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ADVISING THE FAMILY FIRM: OPENING PANDORA’S BOX (A)

Vanessa Strike and Dennis Ma wrote this case solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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The advising team made note of the date, January 5, 2018, as they left the meeting room where they had just debriefed on the day’s many events. The team had been tasked with advising the Graham family[[1]](#footnote-1) on the future of their family business. The Grahams’ 50-store grocery franchise operation across the eastern United States was clearly a success. However, the succession of the business to the next leadership was not clear. The team was expected to present feedback to the Grahams the next day based on interviews with family members on the future direction of both the business and the business family itself.

A fourth generation of Grahams was on the way, but the family had yet to establish a transition plan for the business. The second and third generations differed markedly in terms of their economic roots and their involvement with the business. The second generation had grown up with the business, contributing directly to its success and maturing alongside it, whereas the third generation had been born into this success. No one from the third generation had ever worked in the business. There were concerns about entitlement borne from generational and cultural differences: how could the next generation take care of business when they were so used to the business taking care of them?

THE TEAM CHARTER

The advisory team was created to satisfy a course project requirement for a family business course in an executive Master of Business Administration program. The team, which would provide consulting services to a family business, offered a diversity of experience. It consisted of two wealth managers, a senior accountant from a major accounting firm, a private banker, and a family facilitator who was also a business owner. Prior to the project, all team members had completed insights profiles to determine their own personal effectiveness, behaviours, and preferences.

The advisory team’s first gathering took place in November 2016, before the first meeting with the Graham family. The primary purpose of this initial gathering was to establish the team’s charter and code of conduct. The means under which the project would be achieved had to be formalized to govern the team’s actions and process.

The team charter helped to guide the team’s operations and ensured that it took full advantage of its multidisciplinary composition without letting this become a source of conflict. By the end of the meeting, the team had agreed to a concise set of rules:

1. Do no harm: actions and recommendations must not impair family relationships.
2. Be fair: solutions must ensure that no one is disadvantaged.
3. Be sustainable: plan for the long-term success of the family business.

THE ADVISORY CONTRACT AND preliminary meeting

The first meeting between the advisory team and the Graham family took place in December 2017. Valencia, the first-generation matriarch, and her daughter Willow entered the meeting room early and were greeted by the advisory team. Valencia’s other three daughters, Hefe, Brannan, and Sierra, joined the meeting over the next 10 minutes. After all parties were seated and it was confirmed that no other family members would be attending, the meeting with the first and second generations of the Graham family began.

The advisory team reviewed the logistics of the advising process and discussed the advisory contract with the family. The goal of the team’s advisory contract was to work with the Graham family to formalize a transition plan for the business. The plan needed to ensure business continuity by focusing on succession and governance. The advisory team had three months after the first meeting to compose an action plan to transition the business forward. The five senior family members and members from the third generation agreed to individual follow-up interviews over the following weeks—the first of three milestone meetings that were approved to fulfill the requirements of the advisory contract:

1. December 2017: Discovery Interviews
2. January 2018: Feedback Meeting
3. February 2018: Recommendation Meeting

The focus of the contract would be to develop a plan to facilitate a transition from the first to the second generation and then to the third generation. During this preliminary meeting, the advisory team learned about the family’s history and its journey to business success. There was a glow about the room and remarkable agreement among the five senior members of the Graham clan as the family reminisced about the early days. It quickly became obvious that all of the Grahams had fond memories of their childhoods and took great pride in the closeness of their family unit. The four sisters agreed that their parents had provided them with incredible childhood experiences. Smiles gradually receded and chatter subsided following the mention of their father, who had passed away 25 years ago.

When the meeting adjourned shortly after, there was clear agreement on what was crucial to the Grahams in carrying the business forward:

* Unity: The future direction of the business must maintain family relations.
* Values: Trust, fairness, and harmony were at the core of the family’s values and must be upheld.
* Legacy: The business was part of the family’s history and identity and must be valued in more than financial terms.

The advisory team left the meeting in high spirits. Not only were their clients in complete agreement about their priorities, but their requirements essentially echoed the points in the team’s charter.

THE DISCOVERY INTERVIEWS: First and Second generations

Throughout December 2017, the advisory team interviewed individual members of the Graham family and gathered the following information:

Amaro

Born in 1934 in rural Scotland, Amaro came from humble beginnings. He grew up on his family farm, and in 1954, he married Valencia. Four years later, they immigrated to the United States to start the next chapter of their lives together. Within eight years, Amaro and Valencia had four daughters and had purchased their first business, the first of many grocery stores.

Amaro’s dedication to the business was rivalled only by his dedication to his family. Rather than acting as two competing forces, they seemed to be mutually reinforcing. Though firm in his parenting style, Amaro had strong relationships with each member of his family and was beloved by all. He lived his life based on values of trust, fairness, and harmony, and he embedded these values into the culture of his family and business. It was his belief that the key to maintaining these values was to respect the interpersonal relationships that formed the family.

In 1990, Amaro suddenly passed away. Ownership of the business was distributed among his children and wife.

Valencia

Amaro was at the centre of the business; Valencia was at the centre of the family. These two spheres overlapped heavily. Valencia devoted much of her time during her early years in the United States to raising her children; growing up, they would regularly spend time at the family’s grocery stores. As she reflected on the family’s early years, Valencia recalled the hard work associated with supporting Amaro’s entrepreneurial ambitions while keeping the peace at home: “The girls would fight, and I would send them to the bathroom until they made up. With enough time, they would sort things out.” Later, as adults, her four daughters often turned to Valencia for help in mediating disputes.

The happiness of the family was of utmost importance to Valencia. She attributed this priority to the conflict-laden familial relationships and parental favouritism that had plagued her life before she married Amaro. Valencia’s relationships with her siblings and parents were so turbulent that she had cut ties with them as soon as she became independent. Amaro’s childhood had been similar, and this led them both to resent unfair parenting practices.

Succession planning was a priority for Valencia. She felt strongly that all her grandchildren were equal descendants of the family and should therefore each have an equal stake in the business when the time came to transfer ownership. Valencia held 20 per cent of the ownership rights and 50 per cent of the voting rights in the business.

Willow

Willow was the eldest of the four sisters. She took on a maternal role early in life and helped Valencia manage many of the day-to-day tasks of running a household with four children. Although her mother was the centre of the family, Willow was its commander-in-chief. Each daughter felt she had a unique role within the family, and Willow saw herself as becoming the head of the family if anything ever happened to their mother. She was very loving and hosted family dinners at her home. Willow also felt it was her role to back her sister Hefe, who ran the business, when things became difficult within the business. Her father had foreseen that her sisters Brannan and Sierra might at times make things difficult for Hefe, who ran the business, and Willow had taken responsibility for supporting Hefe in this business decisions.

Willow had worked in the business since she was a teenager. She married in 1984 and had two children shortly after: Sutro and Walden. She prioritized her children’s future.

Although the business was running smoothly, Willow worried that her nieces and nephew had a sense of entitlement towards the business. She found this understandable because this third generation had not needed to lift a finger when it came to work. The business was successful, and it provided a degree of financial freedom for this generation; this had certainly not been the case when Willow and her sisters were younger. She believed that, because her children had met their grandfather before he passed away, they appreciated the importance of the business beyond its financial contributions. However, she worried that her children’s cousins would not show the same appreciation and risked damaging the business that she, her sisters, and her parents had worked so hard to build.

Willow held 20 per cent of the ownership rights to the business and felt that her stake in the business should be split evenly among her children after she passed away.

Brannan

Brannan was the second eldest sister. She had also started working at the business during her adolescence. Brannan married in 1986 and then had two children: Hudson and May. Brannan was concerned that her nieces and nephew would be ungrateful about the business, unlike her and her sisters. This concern was based in the knowledge that Brannan’s nieces and nephew had grown up accepting monthly cash allowances, whereas Brannan and her sisters had grown up helping out in the business after school and during weekends and summer vacations.

Brannan and her family had moved to another city to follow her husband’s career. As a result, she often felt isolated and left out. Brannan joked, “It’s okay to take allowances from the business, but I was told it wasn’t fair to cover my airfare to come over here.” Brannan’s generation worked hard, collectively, to obtain financial freedom. As a result, they never fought over business matters and put the family’s interests above their individual interests—echoing a valuable lesson Brannan and her sisters had learned early in their childhood.

Brannan worried about the fate of the business, particularly about placing it in the hands of others who were unfamiliar with its workings. Although Brannan was a stay-at-home mom, she felt she had the capability to run the business. She worried that moving from an ownership structure based on the tightly-knit, deeply-invested sibling group to ownership by a consortium of cousins would create structural problems for the future of the business and the family.

Brannan held 20 per cent of the ownership rights to the business. She believed that her stake in the business should be split evenly among her children after she passed away. Brannan trusted her family to reach a fair transition decision for everybody, but she couldn’t help feeling a little anxious: “Willow was always the voice of family matters, and Hefe was always the voice of business matters. It’s difficult to be heard.”

Hefe

Hefe was the third sister. Growing up, she had been very close to Brannan. Although Hefe did not continue her education beyond high school, she was proficient with numbers and applied her skills to the business. As the business grew, so did her managerial involvement. She became the voice and central decision maker of the business almost naturally. Her leadership style was very similar to that of her father. Hefe married in 1988 and had two children: Kelvin and Filo. In 1989, Kelvin died from a terminal illness. Shortly thereafter, Hefe and her husband divorced, and she was left to deal with the divorce, a newborn, the death of her father, and the management of the business while grieving for her child. During this period, the business took a back seat, and Hefe’s family rallied around to support her in overcoming these personal tragedies. Based on her experiences, Hefe became passionate about developing a non-profit organization that diagnosed pain in children.

Although she was more deeply involved in the business than her sisters, Hefe never felt the need to have a high proportion of ownership. Instead, she was grateful to have the support and confidence of her family as she took the primary responsibility for the business. Hefe believed that her role was to take care of her mother and sisters. At times, she had to make difficult decisions on behalf of the business, and she wasn’t sure that her sisters appreciated the extent of the difficulty of the decisions she had to make. She was worried that the next generation would squander the value their predecessors had worked so hard to create. Hefe’s reason for her concern echoed that of her sisters: how could they not worry about something they were so invested in when the next generation had not contributed to the inheritance the preceding generations had worked so hard to create?

Hefe was skeptical about the next generation’s ability to put family before business. She believed that the mix of family and business brought about a complex and fickle balance, and she worried that, if conflict arose, individual interests would inevitably erode the business. The cohesion of the family unit kept the business unit strong. Hefe and her sisters had been told to “never damage the family relationship,” and she was apprehensive about the level of cohesion and conflict resolution the cousins could achieve, let alone maintain: “Growing up, we had to resolve any problems we had with each other right away. It was either that or spend the rest of the day in the bathroom together.”

Hefe held 20 per cent of the ownership rights and 50 per cent of the voting rights to the business. She felt strongly that her estate, including her ownership stake in the business, should go to her daughter after she died. Any other outcome would be unfair.

Sierra

Sierra was the youngest of the four sisters. Although her father had valued education, Sierra was the only daughter who had attended college. After completing her degree, Sierra moved overseas and married. However, the marriage did not work out, and she returned home, eventually finding employment outside of the family firm as a secretary and then remarrying. Like her sisters, Sierra had spent an abundance of time working for the business during her childhood. Unlike her sisters, she did not have any children. Being a Graham was a source of pride for Sierra, but being the youngest came with its ups and downs. The role of “baby sister” meant that Sierra was always well supported, but it also meant she was seldom taken as seriously as she would have liked. Even now, in her 50s, she found it difficult to outgrow the role. Although she at times provided input on business matters, she didn’t always feel heard: “Nowadays, Hefe is the only one who really knows anything about the business; she does such a good job that we don’t really need to do anything.” Sierra did not complain: not having these obligations allowed her to realize her passion for travelling, which she happily embraced. However, as the only sister with a post-secondary education, she did feel that she could also run the business.

Sierra held 20 per cent of the ownership rights to the business. She felt that her stake in the business should be distributed evenly among her nieces and nephews after she passed away.

THE THIRD GENERATION

Sutro

Sutro was expecting her first child. She described her life as being “charmed” and gave full credit to her heritage, including the business. Sutro pursued a career in wildlife photography—a risk she would never have been able to take under different financial circumstances. Being unconstrained by financial concerns gave Sutro time to develop strong relationships with her immediate and extended family and to pursue her passions. She was thankful for her heritage, but she was not certain that her rights to the business were completely justified. Sutro explained that, although she respected the business, she was distanced from its operational specifics. She was unsure she would ever be able to contribute to the business to the extent that it had contributed to her life.

Walden

Walden also acknowledged being removed from the operative details of the business. Growing up in the same environment as Sutro, Walden had been regaled with stories of the Graham business and its history. Like his sister, Walden knew only about the broad features of the business and had little understanding of how it was run or how profitable it was. He knew that it was designed well enough that the Graham family could live comfortably while maintaining a limited governing role, and that each of the grocery store operations was roughly equivalent in profitability. Walden recognized the benefits of being tied to such a fortunate legacy. If it were not for the freedom afforded by his family and their circumstances, he would not have been able to chase his dream of becoming a professional curling athlete.

Hudson

Hudson was confused about the purpose of the interview, but knew it was related to the business. He had always been interested in the business and likened its genesis and the history of its founders to a “rags to riches” fairy tale. Perhaps it was this romanticized image that led Hudson onto a business path. However, after completing his undergraduate degree in business and spending two years working in an accounting firm, Hudson found his true calling—food—and undertook an apprenticeship in French cuisine at a reputable local restaurant. Despite his background, Hudson was not involved in the business; he had been told that there simply wasn’t a need and that the business was “doing fine.” His family stated that the business was a fact of life for them; Hudson was free to pursue anything he wanted and should take advantage of the opportunity. Hudson and his cousins maintained close relationships.

May

May was an activist who devoted herself to promoting awareness of honeybee colony collapse disorder. This role provided little economic return, and May acknowledged that her life would be far more difficult if finances were a concern. May deeply appreciated that her immediate and extended family celebrated her decision to pursue this course. She was grateful for her circumstances, including the freedoms afforded to her through the success of the business.

Filo

Filo was completing the final year of her undergraduate studies, pursuing a major in creative writing. Prior to attending university, she had been enrolled in a reputable private secondary school. Her mother fully funded her education. Filo maintained positive relationships with her cousins and communicated with them regularly. Filo’s aunts and grandmother were also a significant part of her life, and her mother was at the core. Filo was well aware of the hardship that had befallen her mother around the time she was born. She was extremely proud of her mother’s resiliency during that time and of the devotion and support of her aunts and grandmother. This history, in addition to the stories of her mother’s younger years, connected Filo to the family’s roots. She developed a deep respect for the family and greatly appreciated their endeavours. Like her cousins, Filo did not know much about the details of the business, except that each operation had its own location-specific operating staff and that the overall portfolio of operations was managed by a small group of executives.

NEXT STEPS

The interviews had been difficult for some members of the family, and there had been some tears. However, they all wanted to be part of the interviews because it was their opportunity to share their story.

Following the interviews, the advisory group took significant time to assimilate all the information. Because the group was multidisciplinary, different members had very different views. The advisory team found that the insight exercise they conducted prior to the project helped them depersonalize individual weaknesses and draw on one another’s strengths. They were able to recognize where they needed certain preferences and behaviours during the interview process. They were also better able to understand the behaviours and reactions of individual family members. The same events had been described in four very different ways by the four second-generation sisters, and it had been particularly interesting to hear from the mother, who saw all four daughters from her own perspective.

As the group mapped out the issues, they began to suspect that there might be deeper issues and that the happiness and strong interpersonal relationships the family attested to might be a veneer. The advisory team had initially envisioned the family as happy and well adjusted. However, it was becoming apparent that mistrust and communication blocks existed. The advisory team’s initial confidence in the consulting project faded as the individual interviews began to reveal the complex intricacies of the Graham family. As the team prepared for the feedback meeting, the consultants began to question where the real issues lay.

1. Names, industry, and geographic location have been changed to protect anonymity. [↑](#footnote-ref-1)