and Amat, J. M., Empresas Familiares Centenarias, 2003, 159: “La continuidad de una empresa familiar depende de la capacidad de la familia que es propietaria de la empresa para alcanzar la unidad y el compromiso entre sus integrantes”. 
It is the combination of both the incumbent’s and the successor’s commitment that is decisive for the success of the process. Exactly what does “commitment” mean? Gallo and Amat offer the following definition: “To be committed means to voluntarily keep a given promise.”157 If commitment is the voluntary keeping of a promise, it can be argued that true commitment can only be established by free choice. According to Gallo, commitment is exercised through the free will of each family member in an act of liberty. Hence, it is crucial to promote an atmosphere that supports the individual in taking actions and making decisions.158

Dycke et al. suggest that successors are likely to have a positive succession experience when they can fulfil career, psychosocial, and life stage opportunities in the context of the family firm.159 Looking more closely at what makes the process attractive for the successor, Sharma and Irving have identified different types of commitment to succession. They suggest that the successors’ decision to pursue a career in the family business can be influenced by distinct shades of commitment: Affective, normative, and calculative commitment.160 Based on this distinction, the commitment of both successor and incumbent are subsequently explored.

### 3.2.2 Calculative Commitment

According to Sharma et al., a successor that displays calculative commitment perceives substantial opportunity costs and threatened loss of investments or value if he does not pursue a career in the family business.161 Building on their taxonomy, it could be said that an incumbent with calculative commitment perceives substantial opportunity costs and threatened loss of investments or value if he does not pass on the business to the next generation. However, in light of Gallo’s idea that true commitment must be voluntary, and hence the result of free choice, calculative commitment seems to primarily rely on the calculation that succession will “pay off.” It therefore seems that a positively defined calculation by the parties is more important for their commitment than the negative variety identified by Sharma et al.

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157 Ibid., 159: “(…) Se entiende por compromiso la voluntad de cumplir algo que se ha prometido que se haría.”
158 Ibid., 160: “Es el compromiso ejercido con la libre voluntad de cada familiar, es decir en un acto de libertad, lo que refuerza y mantiene la unidad. Por ello es fundamental promover una atmósfera que favorezca que las personas que forman parte de la familia empresaria actúen y tomen decisiones ejerciendo su libertad individual.”
160 Sharma, P. and Irving, P. G., Successor Commitment, 2005
161 Ibid.; Sharma and Irving (2005) also suggest a fourth type of commitment: Individuals which perceive that they lack alternatives to a career in the family business display “imperative commitment”; they feel that they “need to” pursue such a career in the business. However, his type of commitment seems to be an extreme case of “calculative commitment,” and is therefore not regarded as a separate mind-set herein.
This is in line with the findings of Ward, who maintains that the less the incumbent or successor is motivated by negative calculation, the better.\textsuperscript{162}

“Every family needs a good exit clause in both its buy-sell agreements and its valuation and liquidity policy. More importantly, it needs a good attitude about exits - one that is generous and nonjudgmental and that proactively creates opportunities for people to exit whenever there are early signs that that’s what they want to do. The ultimate goal is to concentrate ownership in the hands of people who can move the company forward because they share common interests, common goals, and common values.”\textsuperscript{163}

While Ward is referring to the time after the next generation has taken over ownership, the need for “freedom to leave” would be even more important at a time when the decision about transfer is made. At the same time, the assumption underlying Wards observation should also be true for the incumbent. The link between family and firm should be upheld consensually. The more freedom individuals have to choose, the stronger their voluntary commitment will be. Hence, calculative commitment should be defined positively rather than negatively. A successor who has a high level of calculative commitment is therefore one that perceives substantial gains from succeeding the entrepreneur. Likewise, an incumbent who displays a high level of calculative commitment is herein understood to be one that expects substantial gains from having his son succeed him. Indeed, Ward posits that no entrepreneur will even enter into the succession process if he has any doubts as to his financial security once he lets go of the firm.\textsuperscript{164}

\subsection*{3.2.3 Affective Commitment}

A successor displaying affective commitment holds a strong belief in and an acceptance of the organization’s goals, combined with a desire to contribute to these goals, and the confidence in his ability to do so. “In essence, the successor ‘wants to’ pursue such a career.”\textsuperscript{165}

\begin{thebibliography}{9}
\bibitem{162} Ward, J. L., Interview, November 1, 2006
\bibitem{163} Ward, J. L., Perpetuating the Family Business, 2004, 70
\bibitem{164} Ward, J. L., Interview, November 1, 2006
\bibitem{165} Sharma, P. and Irving, P. G., Successor Commitment, 2005, 19
\end{thebibliography}
An incumbent displays affective commitment to the succession process when he holds a strong belief in and an acceptance of the successor’s ability to further the organization’s goals, and has a desire to see him succeed. In essence, the incumbent “wants to” see succession succeed. At the same time, an entrepreneur will only let go of his firm if he has an affective commitment to whatever he chooses to do with his life afterwards.\footnote{Ward, J. L., Interview, February 17, 2007}

### 3.2.4 Normative Commitment

A successor having normative commitment feels obliged to pursue a career in the family business. By doing so, he attempts to foster and maintain good relationships with the senior generation. “In short, successors with high levels of normative commitment feel that they ‘ought to’ pursue such a career.”\footnote{Sharma, P. and Irving, P. G., Successor Commitment, 2005} An incumbent displays normative commitment if he feels obliged to pass the business on to the next generation. By doing so, he attempts to foster and maintain good relationships with that generation, and especially with the successor. In other words, the incumbent feels that he “ought to” help the successor in making succession work.

It is important to note that a serious decline in commitment, or a commitment that was lukewarm in the first place, is a serious threat to the process. After the baton has passed, the commitment of the parties is tested anew, and it can suffer for many reasons. For instance, the successor’s growth in experience, confidence and vision will naturally encroach upon the domain of the incumbent.\footnote{Aronoff, C. E., McClure, S. L. and Ward, J. L., Succession, 2003, 57} The incumbent may feel that he is being pushed aside, or he may simply disagree with the business decisions of the successor. Such disagreement often does lead to a real and growing divide between the generations.\footnote{Levinson, H., Family Business Consulting, 1983, 72} The lack of commitment regularly leads to an imbalanced role adjustment of the two main actors, which puts the whole succession process in jeopardy:

“As family business consultants, we have seen frustrated members of the second generation take charge of the process themselves when their parents dawdled or resisted altogether. But when that happens, it’s not a pretty sight and the results are often
less than satisfactory. The stunned senior becomes aggrieved at the children, finding it incredulous that the children seem to be taking actions against the parents. The children experience guilt over actions that the parents perceive as betrayal. Everybody feels anger and the anger builds and builds. "170

3.2.5 Conclusion

Section 3.2 has shown that the commitment of both incumbent and successor consists of calculative, affective, and normative elements. Incumbent and successor ideally have high levels of affective, normative, and calculative commitment.171 During the transfer of power that is succession, the moment of truth often comes when “authority” is to be passed on from the incumbent to the successor. The multiple dilemmas of the family firm can then reach a tipping point in the protagonists and lead them to lose commitment to the process. The next section explores in detail the constraints to their commitment that incumbent and successor often face.

3.3 The Factors Constraining Commitment

3.3.1 Introduction

Section 3.3 will show that there are three factors that can constrain commitment: information constraints (see 3.3.2), personal constraints (see 3.3.3), and relationship constraints (see 3.3.4).

3.3.2 Information Constraints

During succession, old business notions need to be challenged and the new direction agreed upon. For instance, incumbent and successor, in their managerial and supervisory functions, need to agree on the desired strategic and product development

170 Aronoff, C. E., McClure, S. L. and Ward, J. L., Succession, 2003, 9
171 While it would be interesting to find out whether one of these types of commitments is maybe more important than the others, this dissertation limits itself to analyzing their combined effect. Section 3.5 will explore this in detail after the next two sections have established the factors that can constrain or promote commitment.
of the firm. The parties often hold old business notions that can be difficult to overcome and therefore can cause disagreement on how succession shall proceed:

“All too frequently, people make assumptions from years ago... even business assumptions from years ago. And [they] move forward with that as the underpinning of their discussions and conclusions – as opposed to looking forward, figuring out what are the new goals, and working backwards. And if any new idea were to contradict those old notions, they don’t think of it that way. They don’t say, ‘Oh, I have got this old notion, and this new idea, and it contradicts it.’ It is just in the back of their mind that they have got this old notion – and new ideas that contradict it are just rejected or killed otherwise.”

Because commitment is thus hindered by incorrect or deficient information, the according constraints can be called “information constraints.”

3.3.3 Personal Constraints

This section seeks to analyze what inner factors can keep individuals from being committed to succession. These factors may not be immediately obvious to the observer. Rather, as is often the case in the family firm, the issue may be underlying or even hidden. To better understand the inner workings of incumbent and successor it is therefore helpful to borrow from a concept developed by family therapists.

A note of caution is in place before entering this realm. As Kets de Vries emphasized, “entrepreneurs do not necessarily have more personal problems than other people, nor do they inevitably have personality disorders.” It seems reasonable to assume that the same is true for successors. Accordingly, therapeutic intervention is clearly not called for in the majority of cases. Nevertheless, the tools provided by family therapy for diagnosing a problematic situation can be helpful.

172 Shefsky, L. E., Interview, November 21, 2006
174 Kets de Vries, M. F. R., Dark Side Entrepreneurship, 1985, 166
175 Klein, S. B., Interview, December 18, 2006
Breunlin observes that there are two complementary ways to analyze the formation and maintenance of problems. The “positive” explanation asks what causes a problem, while the “negative” explanation asks what keeps it from being solved. “Positive and negative explanation, therefore, are two sides of the same clinical coin.”

The problem that concerns this dissertation is the threat to the family firm that arises when incumbent and successor are not fully committed to the process. In diagnosing it, either a positive or a negative approach could be taken. Breunlin emphasizes that the diagnostic approach should be chosen in light of the intervention that the diagnosis is ultimately meant to serve. If the ultimate objective of the diagnosis is to solve a problem, then the removal of the obstacles to that solution offers a more straightforward approach than the identification and treatment of its causes. Furthermore, negative explanations make it easier to identify an individual’s strengths by discouraging a focus on his deficits. In clinical practice, this facilitates the establishment of a collaborative relationship with the individual. Finally, a negative explanation generates less resistance and more cooperation from the concerned individuals. In sum, Breunlin holds that for the purposes of a problem solving process, explaining the problem in a negative way can be more effective than the positive approach. While the intervention that Breunlin has in mind is therapy, his dictum should also apply to less intrusive forms of third party intervention, such as mediation.

In both cases, the diagnostic approach should be chosen in light of what the diagnosis will be used for. Family firm succession conflicts are diagnosed in this dissertation so that success factors for mediating them can be identified. Without forestalling the detailed description of mediation as a possible tool, it can be asserted that it aims at fostering collaborative problem-solving by voluntarily cooperating antagonists. Hence, the three reasons given by Breunlin for choosing the negative approach also apply when the intervention at hand is mediation and not therapy. Mediation also aims at problem-solving and relies on increasing collaboration and cooperation of the parties. This dissertation will therefore concentrate on a negative explanation of what keeps incumbent and successor from their commitment to the process.

176 Breunlin, D. C., Theory of Constraints, 1999, 366
177 Ibid., 366
178 see section 4.4
179 Apart from problem solving, mediation may also aim at the “personal growth” of the parties. The different aims of mediation will be explained in detail in section 4.3. below.
In order to do so, the negative explanation model developed by Breunlin, the “theory of constraints”, will be followed. “Constraint” can be defined as anything in a human system that keeps it from solving problems. Constraints exist across all levels that affect an individual; biology, person, relationship, family, community, and society. This dissertation does not focus on the destructive role that a third party may play in succession. Rather, it is the relationship between incumbent and successor that lies at its core. While there is no doubt that other constraints may also be detrimental to succession, the focus herein is on the personal and relationship constraints of incumbent and successor. Hence, while other constraints are disregarded herein, these two constraints need to be defined.

3.3.3.1 Personal Constraints of Incumbent

“Constraints at the level of the person are traditionally associated with the psychology of the self, particularly how one experiences self; how the self makes, interprets, and experiences meaning and emotion; and how the self constructs a blueprint for action.”

As Breunlin acknowledges, many models of therapy address the level of person through positive explanations. However, a negative explanation of constraints at the personal level has to ask how the self functions to keep one from solving the problem at hand. Even when the field of family business research was only beginning to develop as a discipline in its own right, it was clear to observers that many incumbent entrepreneurs experienced great difficulty in letting go. For instance, Levison observed that “though an entrepreneur may build an organization to even massive proportions, it is characterized by one dominant feature: There is great difficulty in establishing succession.” Today, this difficulty is widely acknowledged. The reasons for this difficulty have to be searched for in the entrepreneur’s inner self. This search can draw from a rich literature, as the personality and motives of the entrepreneur have been widely studied.
There is widespread agreement that entrepreneurs typically pursue their projects tenaciously, believe they can control their lives, and are ready to take risks. A striving for excellence and competitiveness have also found to be common characteristics. Many entrepreneurs measure themselves against their own high standards, or against the perception of these standards, such as customer satisfaction. Whether they judge themselves or let others judge them, their objective is often to compete and to be better than others. Among the personal factors that may constrain an entrepreneur’s commitment to succession are his strong identification with the firm, a need to control, and a desire for applause; these constraints are subsequently explored.

Typically, the entrepreneur strongly identifies with his business. More often than not it is part of his “essential persona”, an “extension of himself”. Indeed, it has been held that, especially in small firms, “in many ways, the entrepreneur is the firm.” As a result, “he has great difficulty giving up his baby, his mistress, his instrument, his source of social power, or whatever else the business may mean to him.” Hence, the entrepreneur often suffers from “separation anxiety”. The entrepreneur is afraid to lose his identity. Klein retells a conversation that is typical of this anxiety. She was asking a successful entrepreneur why he kept procrastinating leadership succession. The entrepreneur did admit that his daughter was indeed capable of, and ready for, succession. Furthermore, father and daughter got along very well personally. “I’d give the world to know, then, what keeps you from making her number one?” Klein asked, whereupon the entrepreneur replied, “Well, if she becomes number one - what will I become?”

Succession poses a major emotional challenge for the incumbent. The entrepreneur must acknowledge that his association with the company will some day end. Truly accepting this requires him to overcome what has been called the “unwillingness to
face mortality.” 196 This is especially hard for entrepreneurs who are also the founders of the enterprise. 197 While the denial of death certainly seems to be a common human phenomenon, it has long been held that leaders, and especially entrepreneurs, also have a “dark side” that can complicate matters further. Sometimes the same creative energy that drives an entrepreneur has its source in destructive internal needs that can ruin his company. 198 Indeed, as has been pointed out above, 199 many entrepreneurs may be forced by a compulsion to succeed for the sake of succeeding. 200 Klein observes that the intrinsic motivation for being an entrepreneur is at the same time the biggest obstacle to stop being it “What has been my success factor for thirty years now turns against me.” 201

In their drive for achievement, entrepreneurs take responsibility for their actions and take risks. Yet, their focus on control leads many entrepreneurs to become “control freaks.” 202 While their drive enables them to accomplish great achievements, it is often fed by narcissism 203 and a desire for applause. 204 Shefsky interviewed 200 successful entrepreneurs to find out what qualities they have in common. 205 He discovered that “pride” was consistently expressed as a driving force behind the actions of the people he interviewed. 206 This may be a reaction to rejection experienced earlier life. Rejection can lead to the desire “to show them all” and trigger an entrepreneurial career: 207

“Typically, people with narcissistic injuries have a great hunger for recognition and external affirmation. To combat their feelings of helplessness and lack of self-worth, they are always in search of an admiring audience.” 208

In his classic analysis of the entrepreneurial firm, Levinson posits that

196 Ward, J. L. and Aronoff, C. E., Estate Planning, 1992
197 Kets de Vries, M. F. R., Dark Side Succession, 1988, 57
198 Kets de Vries, M. F. R., Dark Side Entrepreneurship, 1985, 160
199 see “Founders Shadow” (2.1.4.1)
200 Shefsky, L. E., Entrepreneurs, 1994, 204
201 Klein, S. B., Interview, December 18, 2006: „Die intrinsische Motivation unternehmerisch tätig zu sein ist zugleich der größte Hemmschuh damit aufzuhören (...)Das was mein Erfolgsfaktor war 30 Jahre lang, kehrt sich jetzt gegen mich.“
203 Ibid., 68
204 Kets de Vries, M. F. R., Dark Side Entrepreneurship, 1985, 162
205 Shefsky, L. E., Entrepreneurs, 1994
206 Ibid., 98
207 Klein, S. B., Interview, December 18, 2006; „Der Wunsch, es endlich allen zu zeigen.“
“The entrepreneur characteristically has unresolved conflicts with his father, research evidence indicates. He is therefore uncomfortable when being supervised, and starts his own business both to outdo his father and to escape the authority and rivalry of more powerful figures...Entrepreneurs are angry, determined men.”209

Rejection can thus become an “invitation to become ‘a somebody’” and is often the driving force behind entrepreneurial activity.210 The problem is that an entrepreneur that derived his original motivation from a narcissistic injury will find it very difficult to step down. Indeed, “this would mean partial suicide for him”211 and be akin to “asking him to stop breathing.”212 As has been emphasized, it is not the majority of entrepreneurs that face such severe constraints. However, as the family firm expert interviews made clear, even entrepreneurs who do not possess much of a dark side will often display at least some of the above mentioned characteristics. These characteristics can give rise to considerable inner constraints that can clearly be expected to have a negative effect on his commitment to the process. In the conversation retold by Klein,213 it was his own looming identity crises, and not his daughter’s abilities, that kept the entrepreneur from handing over the reigns to her. However, the incumbent entrepreneur can also be constrained by factors which permeate to his relationship with the successor, as is demonstrated in the next section. In sum, the incumbent may be tempted to postpone the passing on of power. The effect of weakened commitment to the succession process can therefore be graphically depicted as follows (see Figure 13):

210 Shefsky, L. E., Entrepreneurs, 1994, 7
211 Klein, S. B., Interview, December 18, 2006: “Der würde ja partiell Selbstmord begehen”.
212 Ward, J. L., Interview, November 1, 2006
213 See on the previous page.
Before looking at the relationship constraints of the incumbent that also result in his weakened commitment, it will first be explored how personal constraints can affect the successor.

### 3.3.3.2 Personal Constraints of Successor

The main personal constraint that the successor may experience is the lack of patience to prove himself in the new leadership position.\(^{214}\) As has been detailed above, people who set out to become entrepreneurs generally value autonomy, and successors are no exception. As Shefsky explains, the successor regularly needs to do things on his own:

“It reminds me of an ad, I don’t remember what the product was, were some young woman would yell at her mother and say ‘Mother, I would rather do it myself!’ And that’s a large part of it. You get to a certain age and you don’t want your father or mother telling you how to run the business, because it is not only demeaning, it also means, if you agree, you have to have self-

\(^{214}\) This was the case in the conflict re-told by Davis which is explained in greater detail in section 3.5.4; Davis, J. A., Interview, November 28, 2006.
While the constraints faced by the incumbent may lead him to delay the passing on of authority, the reverse is true for the successor. The personal and relationship-based constraints that he faces may tempt him to usurp power earlier than agreed. The successor may be tempted to accelerate the process without regard for the incumbent. This tendency is depicted in Figure 14 below:

Figure 14: Weakened Commitment of Successor

As is the case for the incumbent, the successor too may have to face a third set of constraints that work towards the same effect. The next section explores these “relationship constraints” in detail.

3.3.4 Relationship Constraints

According to Breunlin, constraints at the relationship level are based on the unique dynamics of that specific relationship. As far as the commitment to succession is concerned, it seems reasonable to focus on the dynamics of the incumbent – successor relationship.
3.3.4.1 Relationship Constraints of Incumbent

What constrains the incumbent in his commitment to succession can originate in his relationship with the successor. For instance, the offspring’s drive to equal or outdo the father may lead to tensions between them, increasing the entrepreneur’s discomfort with succession. At the same time, family members can also be “trapped in the past.” Even events that have occurred a long time ago may constitute a serious constraint in the present. Shefsky explains that people have a tendency to carry “old baggage,” and gives an example that relates to the relationship between incumbent and successor:

“You never forgot when the ten-year old did something stupid at a family event, and you are never going to forgive him for that. I mean, you forgive him externally, but in the back of your mind you know deep down that this kid was once nuts and you are not comfortable in letting go of that. So, when the guy is now 45 years old, and in contention for some high position, whether a board seat or some other high position in the family business, somewhere back there you remember him lighting those fire crackers and almost scaring his grandmother to death.”

It may be necessary to go back even further in time to find out why the incumbent entrepreneur is being constrained in his commitment to succession. Levinson suggests that the entrepreneur’s unresolved conflicts with his father not only make him an “angry, determined man,” but also taint the relationship with his son, whom he meets with “unrelenting competitiveness” and a “need to over-control.” In sum, what makes successful succession so difficult apparently stems, in the vast majority of cases, from the founder himself, who wilfully fails to prepare the company for succession. The entrepreneur may be constrained in his commitment to succession both on a personal and a relationship level. The gravest and most frequent factors that constrain the incumbent, founder or not, from letting go seem to be the internal ones.

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219 Shefsky, L. E., Interview, November 21, 2006
220 Levinson, H., Family Business Conflicts, 1971, 90
221 Gallo, M. Á. and Amat, J. M., Empresas Familiares Centenarias, 2003, 113: “Las razones que dificultan la transición exitosa de la primera a la segunda generación están en el propio fundador”.
222 All interviewed family firm experts emphasized the personal constraints faced by the incumbent, but none of them highlighted any relationship-based constraints.
These constraints result in the tendency of incumbent to procrastinate the passing on of power, thus contributing to the effect depicted above in Figure 13 (Weakened Commitment of Incumbent).

3.3.4.2 Relationship Constraints of Successor

It may also be the successor’s relationship with the incumbent that constrains him from being fully committed to the succession process. As is the case with the incumbent, the successor may carry what Shefsky calls “old baggage,” nurturing grudges from years ago. Levinson found that operating a family-owned company is often grievously complicated by friction arising from rivalries involving the father and his son, brothers, or other family members that are active in the business. He posits that, in the case of a strong “founders shadow,”

“the son's feelings of rivalry are typically a reflection of his father's. The son naturally seeks increasing responsibility commensurate with his growing maturity, and the freedom to act responsibly on his own. But he is frustrated by his father's intrusions, his broken promises of retirement, and his self-aggrandizement.”224

Grote looks at Rene Girard’s “Theory of Borrowed Desire” to find an explanation for such inter-generational conflict. According to this theory, man “borrows” his desires from others when he desires an object not as such, but because it is being desired by somebody else. 225 Grote posits that the son’s desire to succeed his father in leading the firm also creates a special constraint. This constraint, which can be called “double-bind,” is a contradictory double imperative that is impossible to fulfil:

“(a) ‘Imitate me! Desire what I desire!’ and (b) ‘Don’t imitate me! Don’t appropriate my object!’ ... The son’s natural identification with his father puts him in a double bind. He must

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223 Levinson, H., Family Business Conflicts, 1971, 90
224 Ibid., 91
225 Girard, R., Violence, 1979, 146; for an introduction into this theory, called the “Mimetic Model,” refer to Girard, R., Girard Reader, 1997; for his view on the far-reaching repercussions of the theory, refer to Girard, R., Girard Interview, 1997.
imitate his father to mature, and he must not imitate his father to mature.”

Gallo points out that by perpetuating the authority that fathers have over their sons, a business-owning family often delays the stages of normal development and the individuation of the son:

“It prolongs the duration of the adolescent conflict between father and son: In some cases, working in the family firm and depending on the dividends as well as on the decision on how ownership will be transferred, can provoke a psychological dependence on the parents even when the son is 40 or 50 years of age, if the father keeps delaying his retirement and the transfer of ownership. As a consequence, when there is no balanced development, a family member may with regard to his own identity oscillate between low self-esteem (‘Am I worthy myself or for being the son of my father?’) and arrogance or complacency.”

In sum, the successor too is often constrained by relationship-based factors from following the agreed-upon succession process. While the constraints that the incumbent faces will regularly lead him to slow down the process, the opposite is true for the successor.

3.3.5 Conclusion

Section 3.3 has demonstrated that information constraints, personal constraints, and relationship constraints can all weaken the commitment of incumbent and successor to the process. What makes such constraints problematic is that they can prompt incumbent and successor to deviate from the attempt to resolve their dilemmas together. For instance, as has been demonstrated above, the loss of power can pose a

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226 Grote, J., Family Business Generational Conflict, 2003, 118
227 Gallo, M. Á. and Amat, J. M., Empresas Familiares Centenarias, 2003, 148: “Prolonga la duración del conflicto adolescente del hijo a su padre. En algunos casos, trabajar en la empresa familiar, con un padre que retrasa la jubilación suya y el traspaso del mando así como la transferencia de la propiedad, provoca la dependencia económica y psicológica de los padres hasta los 40 – 50 años al trabajar en la empresa, y depender de los dividendos y de la decisión de reparto de la propiedad, mientras no se haga la transferencia completamente. Como consecuencia de lo anterior, cuando no hay un desarrollo equilibrado, en el tema de la identidad un familiar puede oscilar entre la baja autoestima (¿valgo por mí o por ser el hijo de mi padre? ¿) y la suficiencia o arrogancia.”
major obstacle to the entrepreneur’s willingness to seek a *common* solution.\textsuperscript{228} “Unfortunately… it is common for many founders to preserve power until the end of their lives.”\textsuperscript{229} It is not uncommon that the entrepreneur refuses to retire despite repeated promises to do so.\textsuperscript{230} In the example used above in section 2.6., the internal constraints of the incumbent may prevent him from ever letting the successor conduct important creditor negotiations by himself. In this case, it will be increasingly difficult for the successor to resolve the various dilemmas to his satisfaction. This will weaken his own commitment to the succession process and the process may get stalled. In cases like this, the inner constraints experienced by incumbent and successor are likely to lead them into a conflict with the other. This can be depicted as follows (see Figure 15):

*Figure 15: Succession Conflict*

Before the nature of such conflict is explored in detail, the next section will first show what factors can strengthen the commitment of incumbent and successor.

\begin{itemize}
\item \textsuperscript{228} Kets de Vries, M. F. R., Dark Side Succession, 1988, 57
\item \textsuperscript{229} Gallo, M. Á. and Amat, J. M., Empresas Familiares Centenarias, 2003, 114: “Desgraciadamente (...) lo que suele ocurrir es que muchos fundadores ambicionan conservar el poder hasta el final de la vida.”
\item \textsuperscript{230} Levinson, H., Family Business Conflicts, 1971, 91
\end{itemize}
3.4 The Factors Promoting Commitment

3.4.1 Introduction

As section 3.4 will show, the same areas that may constrain commitment can also strengthen it. Accordingly, there are three factors that can promote commitment: information promoters (see 3.4.2), personal promoters (see 3.4.3), and relationship promoters (see 3.4.4).

3.4.2 Information Promoters

As has already been pointed out above, the complex process that is succession needs to be carefully planned and executed. At the same time, it has to be supplemented by estate planning and needs to go hand in hand with the development of the business. Just as incorrect or deficient information can constrain commitment, correcting it may promote commitment. For instance, for outdated business notions to be overcome they need to be challenged. Consequently, as Coutu and Kets de Vries emphasize:

“To be effective, organizations need people with a healthy disrespect for the boss -people who feel free to express emotions and opinions openly, who can engage in active give-and-take.”

The factors permeating to this category may be called “information promoters.”

3.4.3 Personal Promoters

What individually enables an incumbent and his successor to move towards agreement are characteristics like self-responsibility, maturity, independence, and modesty. They can be called “personal promoters” because they permeate to the individuals self. Hubler posits that successful succession requires each party to take responsibility for what they contribute to the family business and its problems.

\[\text{231} \text{ See section 2.5.3} \]
\[\text{232} \text{ See section 3.3.2} \]
\[\text{233} \text{ Coutu, D. L. and Kets de Vries, M. F. R., Leader, 2004, 70} \]
\[\text{234} \text{ Hubler, T. M., Obstacles, 1999, 119} \]
A major obstacle to successful succession, as identified by Hubler is that family firm members are often “other-oriented” towards change. People tend to see others, and not themselves, as the reason for problems, and consequently expect necessary changes from them, not themselves.\textsuperscript{235} Hubler deems this expectation to be a “formula for disaster,” and instead calls for self-responsibility. Kaye agrees that instead of convincing the other person to change, each party should seek to change their own behaviour, thereby changing the reaction of the other side.\textsuperscript{236} This is in line with the long held notion of leadership research that the most effective leaders are able to both act and reflect.\textsuperscript{237} Being aware of their shortcomings enables them to address and correct their behaviour where necessary. This should also hold true for the old and new leaders of the family enterprise. While it may not be possible to completely lift the personal constraints that so often constitute the dark side of the entrepreneur, it may also not be necessary. As Kets de Vries cautions, narcissism is not all bad. In spite of its bad reputation, leaders need a healthy dose of narcissism in order to survive.\textsuperscript{238} “It's the engine that drives leadership. Assertiveness, self-confidence, tenacity, and creativity just can't exist without it.”\textsuperscript{239}

This is not only true for the incumbent leader of the family firm. The successor, as the new leader of the company, also needs to develop similar characteristics. It has been pointed out that being ambitious, aggressive and also to some degree impatient are good attributes of a successor.\textsuperscript{240}

Personal maturity is required for individuals to have a healthy relationship with their family. A mature relationship strikes the balance between the individual and the family. Klein posits that a family member is only capable of subordinating his individual desires under the needs of the family once he has achieved a certain independence from the family.\textsuperscript{241} This is also what Mühlebach means when she indicates that for succession to take place successfully, it is important that each individual in the family has “their place.”\textsuperscript{242}

\begin{itemize}
\item \textsuperscript{235} Ibid., 119
\item \textsuperscript{236} Kaye, K., Family Business Dynamics, 2005, 122
\item \textsuperscript{237} Coutu, D. L. and Kets de Vries, M. F. R., Leader, 2004, 66
\item \textsuperscript{238} Ibid., 68
\item \textsuperscript{239} Ibid., 68. Consequently, Kets de Vries concludes that “we need a little madness in our leaders, because I happen to believe that those who accept the madness in themselves may be the healthiest leaders of all“ (pg. 71).
\item \textsuperscript{240} Rawls, L. H., Succession, 2003, 84
\item \textsuperscript{241} Klein, S. B., Interview, December 18, 2006
\item \textsuperscript{242} Mühlebach, C., Interview, December 12, 2006: “Jeder in der Familie soll seinen Platz haben.”
\end{itemize}
Filial maturity becomes especially important when, as with the focus of this dissertation, the successor is also the offspring of the incumbent. Like the other personal promoters, filial maturity is not developed in isolation within the successor. Rather, it is a quality that emerges, by definition, relative to the other side in succession. According to King and Wynne it is generally required for a harmonious relationship between parents and their offspring:

“Filial maturity is attained when adult offspring grow in the caring support given to aging parents, and aging parents, in reciprocal fashion, become more able and willing to accept input and help from their children … Such transformation rests upon the family’s ability to renegotiate intergenerational power hierarchies and attain adult-to-adult relationships between parents and grown children.”

While filial maturity is essentially a “personal” promoter, mutuality is required for its development. As King and Wynne emphasize, the described transformation is not one of role reversal. Rather, it is a mutually beneficial transition between the generations whereby older adults continue to offer various forms of support and assistance to their children and grandchildren, even as they, themselves, become the recipients of support.

“Without mutuality of relationships, the family has little ability to attain filial maturity. Instead they may remain fixed in old roles and patterns of relating that no longer fit their life cycle needs. Brittle, inflexible relationships become vulnerable to disengagement or cut-off as family members lack the emotional and cognitive resources to adapt to new demands. Rather than finding new ways of relating, members of older and younger generations may avoid contact and become isolated from one another. Alternatively, communication between generations may become more hostile and critical, a pattern associated with increased risk of depressive relapse in older adults.”

243  King, D. A. and Wynne, L. C., Family Integrity, 2004, 10
244  Ibid., 10
245  Ibid., 10
The development of some sort of “stewardship attitude” is univocally deemed to be necessary for the incumbent to develop. 246 According to Klein, an entrepreneur possesses such an attitude of stewardship when he has the following perception of his role: “I am not the first, I am not the last, I am the solicitor.” 247

Klein also emphasizes that the ability of family to comprehend conflict as an opportunity to address problems and simultaneously handle the risks also depends on the long-term perspective and modesty of the individuals. 248

In sum it can be contended that the factors which promote an individual’s ability to commit to succession are closely connected to his role as a family member. However, there are also commitment promoters that emerge directly from the relationship of incumbent and successor. They are subsequently explored.

3.4.4 Relationship Promoters

Incumbent and successor need to possess, in addition to the personal promoters described above, characteristics that can be called “relationship promoters”. The most important relationship promoters are having a common goal, a high level of altruism, and not least, love and respect for each other.

A common goal is crucial in order for all members of the family enterprise to resolve their differences and stay committed the agreed-upon process. 249 In that sense, a common understanding is the weight-bearing fundament. 250

246 Kellermanns, F. W., Interview, December 11, 2006; Halter, F., Interview, January 23 & 30, 2007; Klein, S. B., Interview, December 18, 2006; Mühlebach, C., Interview, December 12, 2006; Shefsky, L. E., Interview, November 21, 2006; Ward, J. L., Interview, November 1, 2006

247 Klein, S. B., Interview, December 18, 2006 “Ich bin nicht der erste, ich bin nicht der letzte, ich bin der Sachwalter.” Because of the founder-entrepreneurs’ tendency to have a “dark side,” it is often easier for subsequent generations to develop this attitude, as has been emphasized by Klein, S. B., Interview, December 18, 2006; Shefsky, L. E., Interview, November 21, 2006 and Ward, J. L., Interview, November 1, 2006.

248 Klein, S. B., Interview, December 18, 2006

249 Halter, F., Interview, January 23 & 30, 2007: „Mucht entscheidend ist auch, dass man ein höheres Ziel auf Metaebene formulieren kann.” The need for, and competitive advantage, of a common goal also extends to the individuals in the firm that are not family members. In their analysis of the advantages of family firms over non-family firms Miller and Le Breton-Miller emphasize this fact by describing it through a rather drastic metaphor: “Employees are seen as cocombatants [sic] in a holy war,” Miller, D. and Le Breton-Miller, I., Long Run, 2005, pg. 25.

250 Mühlebach, C., Interview, December 12, 2006: „Diese Grundübereinkunft ist tragendes Fundament des Familienunternehmens“
“What I find in families in general is that once there is a compelling common goal, individual differences become less important.”251

A family is often united in following a common goal when they share common values. While such values may vary greatly from one firm to another depending on the given cultural and religious context, successful succession requires unity regardless.252 It should be noted, though, that common values may also motivate the parties to disassociate themselves from the business. This can be demonstrated by a case that Shefsky experienced:

“I have seen that happen when the only way to have the company survive would have been to do something certainly unethical, and maybe even illegal. They all set around the table and, when that was pointed out, they all said ‘Well, we can’t do that! That’s not the way we do things in this family!’ And they all said it, one after the other… And that started them coming together.”253

A good relationship between the individual family members is crucial for their ability to resolve their differences. Part of this relationship is what has been termed “familiness” by Habbershon254 and “familyness” by Mühlebach255 to describe a distinct set of capabilities that constitute a strategic advantage of the family firm. However, at a deeper level, this is a characteristic that the family needs to possess regardless of their business activities.256 The way in which a family handles conflict is a function of the familyness of its members.257 As Kellermanns emphasizes, differences cannot be resolved by a group of opportunistic loners.258

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251 Davis, J. A., Interview, November 28, 2006
252 Klein, S. B., Interview, December 18, 2006. For an overview of the different principles of business ethics that have developed on the grounds of the eight major world religions, refer to Melé, D., Business Ethics, 2006. For a short treaty of the advantages and disadvantages faced by “faith based” business-owning families refer to the Chapter “When Faith Comes First” in Kaye, K., Family Business Dynamics, 2005 (pp. 67 -68).
253 Shefsky, L. E., Interview, November 21, 2006
254 Habbershon, T. G. and Williams, M. L., Family Firms Strategic Advantage, 1999
255 Mühlebach, C., Familyness, 2004
256 Kellermanns, F. W., Interview, December 11, 2006; he also posits that, if familyness (Familienzugehörigkeit) is lost, the enterprise ceases to be a family enterprise. This understanding is in line with the family firm definition followed herein, see section 2.2.4.
257 Klein, S. B., Interview, December 18, 2006
258 Kellermanns, F. W., Interview, December 11, 2006: “eigenbrödlerische Opportunisten”
A high level of altruism among the family members seems to lie at the core of the described factors that promote commitment.259 Altruism is commonly described as an unselfish concern for the welfare of others. Consequently, altruistic families can be characterized as encouraging its members to exercise self-restraint in favour of the common familial good.260 It is therefore important to distinguish altruism from a seemingly similar, but in fact converse, concept called “social capital”. Social capital has been defined as the goodwill and resources made available to an actor via reciprocal, trusting relationships,261 and it has been suggested that the family is an ideal breeding ground for it.262 However, a person who seeks to acquire “social capital” acts, ultimately, in his own self-interest. For him, benefiting the other person is a means of receiving benefits himself. And indeed the concept of “family social capital” is inextricably linked with the “principles of reciprocity and exchange”.263 “If you have given, you have a right to expect something in return.”264

The notion of altruism incorporates the exact opposite. While the observable actions may be identical, they are characterized as altruistic precisely when they are not motivated by the expectation of any gain for the actor, but meant to benefit only the recipient. For altruism, benefiting the other is not a means to an end, but the end itself.265 Accordingly, Kellermans calls the presence of altruism in the family a “godsend”,266 and Ward even posits that the success of succession is ultimately determined by the level of altruism existing in the family.267 Likewise, the existence of love and respect among the family members, and especially among father and son, is crucial for their ability to resolve their differences.268 Shefsky calls this a high

259 Altruism, during times of succession or not, in successful family firms also often extends to the employees; as Miller, D. and Le Breton-Miller, I., Long Run, 2005, 42 point out, family members often feel that “sharing the booty” with the employees is the right thing to do.
260 Eddleston, K. A. and Kellermans, F. W., Family Relationships, 2007, 5. Surprisingly, in their characterization of altruistic families Eddleston and Kellermans also posit that “they encourage family members … to consider the effect of their actions on the firm.” This is not convincing, as considering the consequences of ones actions is as such neither altruistic not egoistic, but rather merely rational.
262 Ibid., 76
263 Bubolz, M. M., Family as source of social capital, 2001, 130
264 Ibid., 130
265 Arguably, if the family subsystem was indeed ruled by the same laws as the business subsystem of the family firm, the “basic dilemma of the family firm” (see section 2.3.1) would not exist. Using the logic of one subsystem (“capital”) for explaining the other one seems to obscure, rather than enhance, the understanding of the family firm: One could half expect the proponents of “family social capital” to suggest the creation of a “market” for families, were the families yielding the highest “returns” on ones “capital” would be traded for the highest bid.
266 Kellermanns, F. W., Interview, December 11, 2006: Glücksfall
267 Ward, J. L., Interview, November 1, 2006. Accordingly, he posits that knowing a families altruism enables one to determine with great certainty whether or not they can make the transition work.
268 Gallo, M. Á. and Amat, J. M., Empresas Familiares Centenarias, 2003; Shefsky, L. E., Interview, November 21, 2006. While Gallo and Amat focuses mainly on the love for the company (pg. 162 - 162), they also emphasise the necessity of love for the family for the success of multigenerational family enterprises (pg. 161).
“Love and Respect over Work Quotient” and posits that for incumbent and successor to possess it is more decisive than for them to have Nobel laureates in Economics.\textsuperscript{269}

“I think it is a core of the issue. You can salvage a situation that does not have high degrees of love and respect. They cannot be considered to be exclusive. But they are important in the sense that when they are present, they can help a lot. Though, when they are not present, there are other things that can help, though maybe not as much.”\textsuperscript{270}

As has been demonstrated, there are numerous factors that can either constrain or promote commitment to the succession process. As the next section explains, there is a specific method that allows incumbent and successor to weigh promoters against constraints in order to strengthen their respective commitment.

### 3.4.5 Dialogue as Method to Promote Commitment

How can incumbent and successor overcome their constraints and strengthen their common commitment? The answer is through communication.\textsuperscript{271} “Incumbent and entrepreneur need to talk to each other.”\textsuperscript{272} Halter agrees and posits that “even if the sparks fly - at least there is communication.”\textsuperscript{273} Kets de Vries maintains that this communication needs to be honest and open,\textsuperscript{274} and Astrachan emphasizes that it must be explicit.\textsuperscript{275}

More specifically, a form of communication that may be called “dialogue” is required. It can enable incumbent and successor to not only lift their constraints, but also to strengthen the factors that promote commitment. Bohm differentiates between communication that aims at information-sharing and dialogue. Some communication is only meant to convey information from one person to another as accurately as

\addcontentsline{toc}{section}{References}

\textsuperscript{269} Shefsky, L. E., Interview, November 21, 2006
\textsuperscript{270} Ibid.
\textsuperscript{272} Monte, E. P., Fathers-Son Clash, 2003, 88
\textsuperscript{273} Halter, F., Interview, January 23 & 30, 2007: “Auch wenn die Fetzen fliegen, immerhin wird kommuniziert.”
\textsuperscript{274} Coutu, D. L. and Kets de Vries, M. F. R., Leader, 2004, 67
possible (“to make common”).\(^{276}\) Conversely, a dialogue aims at both of them creating something new together (“to make something in common”):

“In such a dialogue, when one person says something, the other person does not in general respond with exactly the same meaning as that seen by the first person. Rather, the meanings are only similar and not identical. Thus, when the second person replies, the first person sees a difference between what he meant to say and what the other person understood. On considering this difference, he may then be able to see something new, which is relevant both to his own views and to those of the other person. And so it can go back and forth, with the continual emergence of a new content that is common to both participants. Thus, in a dialogue, each person does not attempt to make common certain ideas or items of information that are already known to him. Rather, it may be said that the two people are making something in common, i.e. creating something new together.”\(^{277}\)

Hence, dialogue does not only allow the incumbent and the successor to shape their respective individual views, it also enables them to reach a common understanding based on these re-shaped individual views. Such communication requires openness and a true interest in the other side.

“I am reminded of a line … It is a quote from Elie Wiesel, and I was present when my wife asked him a question. The question is irrelevant here, it is the answer that was so brilliant. He said: ‘Questions are what bring us together, answers are what drive us apart.’ I think it said it all.”\(^{278}\)

Accordingly, Shefsky highlights the importance of listening to the other side, and paying attention to what may be helpful to him.\(^{279}\) Disagreements must be confined to the substance of the issue and not be allowed to taint the acceptance of the other side.\(^{280}\) The effect of dialogue can be depicted as follows (see Figure 16):

\(^{276}\) Bohm, D., On Dialogue, 2006, 2
\(^{277}\) Ibid., 3
\(^{278}\) Shefsky, L. E., Interview, November 21, 2006
\(^{279}\) Ibid.
\(^{280}\) Ibid.. This rule is also one of the foundations of effective problem-solving communication according the seminal work of Fisher, R., Ury, W., and Patton, B. (see “Separate the People from the Problem,” Fisher, R., Ury, W. L. and
On the other hand, communication that falls short of true dialogue may result in deadlock.

“If, however, two people merely want to convey certain ideas or points of view to each other, as if these were items of information, then they must inevitably fail to meet. For each will hear the other through the screen of his own thoughts, which he tends to maintain and defend, regardless of whether or not they are true or coherent.”281

*Lansberg* observed that individuals, in an attempt to cope with their ambivalence towards succession, tend to project what they feel least comfortable with onto others. Such splitting tends to occur along generational lines, with the incumbent becoming the primary defender of the status quo and the successor the sole advocate of change. The combination of both attitudes prevents the system as a whole from making any progress.282

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281 Bohm, D., On Dialogue, 2006, 3 {emphasis added]
282 Lansberg, I., Succession Conspiracy, 2002, 46
To illustrate this point, Lansberg elaborates on a case where the founder is procrastinating a succession plan, for which he is repeatedly attacked by his son:

“The son becomes increasingly unaware of some of his own misgivings about the future (for instance, any doubts that he might have about his ability to perform competently in the top position or his fear of his father’s death). Likewise, the founder loses sight of his reservations about preserving the status quo (for example, his secret yearning to retire from day-to-day operational management). The result of the struggle is that the two cancel each other out. Unless each of the critical actors comes to terms with the side of the ambivalence that is being denied, it will be difficult to reach the level of cooperation needed in order for planning to take place.”283

The result of such failed communication will be that commitment is weakened, not strengthened, thereby increasing instead of resolving the tensions between incumbent and successor. The breakdown of commitment and the resulting escalation of conflict pose a major threat to the family firm. As Astrachan and McMillan emphasize, recent history is filled with instances of family firms that failed to make it to the next generation precisely because the family members could not communicate successfully with one another and resolve their differences.284

### 3.4.6 Conclusion

Section 3.4 has demonstrated that there are three factors that can strengthen the commitment of incumbent and successor to the process: information promoters, personal promoters, and relationship promoters. While it would also be interesting to explore whether some of these factors may be more important than others, this dissertation focuses on their combined effect on succession. When commitment constraints outweigh the commitment promoters, succession conflict is likely to ensue. Before the nature of such succession conflict is explored in detail in Section 3.6, the next section will briefly analyse how the passage of time influences the development of incumbent and successor commitment.

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283 Ibid., pg. 46 – 47. If neither side is capable of dealing with his ambivalence, the conflict is likely to escalate. What escalation may look like will in greater detail be explored below in section 4.3.

3.5 The Influence of Time on Commitment

_Ward_ draws attention to the fact that the commitment of both incumbent and successor tends to change over time.\(^{285}\) As time passes, there is a tendency for father and son to be drawn apart. The commitment of the incumbent will be strongest at a time when he likes to mentor the successor, but once a certain age is reached, his focus can be expected to be shifting towards “protecting the end of his own life”. The commitment of the son, on the other hand, will be strongest when he is open to that mentoring; once he reaches a certain age he “wants to be the father of his son, not the son of his father.”

As soon as father and son pass these dates, their commitment to succession will regularly and naturally decrease. This effect will often be aggravated by the accumulating frustration of the son with the not yet complete succession process. In the experience of _Ward_, the threshold is generally being passed when the incumbent turns 60 – 65, and the successor 30 – 35. _Ward_ paints a vivid picture of what is characteristic of an entrepreneur, who, at 65 has resisted all attempts to step down:

“This person has defined reality in his own way forever… He has organized the world to his pleasure. He is meddling in the business, and he has been meddling in the business all his life. That is what he wakes up to do! And he just cannot help himself.”\(^{286}\)

Changing such behaviour patterns becomes ever more difficult with time. When pushed to pass on authority, he may half-heartedly agree.

“But then he will test [the agreement], he will stretch it, he will violate it, and then he will try to go back to were he was before.”\(^{287}\)

The entrepreneur, at this point, often does not see a problem: “He does not think he is hurting his son – he just thinks that his son isn’t taking it right.”\(^{288}\) And, as the main owner of the firm, he has the power _not_ to change.

\(^{285}\) This section draws in its entirety from: Ward, J. L., Interview, February 17, 2007

\(^{286}\) Ibid.

\(^{287}\) Ibid.

\(^{288}\) Ibid.
Hence, what can be called the optimal time period for succession is before father and son reach these ages, when their common commitment is strongest. The resulting development, that Ward calls the “classic paradigm” of commitment to succession over time, can be depicted as follows (see Figure 17):\(^\text{289}\)

\textit{Figure 17: Commitment to Succession relative to Age of Incumbent and Successor (Ward, 2007)}

As the commitment of incumbent and successor drift apart, the succession conflict can be expected to escalate (and, as will be shown later,\(^\text{290}\) can pass a point beyond which it can not realistically be expected to be solvable by consent of the parties). The next section will take a closer look at the nature of the succession conflict.

\(^{289}\) Ibid. How fast the two lines separate in the given case will be influenced by a variety of issues, such as the birth order in the family, the alternatives of both to the succession process, their health, and their martial status.

\(^{290}\) see Section 4.3 below
3.6 The Three Components of Succession Conflict

3.6.1 Introduction

Section 3.5 explores the consequences of weakened incumbent or successor commitment to the succession process in detail. It will show that from each of the three dilemmas a specific conflict dimension is likely to arise.

There is no agreement on how “conflict” should be defined. A widely accepted approach is to differentiate between intra-individual and inter-individual (or social) conflict. If a person is drawn to incompatible actions, he experiences an intra-individual conflict. A social conflict arises when at least two people are drawn to mutually incompatible actions. Berkel posits that merely divergent demands do not as such constitute conflict; required is also the perceived but impossible urge to find a balance. In this sense, conflict can be understood to be an imbalanced dilemma.

Jehn and Bendersky have reviewed the English language literature on organizational conflict from the last decades. They conclude that there are basically two types of social conflict, relationship conflict and task (or process) conflict. Relationship conflict arises from interpersonal incompatibilities among group members. Task conflicts are defined as disagreements among group members about the tasks being performed or the process being followed.

Before exploring conflict in greater detail, it is important to emphasise the following. As previously shown, the two main actors mutually develop their new roles during succession. Given the difficulty of the task and its importance for both protagonists, the development of tensions seems to be a normal part of the process. Indeed, Aronoff rhetorically asks: “After decades of leading a company, who can blame a family business’s newly retired CEO for overstepping the boundaries sometimes?” The three types of conflict (task & process, internal and relationship conflict) are subsequently explored.

292 von Rosenstiel, L., Organisationspsychologie, 2000, 277
293 Berkel, K., Konflikttraining, 2005, 11
294 Jehn, K. and Bendersky, C., Conflict, 2003
295 Ibid., 200
296 Ibid.
297 Aronoff, C. E., Letting go, 2003, 47
3.6.2 Task & Process Conflict

This section posits that, if the commitment of successor or incumbent to the common process is weakened, the role dilemma described above will lead to task and process conflict between them.

The role dilemma inherent in succession is that the different groups of people in the family firm often place opposing demands on incumbent and successor. The protagonists therefore need to decide which demand to give preference. For this decision to be made jointly, the protagonists must agree on what would be the right thing to do. Conflict can therefore arise out of differences of opinion about the right direction in which the business ought to go. For instance, in the face of looming product obsolescence and declining markets, older family members tend to continue to do more of the same. The younger generation may see the “handwriting on the wall” and want to pursue another course of action. The family gets split along these two lines.

Task and processes conflicts during the transfer of authority can also arise from legal or financial issues. Such considerations, however, are deemed to “frame,” rather than decide, the succession question. They are understood to deal with the “how to” and not the “if” of succession. Kellermanns holds that succession conflicts escalate in the overwhelming majority of cases because of interpersonal differences and practically never out of disagreements over tasks or processes. In fact, research suggests that moderate levels of task and process conflict can be conducive to the long-term success of a family enterprise.

In any case, there is widespread agreement that task and process conflict is generally not decisive in determining the outcome of the process. As Klein put it “I have never seen a family enterprise fail because of legal, financial, or similar questions in the course of succession, when communication and unity was intact among the family.”

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298 See section 2.3
300 Mühlebach, C., Interview, December 12, 2006: “Das sind nur Rahmenbedingungen.“
301 Halter, F., Interview, January 23 & 30, 2007: “Das ist alles nur How to.“
302 Kellermanns, F. W., Interview, December 11, 2006
304 Davis, J. A., Interview, November 28, 2006; Shefsky, L. E., Interview, November 21, 2006
305 Klein, S. B., Interview, December 18, 2006: „Ich habe noch kein Familienunternehmen scheitern sehen an rechtlichen, finanziellen oder sonstigen Fragen in der Rahmen der Nachfolge, wo die Kommunikation und die Familieneinigkeit gestimmt hat“. 
3.6.3 Internal Conflict

The internal dilemma described above\(^\text{306}\) will manifest itself as internal conflict if the commitment of successor or incumbent to the common process is weakened. For instance, the agreed-upon succession process may require the successor to obtain full leadership authority later than he may prefer. He may have consented to this out of respect for his father, thereby giving the perceived demands of the family firm circle priority over his wishes as new CEO. In doing so, he may have balanced his internal dilemma in a way that is congruent with the balance found by his father (who may have preferred not to retire as CEO in the first place). However, once he feels that the incumbent is not “sticking to his part of the deal” (e.g. by resuming responsibility for specific tasks), his commitment to their agreement will be challenged. To the extent that his own commitment decreases, his inner tension can be expected to grow, eventually growing into a full fledged internal conflict. As a result, the interpersonal conflict can be expected to escalate further.

3.6.4 Interpersonal Conflict

Research suggests that relationship conflict between generations is a crucial factor in preventing successful succession.\(^\text{307}\) If the commitment of successor or incumbent to the common process is weakened, the relationship dilemma described above\(^\text{308}\) will lead to relationship conflict. Hubler identifies the lack of appreciation, recognition and respect among family members as the number one obstacle in the success of the process.\(^\text{309}\) Weakened commitment on the other side is often perceived as lack of respect, which can lead to ambivalent and contradictory behaviour, and cause a breakdown of communication. A major issue for the entrepreneur is the perception that he is not being respected by the next generation.\(^\text{310}\) Shefsky exemplifies the questions that may torture the entrepreneur in this situation:

“Why aren’t they paying me respect? Why aren’t they recognizing who I used to be – even if I am not anymore? And why don’t they need my wisdom? What makes them think that

\(^{306}\) See section 2.4
\(^{307}\) Kellermanns, F. W. and Eddleston, K. A., Family Feud, 2004, 222
\(^{308}\) See section 2.5
\(^{309}\) Hubler, T. M., Obstacles, 1999, 117
\(^{310}\) Kellermanns, F. W., Interview, December 11, 2006
they are so good at this, when I am the guy that built this when they were little kids?"311

As a consequence, the inner ambivalence felt by the participants may increase and manifest itself in their relationship. As Kets de Vries observed, the succession process can stimulate the hidden dreams and fears of the leader.312 In this situation, some CEOs may secretly nourish the hope that their successors will fail. Their failure would be further proof of the CEOs indispensability. In fact, the incumbent may even take steps, unconsciously or not, to set the successor up for failure.313 If the CEO is also the father of the successor, the ambivalence in their interaction may be even more pronounced:

“While [the father] consciously wishes to pass his business on to his son and also wants him to attain his place in the sun, unconsciously the father feels that to yield the business would be to lose his masculinity. At the same time, and also unconsciously, he needs to continue to demonstrate his own competence. That is, he must constantly reassure himself that he alone is competent to make ‘his’ organization succeed. Unconsciously the father does not want his son to win, take away his combination of baby and mistress, and displace him from his summit position. These conflicting emotions cause the father to behave inexplicably in a contradictory manner.”314

The entrepreneur’s ambivalence may be hard for outsiders to detect. “The conflict manifests itself in small gestures, in a father’s simultaneous promotion and subtle sabotage of the son’s efforts.”315 However, the father’s ambivalent behaviour will not escape those close to him. Indeed, they may be lead to think that while he wants the business to succeed, he is also determined to make it fail.316 Regularly, this ambivalence is not acknowledged and the conflict is not addressed openly.

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311 Shefsky, L. E., Interview, November 21, 2006
312 Kets de Vries, M. F. R., Dark Side Succession, 1988, 57
313 Ibid., 57
314 Levinson, H., Family Business Conflicts, 1971, 91
315 Monte, E. P., Fathers-Son Clash, 2003, 88
316 Levinson, H., Family Business Conflicts, 1971, 91
“The incumbent doesn’t want to tell them - you don’t want to ask for respect. That’s unseemly. So that person keeps quiet… And the other person wishes to be left alone.”317

As a result, communication suffers and can break down. As Shefsky emphasizes, the lack of interaction is much more of a problem than “if they were to stand there and yell at each other.”318 A characteristic example of this type of communication is retold by Davis:

“When I would sit with the father and the son - all of these conversations were reasonable - Nobody yelled. You could tell that some people were disappointed and there were emotions. But they were, by and large, very polite to one another. And so that’s part of what is going on here too - the culture of the family was that they would do a lot of talking behind people’s backs. But face to face they would have polite, reasoned conversations.”319

In this case, the son refused to speak to his father about business matters, which was in blatant violation of the agreed-upon succession plan and was the core of their conflict. While father and son did communicate, they did not address the issue that was causing an increasing relationship conflict between them:

“The son lived across the street from his father and mother… So the son had no trouble coming over at the end of the day and talking with his father about airplanes, or the beach, or golf - no trouble! His father liked gardening, and so the son would come over and stand in the backyard of the house, or on the property where the father was gardening, and they would chitchat about things - and that was okay. But the son just did not want to talk about business. And so they did have casual communications like that, but the son was very stubborn about talking [and] going to his father, over coffee, or inviting him to lunch, or initiating any conversation that had to do with the business.”320

317 Shefsky, L. E., Interview, November 21, 2006
318 Ibid.
319 Davis, J. A., Interview, November 28, 2006
320 Ibid.
As their relationship deteriorated, the conflict escalated and even proved contagious. The son would prevent his children from communicating with their grandfather. By not allowing them to go to their grandfather’s house, the son extended the conflict to include his children.321

Entrepreneurs that experience strong personal constraints may have an especially strong preference not to address the conflict openly. Remaining silent about the conflict allows them to keep all options open, while addressing it openly would likely lead to a commitment to a change in behaviour.322

“[This type of] entrepreneur hates the whole concept of negotiation. He does not negotiate. He decides.”323

When forced to negotiate, he will be as ambiguous as possible, and it is likely that he will even act deceitfully. He will not reveal or articulate his interests to anyone.324 Of course, the incumbent may just enjoy talking to his old friends and to the factory workers about the firm.325 But in a situation when direct communication is breaking down, fiddling can become more and more of a problem for the company:

“The incumbent is pulling the strings from the background, out of the shadows if you will. His handwriting can be seen, even without his physical presence. Often he fiddles with senior employees that have been working with him for a long time.”326

Not surprisingly, indirect communication can become another major obstacle to successful succession.327 Kellermanns posits that a conflict like that is not resolved by most families: “Conflict may thus only be solved by the death of one party, and I have seen that happen.”328

321 Ibid.
322 Ward, J. L., Interview, November 1, 2006
323 Ibid.
324 Ibid.
325 Ibid.
326 Kellermanns, F. W., Interview, December 11, 2006: „Der Senior zieht die Fäden aus dem Hintergrund, sozusagen aus dem Schatten. Man kann seine Handschrift sehen, auch ohne seine physische Präsenz. Oftmals mauschelt er mit altdienenden Mitarbeitern, die schon lange für ihn arbeiten.“
327 Hubler, T. M., Obstacles, 1999, 118
328 Kellermanns, F. W., Interview, December 11, 2006
3.6.5 Conclusion

This section has shown that from each of the three dilemmas inherent in the succession process, a specific succession conflict dimension is likely to arise if the commitment of incumbent or successor is weakened.

3.7 Conclusion

Chapter 3 has analyzed the elements of the succession conflict that arise when incumbent and successor are not committed to jointly overcoming their dilemmas. These elements will combine to form the unique succession conflict at hand. Enriching Figure 12 The Three Dilemmas of Succession with these findings, we can graphically depict succession conflict as follows (see Figure 18):

**Figure 18: Succession Dilemmas and Conflicts**

The next chapter will explore what constructive roles a third party can play in helping to resolve the succession conflict.
4. The Three Elements of Third Party Intervention

Chapter 4 will show the constructive roles that can be played by a third party to support incumbent and successor in resolving their conflict. In line with the goal of this dissertation, the chapter will then focus on mediation and explore when and how mediation can be used to resolve succession conflicts.

4.1 Introduction

Building on the three elements of the succession conflict identified in the last chapter (task, internal and relationship conflict), Section 4.2 explores the general activities that can contribute to resolving each of them. Section 4.3 highlights the importance of the timing of intervention. Section 4.4 explores which of these activities are being used in the most prevalent forms of professional third party intervention, and concludes that only mediation addresses all of these issues. Section 4.5 then proceeds to analyze how mediation could be used to help resolve succession conflict.

4.2 The Role of the Third Party

4.2.1 Introduction

This section will identify the general activities that can contribute to resolving each of the three elements of the succession conflict. It will demonstrate that a specific activity can be employed for each of these conflicts (task, internal and relationship).

A third party can play a crucial role in helping incumbent and successor in reaching a resolution to the conflict. As has been shown, it is through dialogue that incumbent and successor can strengthen their common commitment. Accordingly, the primary constructive role for a third party is to enable that dialogue. Thus, it can contribute to the lifting of constraints and the strengthening of promoters. Before we look more closely at how this can be done, we will first explore who can be a third party.

The conflict between incumbent and successor does not take place in a vacuum. Rather, individuals from all of the four main groups of the family firm have a stake in its outcome. Their action, or inaction, influences the conflict and its management.

329 All interviewed family firm experts agreed on this fact.
“Third party” is understood to mean any individual other than the incumbent or successor that may strengthen their dialogue.

Family members can be extremely influential in this role because they are often the individuals that are closest to the conflict and its protagonists. For instance, CEO spouses have been found to play a key, if often invisible, role in many family firms - and they do so especially when the challenges of succession and continuity become evident. While they may not be actively involved in the actual business, some spouses see their major contribution to the business as acting as the glue that keeps the family together through the predictable familial challenges. Individuals performing this role have been referred to as “trust catalysts.” They thus play a very important and possibly decisive part in any attempts to resolve the conflict.

“You focus on [father and a son], and they may or may not make it work, but you might spend some more valuable time looking at the mother - because she is probably the one who taught them some elements of love and respect…. Sometimes it is a grandmother or someone who can sit down with them in that certain way they have with their kids, and makes some bold statements, and gets everyone to agree.”

Other family members may also have an important role to play. Kellermanns witnessed a conflict in which the older brother of the successor, who had never joined the business, successfully promoted the dialogue between his father and his younger brother.

While family members may be closest to the parties, the role of “third party” is not confined to them. Individuals form the management or supervisory circle of the

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330 For a typology of spouse styles and their possible influence on succession see Poza, E. J. and Messer, T., CEO Spouse, 2001. Ward emphasizes that the mother of the successor often plays the role of the “family leader” (pg. 94 ff) and indeed deems finding a “successor to Mom” as necessary as finding a successor for the family business (pg 124).
331 Ibid., 29
332 Ward, J. L., Perpetuating the Family Business, 2004 (pp 94 – 95) stresses that long-lasting business families understand that “family leadership” must be planned just as much as the business leadership succession. Since the role of family leader usually falls to the wife of the CEO, one of the lessons Wards draws from analyzing successful business families is that there is a need to find a “successor to Mom.” (pg. 124).
333 Shefsky, L. E., Interview, November 21, 2006
334 Kellermanns, F. W., Interview, December 11, 2006
family business may also play this role. Outside directors have been found to be especially helpful in facilitating the search for consensus. Ward also experienced cases were a “consigliere,” a long time employee with quasi-family status, has successfully managed the conflict between father and son. Klein, as well as Halter, tell of cases were friends of the family, such as other entrepreneurs or priests, have done the same. Of course, it may also be an outside consultant.

What enables a third party to play a constructive role in the resolution of the conflict between incumbent and successor is, therefore, not his membership in a specific group. Instead, it is a set of personal qualities and his relationship to the two protagonists that “qualifies” him for the intervention. The third party must be accepted, trusted, and perceived as neutral by the protagonists, and he must possess high communication skills. These circumstances will enable him to do more than offer a forum for dialogue to take place. He may also be able to defuse the tensions between incumbent and successor by what Klein calls “the drawing of anger”: “I am the one that draws all their anger, and with me that anger can leave the room.”

The third party can help the parties deal with all three dimensions of their conflict. He can address the task conflict by using problem solving techniques; the inner conflict by helping to lift personal constraints and strengthen personal promotors; and the relationship conflict by helping to discard interpersonal constraints and reinforce relationship enablers. These activities are being summarized in Figure 19:

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335 On the role of non-family executives as “referees” in a family dispute see e.g. Crego, E. T. J., Non-family Managers, 2003
336 Aronoff, C. E. and Ward, J. L., Outside Directors, 2002, 254; they actually posit that an independent board of outside directors is “the single greatest resource for the family business.” Consequently Ward, J. L., Perpetuating the Family Business, 2004 very strongly recommends the forming of such board (see pg. 16). On the merits of voluntary accountability by putting an outside board in place even when not legally required see also Ibid., pp. 50 – 51.
337 Ward, J. L., Interview, November 1, 2006
338 Halter, F., Interview, January 23 & 30, 2007; Klein, S. B., Interview, December 18, 2006
339 Shefsky, L. E., Interview, November 21, 2006: “I often joke that it must be that [incumbent and successor] get to a point where they cannot afford to keep the consultant on any longer so they decide to get together and to solve their problem.”
340 Mühlebach, C., Interview, December 12, 2006. If the third party is professional advisor as well as trusted friend to any one of the protagonists, his neutrality may be difficult to maintain, as Huber, H.-G. and Sterr-Kölln, H., Nachfolge im Familienunternehmen, 2006, 48 caution.
341 Klein, S. B., Interview, December 18, 2006
342 Ibid.
343 Ibid.: „Ich bin diejenige, die ihren Ärger auf sich nimmt. Und mit mir verlässt der ganze Ärger dann auch den Raum.”
**Figure 19: Constructive Third Party Activities**

<table>
<thead>
<tr>
<th>Aspect of Conflict</th>
<th>Task &amp; Process</th>
<th>Internal</th>
<th>Relationship</th>
</tr>
</thead>
<tbody>
<tr>
<td>Goal of Intervention</td>
<td>Problem Solving</td>
<td>Lift personal constraints &amp; strengthen personal promoters</td>
<td>Lift relationship constraints &amp; strengthen relationship promoters</td>
</tr>
<tr>
<td><strong>Activity</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>“Put all issues on the table”</td>
<td>“Get to underlying currents”</td>
<td>“Keep shining little light open”</td>
<td></td>
</tr>
<tr>
<td>= Identify and break apart all issues</td>
<td>= help identify own needs and interests</td>
<td>= remind of love and respect</td>
<td></td>
</tr>
<tr>
<td>“Challenge old business notions”</td>
<td>“Show own foibles”</td>
<td>“Relieve of old Baggage”</td>
<td></td>
</tr>
<tr>
<td>= correct assumptions and objectify criteria</td>
<td>= demonstrate responsibility for problem</td>
<td>= help accept other’s needs and interests</td>
<td></td>
</tr>
<tr>
<td>“Find line of best fit”</td>
<td>“Fertilize cooperation” (I)</td>
<td>“Fertilize cooperation” (II)</td>
<td></td>
</tr>
<tr>
<td>= show potential for compromise</td>
<td>= strengthen regard for own interests</td>
<td>= strengthen regard for other’s interests</td>
<td></td>
</tr>
</tbody>
</table>

These activities are subsequently explored in detail.
4.2.2 Facilitating Problem Solving

Three main problem-solving activities that may be used by a third party can be identified. They are “putting all issues on the table,” “challenging old business notions,” and “striving for the line of best fit.”

Getting all the issues on the table means identifying all issues, breaking them apart, and dealing with them one by one. Before this is explored in greater detail, we need first to clarify what exactly the “issues” of a conflict are. What needs to be addressed are all the demands that the parties articulate as well as their reasons for making these demands. In accordance with the seminal work of Fisher, Ury and Patton, we can call the former “positions” and the later “interests”.

It is important to separate the two because a consensual solution needs to satisfy the underlying interests of the parties, not merely their positions. Focussing on interests, we find that this term has always been very broad and vague: “Interests are needs, desires, concerns, and fears - the things one cares about or wants.” It can be said that interests have two levels, one rational and the other emotional. Both levels will be dealt with herein. An example may make the differentiation clearer. The position of the successor may be, “I do not want the incumbent to meet with the management team when I am not present.” His “rational interest” behind this may be, “I do not want my authority as CEO to be undermined.” Underneath this interest may very well lie a deeper, “emotional” interest: “My self-esteem as leader suffers if my authority is undercut.” The rational level of an individual’s interest is understood herein to belong to the area of task and process conflict and problem-solving; it will consequently be dealt with subsequently. The deeper, emotion-based interest is understood to permeate to the inner sphere of the individual; it will therefore be explored in greater detail in section 4.2.3 below.

344 Fisher, R., Ury, W. L. and Patton, B., Getting To Yes, 1999, pp 41 - 57
345 Interestingly, the famous library-example that Fisher, Ury and Patton give to clarify the difference between “positions” and “interests” (see pg. 41) appears to have been used 60 years earlier by Mary Parker Follett, whom Menkel-Meadow, Love and Kupfer-Schneider call the “mother” of the field of dispute resolution (Menkel-Meadow, C., Love, L. P. and Kupfer Schneider, A., Mediation, 2006, 8): “In the Harvard Library one day, in one of the smaller rooms, someone wanted the window open. I wanted it shut. We opened the window in the next room, where no one was sitting. This was not a compromise because there was no curtailing of desire; we both got what we really wanted. For I did not want a closed room, I simply did not want the north wind to blow directly on me; likewise the other occupant did not want that particular window open, he merely wanted more air in the room.” (Parker Follett, M., Constructive Conflict, 1925, 5). The demand for an open or closed window is the “position.” The underlying “interests” are based in a desire for fresh air and temperature, respectively.
Shefsky explains that

“if you have a conflict with someone, the odds are, it’s not a single issue. And when you get through the list, you have got 20 issues that you are dealing with. Now, you may only be talking about the one. But if you do not talk about the 20, you are never going to solve the one.”347

O’Donnell agrees and recommends putting as many issues on the table as possible in order to satisfy as many of the parties’ interests as possible.348 He also emphasizes that identifying all positions is a prerequisite to finding all underlying interests. Once all issues have been identified, they can be broken apart and addressed individually.

“You know that the sum is greater than the parts here, as they all in their sum … are massive. If you break them apart, you have a chance of solving some of them. There is no magic number for this, but if you get to a certain number … of parts that are solved, the whole starts to become soft and mushy. It just doesn’t have the substance any more from all those underpinnings multiplying; it now is a soft item floating on its own, or almost on its own, and that’s where a third party can really get people to think differently.”349

Challenging old business notions means challenging and correcting outdated business assumptions, thereby objectifying criteria for joint decision-making. As has been explained above, old business notions frequently get in the way of resolving business-related disagreements.350 An outsiders’ fresh perspective is likely to challenge such old notions and may enable the parties to come together.351 As Shefsky points out, it is often a new “inflection point” (a term coined by Grove, meaning a major change in the competitive environment of the firm which threatens the survival of the company)352 that enables the family to overcome old business notions.353 The third party may find it easier than the parties to ask critical questions, and,

347 Shefsky, L. E., Interview, November 21, 2006
348 O’Donnell, R. J., Collaboration, 2003, 15
349 Shefsky, L. E., Interview, November 21, 2006 [emphases added]
350 See Section 3.3.2 above.
351 Shefsky, L. E., Interview, November 21, 2006
353 Shefsky, L. E., Interview, November 21, 2006
where necessary, even play the role of devil’s advocate.\footnote{Halter, F., Interview, January 23 & 30, 2007} In the case retold by \textit{Kellermanns}\footnote{See Section 4.2.1 above} this role was successfully played by the older brother of the successor.

Striving for the “line of best fit”\footnote{Shefsky, L. E., Interview, November 21, 2006} or the “smallest common denominator”\footnote{Mühlebach, C., Interview, December 12, 2006: “Der kleinste gemeinsame Nenner”} means helping the parties identify possible compromise, and motivating them to see the advantages of accepting it. In order to better understand the nature of “compromise,” a brief look at the seminal “Conflict Mode” of \textit{Thomas and Kilmann} is in order:\footnote{See Thomas, K. W. and Kilmann, R. H., \textit{Thomas-Kilmann Conflict Mode}, 1986 that was originally published in 1976 (Thomas, K. W., \textit{Conflict Management}, 1976) and is itself based on ideas from the leadership model of Blake, R. and Mouton, J., \textit{Managerial Grid}, 1964. The \textit{Thomas-Kilmann Conflict Mode} is still widely used today, see e.g. Menkel-Meadow, C., Love, L. P. and Kupfer Schneider, A., \textit{Mediation}, 2006 (pg. 7) and Shell, R. G., \textit{Bargaining}, 2006(pg. 250).}

\textit{Thomas and Kilmann} identified two variables that, in combination with each other, define the outcome of a conflict. They are assertiveness (defined as high regard for one’s own concerns) and cooperativeness (defined as high regard for the other’s concern). \textit{Thomas and Kilmann} established that the regard an individual holds for his own and for the other’s concerns determines whether he will avoid the conflict (low regard for both), compete (high regard for self, low regard for other), accommodate (high regard for other, low regard for self), or collaborate with the other (high regard for both).\footnote{“Collaboration” is exactly what \textit{Parker Follett} and \textit{Fisher, Ury and Patton} call for when they advocate a constructive and consensual conflict resolution.} The only outcome that can satisfy everybody’s interest is cooperation; it requires all parties to have the highest possible regard for both their own and the other sides concerns. Collaboration will therefore be examined in greater detail in the sections that explore the strengthening of both parties’ assertiveness and cooperativeness.\footnote{See sections 4.2.3 and 4.2.4 below}

The middle ground between all these outcomes is occupied by compromise, which will result from a medium level of both assertiveness and cooperativeness. \textit{Shefsky} characterized it with the following words: “Nobody wins. Everybody loses a little bit, but they lose less than they would if they would not find an agreement.”\footnote{Shefsky, L. E., Interview, November 21, 2006} An important part of the effort to reach compromise consists of helping the parties in taking each other’s perspective.
In contrast to emphasizing, which will be dealt with in a later section, perspective taking is merely a cognitive, not an emotional process:

“Perspective taking means to imagine oneself in another person’s place and, on this basis, understanding the other’s point. In perspective taking, one can imagine the emotion of another person but that does not imply sharing the emotion.”

Perspective taking can help the parties distinguish and recognize the different roles they have to play in the family firm:

“Wise families recognize and accept the limits of ownership. Many successful families use ‘Nose in, fingers out’ as a code statement for their role as owners. In other words, they don’t overstep their boundaries as owners and cause problems for the business. They’re informed, and they get involved, but they don’t meddle.”

A compromise may be the best possible outcome in cases where both stand to lose more if they were to stay apart.

“Ultimately, isn’t that how you motivate anyone to do anything? To show them there is more reason for them to do it than not? Better for them to do it than not? And I think that this is were the third party can come in and the “better” may be obvious! But not to them, because they are too intertwined.”

4.2.3 Fostering Individual Growth

Three activities that focus on the intra-personal dimensions of the conflict may be employed by a third party. They are “getting to the underlying currents,” “showing old foibles,” and the “fertilizing cooperation” by focussing on each individual.

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362 See section 4.2.4
363 Bischof-Köhler, D., Empathy, Compassion and Cruelty, 2004, 1
364 Ward, J. L., Perpetuating the Family Business, 2004, 118; in very similar words, this idea is also expressed by Hilb, M., New Corporate Governance, 2004, 50.
365 Shefsky, L. E., Interview, November 21, 2006
366 Ibid.
“Getting to the underlying currents” means identifying underlying interests. There is broad agreement that hidden agendas are a major obstacle to communication in families, and that uncovering the underlying issues is often required for resolving the conflict. Indeed, getting at the underlying and emotional interest can end the vicious cycle of pain that marks family fights.

*Klein* emphasizes that the real issue underlying the conflict may be rooted in events dating back many years, even to the childhoods of the protagonists. *Kaye* stresses that family members often collude instinctively and unconsciously to protect their whole system from something that threatens them even more than conflict with one another. Because family members have been using conflict to forestall coming to terms with these un-discussed threats, enabling the participants to discuss their real fears is the key to resolving their conflicts. “It often requires an outsider to discern their unspoken, hidden, barely hinted-at apprehensions.”

Exposing people to their own foibles means demonstrating to them their own responsibility for the problem. This enables them to address the problem themselves and identify the steps that they can take to solve it. *Mühlebach* explains that the third party can make the parties aware of their behaviour patterns by observing and communicating what is observed. *Shefsky* explains how this can happen:

“If you do a case study on a family business it is kind of interesting to watch their reaction. They get interviewed by you endlessly, and then all of a sudden they read this case, and they say ‘Ah, that’s what this is all about!’ ..They lived it for years – and often they don’t have a clue of what they were living.”

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367 Ibid.; Here the emotional level of interest of interest is meant, see section 4.2.2 above.
368 Davis, P. S., Communication, 2003, 10
370 Kaye, K., Family Business Dynamics, 2005, 7
371 Klein, S. B., Interview, December 18, 2006. Albeit about a scenario different from the one explored herein, she gives an instructive example of a conflict between two siblings that at first sight appeared to be on the issue of succession. In reality, however, the conflict was rooted in events that took place when the siblings were 10 and 3 years old, and had ever since made one of them doubt the good intentions of the other.
372 Kaye, K., Family Business Dynamics, 2005, 12; For examples of what these hidden fears may be, refer to the inner constraints of incumbent and successor described above in section 3.3.
373 Ibid., 12.
374 Shefsky, L. E., Interview, November 21, 2006
376 Shefsky, L. E., Interview, November 21, 2006
Communicating counter-productive behaviour patterns requires a great deal of skill on behalf of the third party. *Klein* cautions that it is regularly painful for the individual party to listen to the observations of the third party: “*It hurts! ... When they got bogged down, they got bogged down for a reason -and they do not want to hear this reason*.”

Fertilizing cooperation means supporting the parties in their efforts to reach a cooperative solution. As we have seen above, this effort relies on two components: High regard for self and high regard for other. Consequently, a third party may foster cooperation by strengthening either of the two components. While the next section looks at the interpersonal side of this effort (regarding cooperativeness), here the focus is on the assertiveness of each individual. The third party’s role lies in strengthening the regard each party has for their own concerns. An example would be to help develop a coping mechanisms until the other side is able to recognize ones needs and desires.

This activity may logically lead to the insight that it is not in a party’s perceived best interest to continue the succession process. Should the incumbent realize that the successor is not willing to cooperate in any meaningful way to the succession process, as in the case re-told by *Davis*, he may indeed be best served by stopping the process. On the other hand, the successor may come to the understanding that he cannot wait any longer to be his own man and decide to leave the company.

### 4.2.4 Fostering Relationship Growth

There are three major activities that deal with the relationship side of the succession conflict. The activities that a third party may employ are “overcoming old baggage,” “reminding of love and respect,” and “fertilizing cooperation” by focussing on the relationship of the parties with each other.

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377 Klein, S. B., Interview, December 18, 2006: „Das tut ja weh! ... Diejenigen die sich da festfahren, die fahren sich aus guten Gründen fest- und diese Gründe wollen sie auch nicht hören.“

378 See section 4.2.1


380 Davis, J. A., Interview, November 28, 2006. In this case, the son refused not only to communicate with his father, but also to be accountable in any way to the other supervisory board members; he had, effectively hijacked the enterprise. While the incumbent tried to put up with his son’s behaviour, he eventually realized that his responsibility as owner, as well as his role as father of his other offspring, were violated by clinging to the succession process. When he was approached by a potential buyer, he therefore decided to sell the company. However, the deal fell apart, allowing the son to offer to buy the enterprise from his father. When the father agreed, the firm had seized to be a family enterprise, but it – and the family relationship- were salvaged.
Helping to overcome old baggage means helping parties smooth out long-lasting problems in their relationships of the kind described above under 3.3.4.1.

“An outsider sometimes, not always, can help the family bypass those peculiarities of old baggage and get to the real issues … An old baggage is not always an issue in and of itself, it may also be a taint to real issues… An outsider may see that more easily.”

Reminding the parties of their love and respect for each other is another third party role identified by Shefsky. He maintains that the functionality of life tends to get in the way of the underlying love and respect that the parties may very well have for each other, and posits that a third party can help them “peel away” what hides their positive feelings. For instance, a third party may say:

“Yes, that’s an important issues you are dealing with, but, deep down, don’t you love your brother?” And they will say “Of course!” And it is that “of course” because it is the trained reaction. But of course, without thinking of what “of course” means, it is not helpful. ... But if someone can ‘keep that little shining light open’ and not get covered over with the day-to-day stuff, you have a much better chance of getting this resolved.”

An important effect of this reminder is that it enables the parties to behave emphatically towards each other. Empathy is

“a process in which an observer has the experience of participating in an emotion or intention of another person and thereby understanding what this other person feels or intends. Thus, empathy is comprised of emotional as well as cognitive components. It is an emotional response that mediates insight.”

It may be worthwhile to point out that the third party may of course only remind the parties of their love and respect of each other if it indeed exists. As Kellermanns emphasizes, these feelings are something that grows over time, they cannot simply be.

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381 Shefsky, L. E., Interview, November 21, 2006
382 Ibid. [emphasis added]
383 Bischof-Köhler, D., Empathy, Compassion and Cruelty, 2004, 1
created by the third party: “It is not possible to instil it into a family like the Holy spirit.”\textsuperscript{384}

Fertilizing cooperation means promoting high regard for oneself as well as promoting high regard for the other. The third party may foster both components of cooperation. Shefsky cautions that neither side can “win” a family firm succession conflicts at the expense of the other; it is imperative that they find cooperate in finding a mutually acceptable solution.\textsuperscript{385}

4.2.5 Conclusion

Section 4.2 has shown that a variety of third party activities can, depending on the nature of the succession conflict at hand, be used to support incumbent and successor in the resolution of that conflict. The results of this section can be graphically depicted as follows (see Figure 20):

*Figure 20: The Three Dimensions of Succession Conflict Resolution*

\textsuperscript{384} Kellermanns, F. W., Interview, December 11, 2006: „Man kann das der Familie nicht wie den heiligen Geist einblasen.“

\textsuperscript{385} Shefsky, L. E., Interview, November 21, 2006
Before exploring which of these activities are part of the most prevalent professional third party interventions, the next section will first establish what can be called the “time window” for third party intervention.

4.3 The Timing of Intervention

The previous section has shown that the resolution of the succession conflict regularly calls for three different activities. As section 3.5 had demonstrated, the passage of time heavily influences the commitment of both incumbent and successor. Consequently, the passage of time also influences their ability to resolve the increasing conflict. While research shows that older owner age is negatively associated with cooperative conflict management, this is not only the result of age per se. It is also the consequence of decreasing commitment to the succession process on both sides: As time passes beyond the “optimal time period” for succession to actually take place, the commitment of both protagonists will weaken more and more. As their commitment dwindles, each will be less and less prepared to jointly overcome the succession dilemmas, and consequently to resolve differences in a constructive manner.

Because it is this capability that also determines the success of a third party intervention aimed at consensual conflict resolution, the chances of such intervention also decrease over time. This leads Ward to conclude that, beyond a certain point in time, the third party intervention cannot realistically be expected to be successful in resolving the conflict. This notion meets widespread support from other family business consultants, mediators, and family therapists.

Hence, the passage of time leads to the following sequence of useful third party interventions. At first there is a time when conflict resolution intervention is not yet necessary. As time passes, and the succession conflict escalates, conflict resolution intervention becomes more and more useful, but also more and more difficult. Finally, a point is reached were consensual conflict resolution is no longer possible. Hence, the “optimal” time for intervention in the succession conflict exists and can be depicted as follows (see Figure 21):

387 Ward, J. L., Interview, February 17, 2007
Figure 21. The Optimal Time for Conflict Resolution Intervention

This does not mean, however, that a third party cannot provide valuable support to the parties outside of this time window for conflict resolution. On the contrary, both family business consulting services and therapeutic intervention can help the parties in dealing with, or even overcoming, the problems of an irresolvable succession conflict.

As has been suggested above, it is most frequently the incumbent who does not want to change, thereby hampering the process of succession.

Ward identifies three principle interventions that can help the parties in this situation. For instance, a third party can seek to strengthen the coping mechanism of the junior generation and aim at redirecting the energies of the senior generation in an attempt to make the struggle less painful:

“When there is no foreseeable mutually acceptable solution to the succession conflict, [a consultant] can help the successor cope

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389 See section 3.5
with a situation he cannot control … and help him accept what
might be ‘his plate’."

Depending on how severe the situation is, the help of a therapist may also be called
for. Secondly, a consultant may also help the parties establish structures that make
the conflict less pronounced, e.g. by “separating” the proponents in their
responsibility for different business units, or by establishing a board of directors to
serve as a “buffer”. While these two interventions are not directed at resolving
the conflict, but at dealing with it, they may provide the groundwork for a later
resolution. For instance, it is not wholly impossible that the incumbent eventually
decides to indeed let go of the business if he finds another passion to pursue. A
consultant can support the incumbent in exploring other life options (e.g. by
introducing him to other entrepreneurs who have successfully let go of their
business). And sometimes they will, in the words of Ward, “stumble upon a
wonderful opportunity”. If the successor learns how to cope with the situation, and
if he can accept that change is happening very slowly, if at all, then time can play to
his advantage: “Time is the true great intervener”.

If, however, the successor finds himself unable to continue in the firm because of the
unresolved succession conflict, a consultant or therapist can also strengthen him in
his decision to leave. Here again, the threat of the son leaving, or even his actually
leaving, may prompt the incumbent to reconsider his approach and motivate him to
actually address the succession conflict.

However, it must be emphasized that all these activities are not aimed at resolving the
conflict. As far as the resolution of succession conflict is concerned, the possibilities
of both family business consulting and therapy are much more limited, as the next
section will show.

390 Ward, J. L., Interview, February 17, 2007; Kaye agrees: “Sometimes we just have to humour our parents”, Kaye,
391 Ward, J. L., Interview, February 17, 2007
392 Ibid.
393 Ibid.
394 Ibid.
395 Kaye, K., Interview, 2007; Ward, J. L., Interview, February 17, 2007
4.4 Professional Conflict Resolution

4.4.1 Introduction

This section will explore to what extent the professional third party interventions of therapy, consulting and mediation employ the activities identified as helpful for resolving the different elements of the succession conflict. More specifically, it will show when mediation is the most useful type of intervention.

Before we enter into this analysis, a word about what triggers outside intervention seems called for. There is widespread agreement that outside help to resolve the succession conflict will not be sought until it has escalated to the point where one of the parties can no longer cope. A “sufficient level” of pain seems to be an inevitable prerequisite of professional third party intervention, and usually, the intervention is sought by a person of lesser power. Once this stage of escalation is reached, professional help is available in the form of therapy, consulting, and mediation. Each of these three types of professional intervention will subsequently be explored.

4.4.2 Consulting

Consulting, sometimes called family advisory services, consists of giving advice to the family business, and therefore is the least intrusive of the three outside interventions. It offers solutions to the task and process elements of conflict and thereby enables the parties to address their role dilemmas. Examples of this form of intervention include advice on the most advantageous supervisory structure of the organization, legal advice on how to transfer ownership, or advice on the strategic development of the firm.

Consulting is therefore focussed on the problem solving aspect of the succession conflict, but is typically not concerned with the personal or relationship growth of the parties. While the resolution of the task/process element of the conflict may indirectly strengthen the parties in their attempt to also address their intra- and inter-personal issues, consulting offers no direct help in this endeavour.

396 Goldberg, S. B., Interview, 2007; Halter, F., Interview, January 23 & 30, 2007; Klein, S. B., Interview, December 18, 2006; Ward, J. L., Interview, November 1, 2006
If the succession conflict at hand consist primarily of task or process disagreements, consulting may be the only intervention that the parties require. If the other elements of the conflict are not major issues, then the parties may be able to resolve these issues themselves through negotiation. If, however, the conflict is mainly about the individuals and their relationships with each other, a more intrusive intervention may be called for. This intervention, therapy, is explored next.

### 4.4.3 Therapy

It is possible that the succession conflict has its roots in a mental health problem of the incumbent or the successor. In these cases, a therapeutic intervention would be called for. For the purposes of this dissertation, it is not necessary to understand the many schools and approaches of therapy. Rather, it suffices to establish that therapeutic intervention does not directly aim at resolving task or process conflicts. Levinson, a proponent of the psychoanalytical school of therapy, posits that mental health problems may be the “Gordian knot” of the succession conflict, and assures that healing these issues may also promote the resolution of other elements of succession conflicts. However, the focus of that intervention would be on remedying mental illness.

The therapeutic intervention can therefore be said to sit on the opposite side of the spectrum from consulting. While therapy aims at the personal growth of the client (thereby possibly strengthening problem solving approaches), consulting is a problem solving approach that may, instead, strengthen the personal development of the parties. As the next section will show, mediation occupies the middle ground between consulting and therapy.

This can graphically be depicted as follows (see Figure 22):

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398 Klein, S. B., Interview, December 18, 2006; Shefsky, L. E., Interview, November 21, 2006; Ward, J. L., Interview, February 17, 2007
399 Levinson, H., Family Business Consulting, 1983, 80
4.4.4 Mediation

Mediation is, in contrast to the both consulting and therapy, the only process that explicitly aims at the resolution of conflict. As this section will show, it is also the only process that includes all three elements of third party intervention required for the succession conflict analyzed herein. However, mediation also shares some characteristics with both consulting and therapy.

Before a closer look is taken at mediation itself, these similarities shall briefly be explored. Mediation is similar to consulting in that at least one of its aims is the resolution of the problem that is posed by task/process conflict; it is different from consulting in that it focuses on the process of resolving the conflict, not on the content of the resolution.

There are also similarities between mediation and therapy. Both encourage communication between clients. Both may employ the same techniques, such as

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A detailed discussion of the different schools of thought as to what exactly should be the aim of mediation follows below.
effective and reflective listening, reframing, and power balancing. Also, in both processes, there “is a commitment to offer the most constructive response possible to even the most daunting and problematic material.”

As will be demonstrated below, the approaches of mediation can be depicted as lying on a continuum, and the mediation style closest to therapy has in fact been called the “therapeutic” style of mediation. Mediators practicing the therapeutic style rely more heavily upon expanding the discussion, exploring past relations, and going into issues not raised by the immediate situation. Also, the therapeutic model emphasizes the mutuality, reciprocity, and self-enforcement of the agreement in contracts to court or program monitoring. On the other hand, therapists may employ methods of problem-solving with regard to concrete conflicts. While mediation and therapy can therefore be seen as complimentary processes, there is a definite line that separates the two: If one of the parties is not capable of negotiating in his own self-interest, then there is no room for mediation.

As for mediation itself, it has been held that it is ideally suited for family disputes because the participants must negotiate which solution or combination of solutions is acceptable to all of them. As seen above, it is especially important that family firm succession conflicts be resolved in a mutually acceptable way. It therefore seems justified to place high hopes on mediation as an adequate process to achieve this solution. Accordingly, Astrachan recommends seeking the help of a mediator when the family firm needs to find agreement on difficult issues.

But what exactly is “mediation”? As is the case with the notions of “family enterprise” and “conflict,” there are very different opinions on how the term should be defined. What is agreed upon is the understanding that mediation is “a process in which disputants attempt to resolve their differences with the assistance of an acceptable third party.” There is also consensus that the mediator does not possess the authority to decide on the resolution, nor does he possess the power to force the disputants to accept a certain resolution. There is also broad agreement that this

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401 Katz, E., Family Therapy & Mediation, 2007, 95
402 Silbey, S. S. M., Sally E., Mediator Strategies, 2006, 118
403 Ibid., 119
404 Ury, W., Interview, 2007
405 Katz, E., Family Therapy & Mediation, 2007, 97
407 Ibid., 1
409 Kressel, K., Mediation, 2000, 522
resolution is to be mutually agreeable, and that the third party, the mediator, should be neutral.411

Beyond this common ground, it has long been recognized that every mediation will be different, depending e.g. on the personalities and wishes of the parties, the nature of the conflict, and the personality of the mediator.412 Mediation, therefore, only allows for a somewhat rudimentary definition which cannot be specified further.413 Rather, “mediation is a flexible process, defined and re-defined by the disputants and the mediator in each case.”414

In order to explore what this “defining and re-defining” of the process may look like, two specific approaches to mediation are explored. One is called the “problem-solving approach”, the other is called the “transformative approach” to mediation. Other approaches, such as the “understanding-based”415 or the “rights-based”416 approach to mediation are disregarded herein. These approaches rely heavily on the law as means of solving the dispute. However, as had been demonstrated earlier, what weakens or strengthens the commitment to the succession process, are generally not legal considerations. This dissertation therefore limits itself to analyzing both the problem-solving and transformative mediation approaches.

4.4.4.1 Problem-Solving Mediation

Problem-solving mediation shifts the focus away from the positions of the parties towards their underlying interests. It seeks an interest-based solution and is also called “facilitating mediation” because it aims at facilitating the solving of the problem by the parties themselves.

411 Kovach, K. K., Mediation, 2005, 304. However, some scholars suggest that “favorable mediator alignment may cushion the impact of overt, unfavorable recommendations from that mediator” (Wittmer, J. M., Carnevale, P. and Walker, M. E., Biased Mediation, 1991), and others maintain that the mediator need not necessarily be neutral, see e.g. Kydd, A., Bias, 2003.

412 Allison, J. R., Disputes, 2000, 171

413 Breidenbach, S., Mediation, 1995, 137

414 Kovach, K. K., Mediation, 2005, 304

415 The goal of “understanding-based” mediation is to resolve conflict through mutual understanding. However, knowledge of the law is incorporated in the process, and the participation of lawyers is therefore explicitly welcomed, see Friedmann, G. and Himmelstein, J., Understanding-based Mediation, 2006 (pg. 121).

416 Goldberg, S. B., Sander, F. E. A., Rogers, N. H. and Cole, S. R., Dispute Resolution, 2003, 303; “Rights-based” mediation is mostly practiced by ex-judges. It has also been called “evaluative mediation” because at its core is the legal evaluation of the parties’ positions. The evaluation is then shared with the parties, in the hope of moving the party with the weaker legal position towards a settlement.
The primary objective of this approach is to arrive at a solution. Consequently, there is widespread agreement among its proponents\textsuperscript{417} that “mediation is negotiation carried out with the assistance of a third party.”\textsuperscript{418} Hence, the objective of problem-solving mediation is clear:

“Above all else, mediation makes it possible for agreements to be reached, and for those agreements to be ones that the disputants find satisfactory.”\textsuperscript{419}

To improve the relationship of the disputants is, for this approach, only a secondary objective of the mediation process.\textsuperscript{420}

\subsection*{4.4.4.2 Transformative Mediation}

In certain ways, the transformative approach aims at exactly the opposite. In the eyes of the transformative mediator, any conflict first and foremost provides an opportunity for the parties to grow personally in the process of its resolution. The transformative mediator strives at generating two effects, empowerment and recognition.

“In simplest terms, \textit{empowerment} means the restoration to individuals of a sense of their own value and strength and their own capacity to handle life’s problems. \textit{Recognition} means the evocation in individuals of acknowledgement and empathy for the situation and problems of others.”\textsuperscript{421}

The proponents of transformative mediation posit that if the mediator follows an approach that concentrates on the specific goals and processes of empowerment and recognition, the experience of the process offers the possibility of a “transformative” effect.\textsuperscript{422} This transformative effect consists of the personal (also called “moral”\textsuperscript{423}) growth of the parties.

\begin{footnotesize}
\begin{enumerate}
\item Bush, R. A. B. and Folger, J. P., Transformative Mediation, 1994, (Foreword by Rubin, Jeffrey Z., pg. XI)
\item Ibid. (Foreword by Rubin, Jeffrey Z., pg. XI); Goldberg, S. B., Interview, 2007
\item Bush, R. A. B. and Folger, J. P., Transformative Mediation, 1994, 2 [emphases added]
\item Bush, R. A. B. and Folger, J. P., Transformative Mediation, 2005 74; hence the name “transformative mediation”.
\end{enumerate}
\end{footnotesize}
For proponents of transformative mediation, the empowerment of the self and the recognition of the other go hand in hand. Although many mediators remain sceptical about the apparently high-flying ambitions of transformative mediation, it should be noted that research in other sciences, such as developmental psychology and neurology, also highlight the intricate link between an individual’s recognition of his self and his capacity to relate to others.

Developmental psychology, for instance, shows that a strong correlation exists between the development of empathy and self-recognition in the human personality. Experiments suggest that “empathy is a human potential that evolves in all children as soon as they are able to mentally represent themselves.”

Recent neurological research supports this notion. It suggests that the neuronal mechanism by which humans perceive others differs greatly from how humans perceive inanimate objects. Unlike inanimate objects, human beings have the distinct property of being "like me" in the eyes of the observer. This allows individuals to use the same systems that process knowledge about self-performed actions, self-conceived thoughts, and self-experienced emotions to understand actions, thoughts, and emotions in others.

Proponents of transformative mediation, believe it is successful if the “transformative” effect of empowerment and recognition is reached, even if the parties are unable to reach agreement. If they are able to reach agreement, all the better. Contrary to the assertions of the “problem-solving” approach, for the transformative approach, the solving of the problem is a mere “bonus.” In sum, this

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423 Ibid., 73. In the book that established the theory of transformative mediation, “The Promise of Mediation,” the authors remain vague as for why they regard such personal growth as moral growth. However, another publication by one of the authors makes this clearer (Bush, R. A. B., Mediation Jewish Tradition, 2001, 1014). In it he maintains that the injunction “You shall love your fellow as yourself” (Leviticus 19:18), which encompasses consideration and respect for both self and other equally, is understood to be the fundamental precept for the interaction among people. In effect, empowerment and recognition seek to promote both. Consequently, “Transformative Mediation” has been deemed to be equally attractive from a Christian perspective, which equally cherishes the centrality of this injunction, see e.g. Allegretti, J., Christian ADR, 2001.

424 Bischof-Köhler, D., Empathy, Compassion and Cruelty, 2004, 7. The experiments conducted by Bischof-Köhler suggest that the development of self-awareness constitutes the necessary antecedent for the development of empathy: Only children that had already developed the ability to recognize themselves in a mirror were able to emphasize with others. For a detailed description of the experiments refer to Bischof-Köhler, D., Development of Empathy, 1991.

425 Oberman, L. M. and Ramachandran, V. S., Neuron System & Social Mind, 2007: Oberman and Ramachandran cite research which shows that the very same neurons in an individuals’ brain are stimulated when the individual himself experiences pain and when he knows that a loved one is experiencing a painful stimulus. (p. 318) They call this mechanism “mirror neuron system” and suggest that internal simulation mechanisms, such as the mirror neuron system, are necessary for normal development of, among other capabilities, an individuals’ ability for recognition and empathy.

426 Bush, R. A. B. and Folger, J. P., Transformative Mediation, 1994 (Foreword by Rubin, Jeffrey Z., pg. XII): it is not clear, however, how the accomplishment of the parties’ empowerment and recognition could manifest itself in another way than by their reaching of an agreement.
approach to mediation highlights two mechanisms, empowerment and recognition, which serve to promote both the assertiveness and the empowerment of the parties.

4.4.4.3 Combined Approach

Mediators have been cautioned not to lock themselves into narrow positions on the orientation of the process. Rather than relying generally and exclusively on only one approach to mediation, it is recommended that the process be adapted to the needs of the parties on a case-to-case basis.\(^{427}\) Such adaptation seems to be particularly useful in the mediation of family firm succession conflicts: While both the problem-solving and the transformative approach emphasize an activity that is central to the resolution of the succession conflict, none of them is complete. Instead, it is only a combination of both approaches that addresses all three dimensions of the succession conflict.

As has been shown above, family firm succession conflict regularly consists of different conflict dimensions that require different approaches by the third party. The constructive activities of third parties that were identified by the interviewed family firm experts seem to blend seamlessly into the three tools highlighted by the problem-solving and the transformative approach. “Problem-solving mediation” highlights the very activities that are aimed at the resolution of task and process conflict. “Transformative mediation”, on the other hand, emphasizes the techniques needed to lift personal constraints and strengthen personal promoters (through empowerment) as well as lift relationship constraints and strengthen relationship promoters (through recognition).

As it were, all the interviewed third party professionals described an approach that embodied these three elements.\(^{428}\) While not all of them were comfortable with the terminology and claims to “moral growth” of transformative mediation, all consented that empowering the parties with regard to their own assertiveness, as well as promoting their collaboration through recognizing the other side need to be integral parts of the mediation process.

\(^{427}\) Moore, C. W., Mediation, 2003, 56  
For instance, Goldberg posits that problem-solving and transformative techniques represent different points on a continuum. Ury uses the same words and emphasizes that, while it is useful to distinguish between problem-solving and transformative methods for dispute resolution scholars, this does not mean that mediation should consist of only one of them:

“In reality, I find that the elements all blend together, and that the most effective mediation is the one that has all elements at its disposal and finds the right blend. So it is a ‘blended solution’”.  

From this perspective, problem-solving and personal growth approaches are “tools in a toolkit”. It is the nature of the conflict, as well as the will of the parties, that determines which tools should be used. In family firm succession conflicts, “the problem is inextricably interwoven with the relationship”, as Goldberg contends. 

Schmidt agrees that the problem-solving approach is required because concrete task and process issues (such as questions of procedures and governance) need to be addressed. At the same time he emphasizes the need for individual and relationship growth, as the resolution of the succession conflict also requires an improvement in the incumbent-successor relationship.

Ury contends that the family firm succession conflict between father and son requires a problem-solving process that is embedded in a personal growth process. However, it should be noted that while leading proponents of problem-solving mediation, namely Goldberg and Ury, do in fact strongly advocate “transformative” techniques for the resolution of family firm succession conflict, the proponents of “transformative mediation” seems to be less willing to embrace the other approach. Bush and Folger actually call it a “misconception” to believe that problem-solving and transformative approaches can be combined. Their argument against this misconception, as laid down in “Transformative Mediation” on pages 228 to 232, emphasizes what they see as the incompatible objectives of both approaches.

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429 Goldberg, S. B., Interview, 2007  
430 Ury, W., Interview, 2007  
431 Ibid.  
432 Goldberg, S. B., Interview, 2007  
433 Schmidt, F. H., Interview, 2007  
434 Ury, W., Interview, 2007; the question of sequencing will be addressed in Section 4.5.3.6 below.
Curiously, however, they reason that each mediator may have to find his own, “as-yet-undefined” framework of practice. Consequently, they conclude their argument with the following acknowledgement: “Even though we see the phase of combining practices as natural and valid step toward a new model, we do not see it as a viable form of practice per se.” Since such a “new model” has apparently not yet been established, this dissertation takes the valid step of combining both the practices of both approaches.

Hence, the combination of the problem solving approach with the transformative approach that all interviewed interveners have (explicitly of implicitly) advocated, is not only in line with Moore’s plea not to be locked up into a narrow dichotomy between these two approaches, but can also be said to be in line with each of these approaches. It therefore seems to be the right one for addressing family firm succession conflicts.

### 4.4.5 Conclusion: When to Mediate

It can be concluded that there is a continuum for means of resolving succession conflicts from consulting to therapy with mediation in the middle. Mediation includes major elements from both bordering roles - but in the case of consulting, mediation is not necessary, and in the case of therapy, mediation is not possible. Both roles therefore define the limits of mediation. These findings can be depicted as follows (see Figures 23 and 24):

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436 Moore, C. W., Mediation, 2003, 56
As this section has shown, mediation is the only professional third party intervention that can address all three elements of the succession conflict. The next section will analyze in greater detail the methods available for mediating family firm succession conflicts.
4.5 The Method of Mediation

Mediation addresses all three elements of the succession conflict. This section takes a closer look at the methods that can be used in resolution. To that end, the section provides answers to the following questions: When can mediation be attempted? What do the parties need to accomplish for mediation to be successful? What concrete steps can be taken to help what they need to accomplish? And, how can the success of mediation be judged?

4.5.1 When can Mediation be attempted?

Whether or not mediation can be attempted with a reasonable chance for success depends on the will of the parties, the time of intervention, and the conviction of the mediator that he can resolve the conflict at hand. All interviewed mediators made a point in emphasizing that it is in the absolute discretion of the parties to decide which, if any, third party intervention should be employed. Not only must the parties agree to the process as such, they also need to get a sense of who the mediator is, and feel comfortable with him and the way he offers to conduct mediation.\footnote{Dutenhaver, K. M., Interview, 2007} However, this does not necessarily mean that the decision is already made at the time of the first contact with the mediator. Just as family business consultants are regularly called in for educational purposes,\footnote{Ward, J. L., Interview, February 17, 2007} in the course of which their advice would also be solicited, the initial request to a mediator is often to conduct a workshop on conflict resolution or negotiation.\footnote{Goldberg, S. B., Interview, 2007} The mediator may also learn about the succession conflict when he advises the family firm in another processional capacity, for instance on legal\footnote{Ponschab, R., Interview, 2007} or insurance\footnote{Ury, W., Interview, 2007} issues. Once the mediator learns about the conflict, he may explain to the parties the mediation process, thus enabling them to make an informed and self-determined decision.

As has been demonstrated earlier, there is an optimal time for third party intervention. The advancing age of the parties and their accumulating frustration with the unresolved conflict tends to make their commitment to succession dwindle.\footnote{See section 4.3} While it can be the increasing dissatisfaction with the process that motivates the parties to seek the help of a third party, this process can also advance too far.
The conflict may have escalated to such a degree that a consensual conflict resolution is not possible anymore. For instance, the son may have lost all respect for the incumbent and may try to topple the parent. More frequently seems to be the case that the entrepreneur does not recognize that there is a problem, and is consequently not willing to change. In a scenario where there is no good will on the side of both parties to even attempt the consensual resolution of the conflict, there is no room for mediation. Accordingly, Ponschab cautions that “the mediator needs to be careful to do what he can do, and not to do what he cannot do.” For mediation to be attempted it is therefore imperative that both parties recognize the existence of the conflict and are clear about the consequences that will arise if it is not resolved.

Finally, the mediator must also be convinced that the conflict lends itself to consensual conflict resolution, and that he is also the right person to guide the parties through the process. For instance, Dutenhaver emphasizes that the voluntary nature of the mediation process also extends to the mediator: Just as the process requires the voluntary participation of the parties, the mediator must also be confident that he is personally capable of dealing with the specific conflict and the personalities of the protagonists. As Ponschab points out, the mediator must also be convinced that there is nothing in the conflict at hand that could tempt him to impose his own judgements and values on the parties. And Schmidt cautions that, even upon having embarked on the process, the mediator must constantly monitor and ensure his own impartiality.

The conviction that the conflict can be mediated, and that he is the right person to do so, can only be won once the mediator has had an opportunity to diagnose the conflict. Hence, Goldberg highlights the mediator’s function as “conflict diagnostician” and compares his role to the one of the general practitioner, who may recommend the patient consult with a specialist. The mediator, likewise, may recommend the parties to call in the expertise of others, if he personally feels unable

443 Kressel, K., Mediation, 2000, 524
444 Ward, J. L., Interview, February 17, 2007
445 As Section 4.3 has shown, there may still be room for beneficial third party intervention in the form of consulting or therapy.
446 Goldberg, S. B., Interview, 2007; this is consistent with the established notion that successful mediation may be prevented, among other things, by low commitment to the process and low motivation to reach an agreement, see Kressel, K., Mediation, 2000 (524 – 525).
447 Ponschab, R., Interview, 2007: “Der Mediator muss vorsichtig sein, daß er macht was er kann, und das nicht macht, was er nicht kann.”
448 Goldberg, S. B., Interview, 2007
449 Dutenhaver, K. M., Interview, 2007
450 Ponschab, R., Interview, 2007
451 Schmidt, F. H., Interview, 2007
to solve the conflict at hand.\textsuperscript{452} Hence, the decision to enter into mediation is to be made in equal measure by the parties and the mediator.\textsuperscript{453}

4.5.2 What do the parties need to accomplish?

The parties need to address all three dimensions of the succession conflict. As has been shown, the mediation of succession conflict cannot be confined to either the facilitation of problem-solving, the promotion of personal growth, or the promotion of relationship growth. Rather, it must aim at all three objectives.\textsuperscript{454} Mediating family firm succession conflicts must help the parties not only solve the task or process related problems, but also empower each individuals to assert his interests and help the parties recognize the other’s interests.

4.5.3 What concrete steps can be taken?

Five steps need to be taken to help the parties achieve the resolution of their conflict. The mediator needs to know all the issues. He must help the parties articulate their own interests, and help them understand the interests of the respective other, so that they can identify their common ground. And the parties must agree on a criterion by which to judge the success of their resolution, and they need to agree on concrete solutions to the conflict.

4.5.3.1 Understanding the conflict and the parties

As has been shown, the first step that the mediator needs to take is to diagnose the conflict and the parties in order to decide whether mediation can be attempted.\textsuperscript{455} The initial picture will of course be incomplete for a number of reasons. Often, the presenting problem is not the real, underlying problem.\textsuperscript{456} Also, the parties will only gradually trust the third party enough to share their underlying interests. However,
what is required at the start of the process is merely enough information for the mediator to decide whether mediation may make sense.

4.5.3.2 Helping each party to assert their individual interests

The initial exploration of constructive third party roles, as identified by family business research, had lead to three activities that focus on the intra-personal dimensions. These activities were “getting to the underlying currents”, “showing old foibles”, and “fertilizing cooperation” by strengthening the assertiveness of each individual. These are the same activities that are meant to foster collaboration through the “individual growth” emphasized by transformative mediation.

The first task of the mediator here is to help the parties identify and articulate their concerns, and find out “what they care about”. As with most things in mediation, this is accomplished by asking them. Asking the entrepreneur, for instance, to explain how he has built the enterprise, and what he thinks the basis of his success is, has proven a good way to start this process. This step will often require private conversations between the mediator and only one party at a time (the so called caucus).

This step does not have to be limited to verbal expressions. For instance, Ponschab re-tells a case in which he had successfully invited the parties to make a drawing of how they perceive the situation. This proved to be not only an excellent way for the parties to express themselves, but also provided a starting point for the next step (i.e. fostering the understanding of the other side’s concerns). An important aspect of this step is also helping the parties understand that “they are not crazy”, and that the intergenerational conflict they experience is quite normal in the course of succession. This step will also often include helping the parties define, and maybe re-define their own expectations from succession.

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457 See Section 4.2.3
458 In the way understood by Kilman-Thomas, see section 4.2.3 above.
459 Goldberg, S. B., Interview, 2007
460 Ponschab, R., Interview, 2007
461 Ibid.
462 Ward, J. L., Interview, February 17, 2007
463 Schmidt, F. H., Interview, 2007
464 Kaye tells of a case that does not fall under the scenario explored herein, but nevertheless may serve to illustrate this point. The incumbent, who had inherited a modest enterprise himself, managed to increase the turnover by a factor of 80 in the course of his tenure. From this the son established the conviction he could himself only be successful if he managed to also grow the business times 80, which was practically impossible in the given market
In some cases, the outcome of such reconsidering may be that the successor decides that it is in his own best interest to actually leave the firm instead of trying to change, or put up with, his father.  

4.5.3.3 Helping each party to recognize the others` interest

Family business research had identified three major activities that deal with the relationship side of the succession conflict. The activities that a third party may employ are “overcoming old baggage”, “reminding of love and respect”, and “fertilizing cooperation” by helping the individuals recognize the concerns of the other. These are the actions that aim at what Kilman-Thomas describe as a “high regard for other” and constitute the “relationship” component of personal growth. In any case, this step of the mediation process is crucial for its success.

However, it is also important that the concerns of each side are communicated to the other side. While certain things may remain private between a party and the mediator, the general interests must be articulated for the other side to understand and, if possible, acknowledge them. It may, for instance, prove fruitful for the son to “put his pain on the table”, or share his thoughts about leaving the company.

The efforts of the mediator in this step are directed towards promoting dialogue between the parties. An effective way of achieving this can be to ask each party how they think the other side experiences the conflict.

4.5.3.4 Helping the parties to identify commonalities

Once the parties have each identified their own interests, and learned about the interests of the other side, it is time to identify the commonalities they share. Schmidt and Ury are confident that, in the conflict scenario explored herein, such common

\[\text{situation. Necessarily failing to meet this expectation, he was never content with anything that he would accomplish in the business. Kaye, K., Interview, 2007.}\]

465 See Ibid.
466 See Ibid.
467 See Section 4.2.4
468 See Section 4.4.4.2
469 Ward, J. L., Interview, February 17, 2007
470 See Section 3.4.5
471 Ponschab, R., Interview, 2007
ground will regularly not be hard to find. Father and son regularly will often share an interest in making succession actually work, in not destroying the family, and in preserving the company.

Such common interests may be obvious to the outsider. However, the parties may have lost sight of it in the heat of the dispute, and may actually be surprised by hearing it articulated:

“When I told them that their interests seemed to be aligned to me, father and son looked at me in astonishment, and said ‘Well, that’s right!’”

4.5.3.5 Helping the parties to establish criteria and agree on concrete solutions

Family business research has identified three main problem-solving activities that may be used by a third party. They are “putting all issues on the table”, “challenging old business notions”, and “striving for the line of best fit”. These are the actions directed at the concrete solution to the problem.

Possible solutions to the succession conflict explored herein could include, for example, the incumbent leaving the company on a one-year trial basis, or the granting of full authority for specific areas of the business (such as international operations) to the successor. However, what may or may not be the right solution fully depends on the peculiarities of the case. Also, all the aspects that have been left out by this dissertation come into play here (e.g. the culture and the industry of the firm, see Introduction). It shall therefore suffice to contend that it is the task of the mediator to stimulate creativity and out-of-the-box-thinking in the parties as best he can. Goldberg calls this “fishing around” for possible solutions, but he emphasizes that it must ultimately be the parties who develop their own solutions. While the mediator may gently “nudge” them into a promising direction, the ideal case is that both parties come up with the same concrete solutions:

472 Schmidt, F. H., Interview, 2007; Ury, W., Interview, 2007
473 Goldberg, S. B., Interview, 2007
474 Ponschab, R., Interview, 2007  “Als ich ihnen sagte, dass sie ja die gleichen Interessen hätten, schauten sie mich erst mal mit großen Augen an und sagten dann ’Ja, das stimmt ja.’ “
475 See section 4.2.2
476 See section 4.4.4.1
477 Ponschab, R., Interview, 2007
478 Ward, J. L., Interview, February 17, 2007
“You need to ask them: ‘What are ways in which each of you can have your own concerns dealt with in a manner that is less in conflict with the needs of the other?’”

The mediator must help the parties “think through” the consequences of the proposed solutions, asking them what the likely result from every aspect of the proposed resolution is likely to be. It is important that the parties find a criterion to assess the success of the agreed-upon solution in the future. This may for instance be the profitability of the enterprise.

Yet again, an important part of the mediator’s task in this step is to ask questions to the parties. The challenge is for the mediator to lead the parties through the process just by asking. Different techniques are available to the mediator to ask the “right” questions. However, whether the mediator can achieve mastery in this discipline seems to depend, before all else, on his own humbleness and true belief in the self-determination of the parties.

4.5.3.6 The sequence of steps

Schmidt posits that the resolution of concrete problems, on the one hand, can ease the strain on the relationship between incumbent and successor. The improvement of their relationship, on the other hand, can permit the resolution of the concrete problems. Both dimensions are mutually dependent on each other, their application depends on how the process develops.

Ury posits that, as for the sequence of the process „people come before the problem“:

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479 Goldberg, S. B., Interview, 2007
480 Ibid.
481 Dutenhaver, K. M., Interview, 2007
482 For instance, Goldberg refers to the “Socratic” method of asking that is widely used by professor as a teaching tool in American law schools; for an overview refer to: Edelson, D. C., Socratic Case-Based Teaching, 1996; Ponschab describes the technique of “circular questions”. Asking “Circular questions” means eliciting the reaction of a person to the behaviour of the other not by asking him directly for it, but rather by asking him for the reaction of a third party. An example would be to ask the entrepreneur “What do you think your management team thinks when your son is not present at your common meetings?” Circular questioning had originally been developed as a tool of systemic therapy. For an overview on its theoretical basis and historical development, refer to Schweitzer, J. and Weber, G., Systemische Therapie, 1997.
483 Goldberg, S. B., Interview, 2007
484 Schmidt, F. H., Interview, 2007: “Zwischen beiden herrscht eine Wechselbeziehung“
“The first step of mediation should put more emphasis on the people, creating the report [and] the relationship. And as you increasingly move through the process, maybe there is more emphasis on the problem. And then, particularly because this is a relationship-issue, as you end it you then put more emphasis on the people so that it ends … not just [with] a solution, but also something that actually sustains the relationship.”

Kaye agrees:

“In order to get a business problem solved it is often necessary to work on the relationship. It can help [the parties] introduce some understanding of who one another is and who they themselves are.”

For instance, Schmidt has mediated cases where a party explicitly articulated that it would only be willing to find an agreement on the concrete problems, if the relationship could be improved beforehand. Kaye re-tells a case where the issue of the entrepreneur’s extra-marital affair had to be addressed before father and son could move on to resolve their succession conflict.

Ponschab emphasizes that there is not one way to get to the resolution of the conflict. To illustrate his point, he compares the mediator to a pilot, who are know to be “off course” 90% of the time, but will reach their destination because they always stay on target.

Recent empirical studies on the succession of mediation also support the “from people-to problem” approach. A survey of thirty experienced mediators conducted by Goldberg showed that three-quarters of them regarded achieving rapport with the parties as central to their success in bringing about settlements.

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485 Ury, W., Interview, 2007. This is, in essence, the same sequence on which he bases his most recent book “The Power of a Positive No” that focuses on how to constructively decline the demands of others that are not compatible with ones own interests, while at the same time preserving the relationship. See: Ury, W., Positive No, 2007.

486 Kaye, K., Interview, 2007

487 Schmidt, F. H., Interview, 2007

488 Kaye, K., Interview, 2007

489 Goldberg, S. B., Successful Mediators, 2005
Achieving rapport can be defined as establishing an empathic and trusting relationship with the parties.\textsuperscript{490} According to the surveyed mediators, it is so important to establish such a personal relationship with the parties because it encourages the parties to communicate more fully with the mediator, often providing him with the information he needs to help the parties craft a settlement.\textsuperscript{491}

These findings were supported by the second part of the study, in which the clients of these same mediators were asked what they thought had made the process successful.\textsuperscript{492} The most frequently cited reason for mediator success, from the parties perspective, was the mediator’s ability to gain the confidence of the parties.\textsuperscript{493}

Before the next section takes a closer look at how the success of mediation can be judged, the findings of this section will first be summarized graphically (see next page).

\begin{footnotes}
\item[490] Goldberg, S. B., Achieving rapport, 2006, 99
\item[491] Goldberg, S. B., Mediation Success, 2006, 87
\item[492] Goldberg, S. B. and Shaw, M., Successful Mediators II [not yet published]
\item[493] Ibid., 5
\end{footnotes}
4.5.3.7 Conclusion

The sequence of steps in the mediation of family firm succession conflicts can be depicted as follows (see Figure 25):

*Figure 25: The Sequence of Steps in Mediating the Succession Conflict*
4.5.4 How can the success of mediation be judged?

Judging the success of mediation by the time the agreement lasts is problematic:

“Dispute resolution is a tricky notion… That no dispute exists today does not ensure that no dispute will exist next year. The sign of a healthy, productive relationship is not necessarily an absence of disputes but rather the skill with which disputes are addressed.”

Goldberg emphasizes that, even when a conflict has been resolved, there may be other conflicts in the future:

“That’s life! Marriages fall apart, friendships fall apart, businesses fall apart. Things change.”

Accordingly, he defines the mediation of a family firm succession conflict to be successful when the new agreement lasts at least until the next, external crisis happens, and ideally for the rest of the incumbent’s life.

Rather than judging the success of mediation by the time that the agreement may or may not last, it should be judged by the content of that agreement. The mediator needs to make sure that the consensual solution is also the “right” one for both family and business. The interviewed mediators agreed that the mediator must make sure that the proposed solutions do in fact meet the previously identified interests of both the family and the business.

Schmidt recommends two measures to accomplish this. The mediator can, through his questions, ensure that the parties think through all the consequences of their proposed solution for family and business. Once the underlying interests of the parties with regard to both family and business have been truly carved out, then these questions can ensure that solutions are found that really serve these interests. Secondly, in order to prevent the parties from focussing only on their very own interests, Schmidt recommends involving all concerned stakeholders into the process. This can be done either by actually getting stakeholder-representatives, such as

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494 Moffitt, M. L. and Bordone, R. C., Dispute Resolution Perspectives, 2005, 4
495 Goldberg, S. B., Interview, 2007
496 Schmidt, F. H., Interview, 2007
managers or other family members, involved in the mediation process, or by asking the original parties to consider the consequences of proposed solutions for them. *Ury* maintains that “sometimes the parties need to be reminded of what is the best for the whole“, and recommends the same two measures, as does *Goldberg*.

### 4.5.5 Conclusion

As this section has shown, mediation can offer three methods for the resolution of family firm succession conflicts.

### 4.6 Conclusion

The mediation process is well positioned to help the parties resolve a family firm succession conflict. It is capable of addressing all dimensions of the conflict and can provide a specific methodology to do so. The last chapter will formulate the propositions that flow from these finding.
5. Conclusion

In the introduction to the dissertation it was emphasized that due to the absence of any established theories regarding the research question as well as to the research methodology employed herein, the findings of the dissertation can only be formulated as propositions that require testing. As the last chapter of the dissertation, Chapter 5 draws these propositions from the insights gained in the dissertation.

This dissertation has argued that succession, by its very nature, requires the finding of an equilibrium to three dilemmas. The often opposing demands of family, owners, managers, and supervisory board members must be reconciled (the role dilemma). Because incumbent and successor play multiple roles simultaneously, both are likely to experience this dilemma internally (the inner dilemma). And because succession consists of the passing on of power from one to the other, they mutually need each other to find the equilibrium (the relationship dilemma).

The dissertation has also argued that finding the equilibrium is not a one-time act, but a continuous process that is only complete once responsibility, authority, and ownership control have been passed on. The middle step, the transfer of authority, was identified as the “litmus test” of the whole process, because it is most likely to challenge the commitment of both incumbent and successor.

The dissertation then explored the different bases of commitment (affective, normative, and calculative), and identified factors that can constrain, or promote, the commitment of incumbent and successor. Their commitment is affected by a combination of available information, the individual personalities of incumbent and successor, and their relationship with each other. It is through dialogue that incumbent and successor can overcome their respective constraints and promote their common commitment. It has then been found that the passage of time has a natural tendency to weaken their common commitment, creating an “optimal” time window for succession to take place.

The dissertation then has argued that the weakened commitment of either or both protagonists causes overt succession conflict to arise. In this case, each of the three imbalanced dilemmas will lead to a specific conflict, and they will combine to form the three dimensions of the succession conflict.
The role dilemma leads to task and process conflict, the internal dilemma leads to internal conflict, and the relationship dilemma leads to relationship conflict.

The dissertation then identified constructive roles that a third party can play in resolving each of the three dimensions of succession conflict. Task and relationship conflict can be addressed by problem-solution activities; internal conflict can be addressed by activities aiming at the individual growth of the parties; relationship conflict can be addressed by activities aiming at relationship growth between incumbent and successor. Next, the optimal time period for conflict resolution was identified by building on the optimal time window for succession.

It has then be argued that mediation, in contrast to business consulting and therapy, is the professional intervention that incorporates all three activities. Finally, specific methods for mediating family firm succession conflicts were identified.

From these findings, three major propositions can be drawn:

1. Succession conflict is, by nature, not confined to disputes over tasks and processes in the firm. Rather, it is also extends to the relationship between incumbent and successor and to their individual personalities.

2. Third party conflict resolution aiming at the resolution of succession conflict, therefore, requires these three dimensions to be addressed.

3. Mediation is the only professional intervention that possess the tools to accomplish this. It can be complimented, but not substituted for, by both family business consultancy services and therapeutic measures.

These propositions have been found by research grounded in expert interviews. Accordingly, future research into the empirical validity of these findings would prove fruitful.

With regard to future research, the structural approach of the dissertation hopes to provide valuable frameworks not only for empirical validation of the presented findings, but also for the analytical advancement of a general theory of the mediation of family firm succession conflicts.
The models presented herein could hence be filled with life by research into specific cultural circumstances of the family and its firm. The specific dilemmas of a given family firm, for instance, may look quite different depending on the cultural and religious context in which it is embedded. The same could be expected of the given business, legal, or tax context. The possibilities and limitations of, for example, a given corporate governance system or tax regime will shape the characteristics of the specific conflict at hand. Since the models presented herein are based on the structure of family firm succession conflict, they should be able to accommodate different variations of this “theme”.

Furthermore, because this dissertation is limited to the exploration of the structural conflict between a first generation incumbent and a son who succeeds him, its findings offer limited insight into other conflict constellations. However, the models presented herein could provide the starting point for research into similar, but different, conflicts such as between different genders (e.g. mother and daughter). In these cases the task conflict level should be similar, while the personal- and relationship-conflicts will likely have a different quality from the father-son conflict explored herein. Also, where the specific succession constellation includes more than the two protagonists analysed herein, the model can be expanded to incorporate further additional parties (e.g. in the case of succession by two siblings).

In sum, the dissertation hopes to serve as a starting point for research into a wide variety of directions. This hope rests on what is maybe the most surprising finding of the research presented herein: The analyses of the interviewed experts, were -despite their very different professional approaches as consultants, lawyers, mediators, or therapists- similar to the point of being expressed in identical words.
Appendix A: Interview Partners

A.1 Family Firm Experts

(*) Members of Editorial Board of Family Business Review.

Professor John A. Davis, Ph.D.*
Faculty Chair, Families in Business Program
Harvard Business School
115 Rock Center
Soldiers Field
Boston, Massachusetts 02163, USA
(+1) 617.495.6167
jdavis@hbs.edu
http://www.people.hbs.edu/jdavis
Telephone Interview on November 28, 2006

Frank Halter, lic. oec. HSG
Member of the Management Board, The Center for Family Business
University of St. Gallen
Dufourstr. 40a
CH-9000 St.Gallen, Switzerland
frank.halter@unisg.ch
(+41) 071-2247128
document
Telephone Interviews on January 23 & 30, 2007

Professor Dr. Franz W. Kellermanns*
Mississippi State University
Department of Management and Information Systems
P.O. Box 9581
Mississippi State, Mississippi 39762, USA
(+1) 662.325.2613
fkellermanns@cobilan.msstate.edu
http://tomcat.banner.msstate.edu/public_directory/directory
Telephone Interview on December 11, 2006
Professor Dr. Sabine B. Klein
Academic Director, European Family Business Center
European Business School
International University Schloß Reichartshausen
Rheingaustraße 1
65375 Oestrich-Winkel, Germany
☎ (+49) 0611-36018720
✉ sabine.klein@ebs.edu
http://ebs-typo3.de/cms/index.php?id=214&L=0
Telephone Interview on December 18, 2006

Dr. oec. HSG Corinne Mühlebach
Research Fellow, Centers for Family Business & Corporate Governance
University of St. Gallen
☎ (+41) 056 - 4624283
✉ corinne.muehlebach@fhnw.ch
Telephone Interview on December 12, 2006

Professor Lloyd Shefsky, J.D.
Co-Director of the Center for Family Enterprises
Kellogg School of Management at Northwestern University
Jacobs Center, Room 5228
2001 Sheridan Rd
Evanston, Illinois 60208, USA
☎ (+1) 847-475-3000
✉ l-shefsky@kellogg.northwestern.edu
http://www.kellogg.northwestern.edu/research/family/index.htm
Telephone Interview on November 21, 2006

Professor John L. Ward, Ph.D.*
Wild Group Professor of Family Business at IMD, Lausanne, Switzerland,
and Co-Director of the Center for Family Enterprises, Kellogg School of
Management, USA
1111 Forest Avenue
Evanston , Illinois 60202, USA
A.2 Mediators, Therapists, Family Business Consultants

**Professor Douglas C. Breunlin (Family Therapist)**
Director, The Family Business Program
The Family Institute at Northwestern University
Bette D. Harris Center, 618 Library Place
Evanston, Illinois 60201, USA
(+1) 847.733.4300
d-breunlin@northwestern.edu
http://www.family-institute.org/offices.aspx
Personal Interview on March 26, 2007

**Professor Katheryn M. Dutenhaver, J.D. (Mediator)**
Director, The Center for Dispute Resolution
DePaul University
25 East Jackson Boulevard
Chicago, Illinois 60604, USA
(+1) 312.362.8368
kdutenha@depaul.edu
http://www.law.depaul.edu/faculty%5Fstaff/faculty_information.asp?id=19
Personal Interview on March 12, 2007

**Professor Emeritus Stephen B. Goldberg, J.D. (Mediator)**
President, Mediation Research and Education Project, Inc.
Northwestern University Law School
357 E. Chicago Avenue
Chicago, Illinois 60611, USA
(+1) 312.503.8426
stephengoldberg@law.northwestern.edu
http://www.mrep.org/stephengoldberg.htm
Personal Interviews on September 27, 2006; January 25, 2007; February 23, 2007; May 1, 2007; May 9, 2007

William E. Hartgering, J.D. (Mediator)
JAMS/ENDDISPUTE
71 S. Wacker Drive,
Suite 3090
Chicago, Illinois 60606, USA
(+1) 312.655.0555
bhartgerin@aol.com
Personal Interview on February 20, 2007

Kenneth Kaye, Ph.D. (Family Business Consultant)*
Kaye Family Business Associates, Inc.
(+1) 847.475.4090
ken@kaye.com
http://www.kaye.com/
Personal Interview on February 27, 2007

Rechtsanwalt Dr. Reiner Ponschab (Mediator)
President, EUCON e.V. (European Institute of Conflict Management)
Schackstraße 2
80539 München, Germany
(+49) 089 - 57951834
reiner.ponschab@heussen-law.de
Telephone Interview on March 5, 2007

Rechtsanwalt Dr. Frank H. Schmidt (Mediator)
President, DGM (German Mediation Association)
Albrecht-Dürer-Platz 4
Schürstabhaus
90403 Nürnberg, Germany
(+49) 0911-2146960
RA-Dr.F.Schmidt@t-online.de
Telephone Interview on March 7, 2007

**William L. Ury, Ph.D. (Mediator)**
Director of the Global Negotiation Project,
The Program on Negotiation at Harvard Law School
513 Pound Hall
Cambridge, Massachusetts 02138, USA
(+1) 617.495.1684
http://www.pon.harvard.edu/about/committee/wury.php?page=pp

Telephone Interview on March 19, 2007

**Professor John E. Ward, Ph.D. (Family Business Consultant)**
Wild Group Professor of Family Business at IMD, Lausanne, Switzerland,
and Clinical Professor at Kellogg School of Management, USA
1111 Forest Avenue
Evanston, Illinois 60202, USA
(+1) 847-475-3000
JohnL.Ward@aol.com
http://www.johnlward.com/

2. Personal Interview on February 17, 2007
Appendix B: Questionnaires

1. Questionnaire for Family Firm Experts:

I am investigating family enterprise succession conflicts and am particularly interested in what mediation might be able to accomplish when families are in disharmony. As I have been heavily encouraged to narrow down my focus, I am looking for your expertise in a particular transition situation.

This situation is described below (under B.), followed by a number of questions. In reading the questions, please think of a case that you may have experienced and that comes as close as possible to the parameters of the described scenario.

Under A you will first find three general questions relating to your experience with family firms. I would very much like to ask you these questions in our telephone conversation.

It is not necessary that I learn about the identities of companies or persons that you may have experienced. However, if you do choose to reveal them, I may possibly use them in future publications of the research results unless you instruct me otherwise. I would like to audiotape our conversation to code your answers and combine them with the results of other interviews. I sincerely hope you can look into this.

A. General

1. In your experience, what generally determines whether generational change is mastered successfully by a family firm?

2. In your experience, what generally determines whether a family firm can “master” conflicts?

3. In your experience, is there a constructive role that a third party can play in “mastering” family firm conflicts?
B. Case

In the family enterprise XY the baton has been passed from the incumbent to the successor. While the successor is now in charge of managing the company, the incumbent still holds most of the equity and is often present. The successor feels that the incumbent is improperly interfering with his leadership. Arguments become more and more frequent. Finally, a point is reached where the conflict threatens both the company and the family.

1. Have you witnessed such a case? (If not: Please describe a case that you have read or heard about, if any, as far as possible).
   a. What was the conflict about?
   b. How did incumbent and successor interact?
   c. How long after the baton was passed did the conflict arise?

2. In that case, has the conflict been managed?
   If yes:
   a. Who was managed the conflict?
   b. Was conflict management successful? Why or why not?
   c. How long after the conflict arose did conflict management start?
   If no:
   Why was the conflict not managed?

3. Has a third party involved in the conflict management? Can you describe what he did?
2. Questionnaire for Third Party Interveners with pertinent case experience

I am investigating family enterprise succession conflicts and am particularly interested in what mediation might be able to accomplish when families are in disharmony. As I have decided to focus on conflicts that arise after the baton has passed, I am looking for your expertise as it may relate to this particular transition situation.

Below you will find 5 questions that I would very much like to ask you in our telephone conversation. It is not necessary that I learn about the identities of companies or persons that you may have experienced. However, if you do choose to reveal them, I may possibly use them in future publications of the research results unless you instruct me otherwise. I would like to audiotape our conversation to code your answers and combine them with the results of other interviews. I sincerely hope you can look into this.

I understand you have experience in mediating the following conflict:

"In the family enterprise XY the baton has been passed from father to son. While the successor is now in charge of managing the company, the incumbent still holds most of the equity and is often present at the company. The successor feels that the incumbent is improperly interfering with his authority. Arguments become more and more frequent. Finally, a point is reached where the conflict threatens both the company and the family."

1. There are different approaches to intervention (e.g. Consulting / Problem-Solving or Transformative Mediation / Therapeutic Intervention). What would you say your approach was?

2. Learning about the details of the situation, what did you think needed to be accomplished for the parties to sufficiently de-escalate the conflict and move forward?

3. What concrete steps did you take to accomplish this?
4. Was the intervention successful? How did you judge its success?

5. If the parties agreed on a solution: How did you make sure that the consensual solution was also the “right” one for both family and business?
3. Questionnaire for Third Party Interveners without pertinent case experience:

I am investigating family enterprise succession conflicts and am particularly interested in what mediation might be able to accomplish when families are in disharmony. As I have decided to focus on conflicts that arise after the baton has passed, I am looking for your expertise as it may relate to this particular transition situation.

Below you will find 6 questions that I would very much like to ask you in our telephone conversation. It is not necessary that I learn about the identities of companies or persons that you may have experienced. However, if you do choose to reveal them, I may possibly use them in future publications of the research results unless you instruct me otherwise. I would like to audiotape our conversation to code your answers and combine them with the results of other interviews. I sincerely hope you can look into this.

1. In what types of family business conflicts have you intervened?

2. Suppose you were asked to intervene in the following situation:

"In the family enterprise XY the baton has been passed from father to son. While the successor is now in charge of managing the company, the incumbent still holds most of the equity and is often present at the company. The successor feels that the incumbent is improperly interfering with his authority. Arguments become more and more frequent. Finally, a point is reached where the conflict threatens both the company and the family."

   a. There are different approaches to intervention (e.g. Advising / Problem-Solving or Transformative Mediation / Therapeutic Intervention). What would be your approach?

   b. What do you think the parties would need to accomplish in order to sufficiently de-escalate the conflict and move forward?

   c. What concrete steps would you take to help them accomplish this?
d. How would you judge the success of your intervention?

e. How would you make sure that the agreed-upon solution would also the “right” one for both family and business?
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Mühlebach, C. [Interview, December 12, 2006]: Telephone interview on family firm succession and conflicts, (41)564624283, December 12, 2006, 2006


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**Ury, W.** [Interview, 2007]: Telephone Interview on succession and conflict in family firms, (1) 303-449-3668, March 19, 2007 2007


**Ward, J. L.** [Perpetuating the Family Business, 2004]: Perpetuating the Family Business. 50 Lessons learned from long-lasting, successful families in business, Houndmills, Basingstoke, Palgrave Macmillan, 2004

**Ward, J. L.** [Interview, November 1, 2006]: 1. Personal Interview on succession and conflict in family firms, Kellogg School of Management, E., Illinois, November 1, 2006, 2006


Hans-Georg Berkel is a German lawyer and mediator. He works in the field of international negotiations and offers negotiation training and mediation services.

He earned an M.B.A. from IESE Business School in Barcelona and received the Negotiation Research and Teaching Certificate from the Dispute Resolution Research Center at the Kellogg Graduate School of Management at Northwestern University. *Father to Son* is his dissertation at the University of St. Gallen, Switzerland.

Hans-Georg Berkel can be reached under georg.berkel@iese.net or hans-georg.berkel@alumni.unisg.ch.
Hans-Georg Berkel
Frauenbergstr. 51a
85402 Kranzberg
Deutschland
georg_berkel@yahoo.com

Education

since 09/04  University of St. Gallen
Doctoral Studies in Management
09/06 – 08/07  Kellogg School of Management, Northwestern University
Visiting Scholar
2000 – 2002  IESE Business School, Universidad de Navarra
MBA
1998 – 2000  Ministry of Justice Saarbrücken
Assessor Iuris
1998 & 2003  FernUniversität Hagen
Graduate Studies in Mediation
1992 – 1997  Universität Passau
Staatsexamen (Law)
1991  Humanistisches Dom Gymnasium Freising
Abitur

Experience

since 04/04  Siemens AG
Contract Manager (on leave 09/06 – 08/07)
05/02 – 03/04  Bakelte AG
Team Leader of Legal Department
06/01 – 08/01  DaimlerChrysler AG
Corporate Strategy MBA Intern
04/00 – 07/00  Bakelte AG
Corporate Lawyer