Trust in the Family Enterprise[1]

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A comparison of trust problems and their resolution in two different types of family enterprise—the shared financial office compared with a common family business—sheds light on interventions to repair damaged trust in family relations generally.

IN EVERY ARENA of human relations, those who work to prevent conflict, resolve it, or reduce it must grapple with the problem of *uncertain trust*. A problem, and a mystery: the fact that to trust anyone is always to run the risk of disappointment, betrayal, anger, distrust; and then, having to trust again—because our lives depend on relying upon others, imperfectly reliable as they are.

The more different roles people play in relationship with one another (for example: daughter, employee, and heir), the more complicated are the questions about individuals' trustworthiness. A business owner may trust her son to do the purchasing yet not trust him to hold employees accountable—while she feels exactly the opposite about her husband, or daughter. Can/should she learn to be more trusting? Of which of them? In what contexts? To what extent? Or will *they* learn how to *earn* her trust?

As a consultant, I work with two distinct kinds of family enterprise. The experience of trying to resolve conflicts among the members of each has been instructive. What prompted this essay was the discovery that different kinds of family enterprise require different degrees of interpersonal trust among the members. Although neither kind is free of tension and confusion about trusting, the structure and relative formality of a family financial office (FFO) makes the job of resolving such problems much easier than in the ordinary family owned business (FOB).

Trust in families

The young family, with children still at home, is a laboratory where trust is tested many times each day: among siblings, between children and peers, adult testing child, child testing adult, and between spouses. All trust each other, disappoint each other, and re-test each other's trustworthiness in multiple areas of their overlapping lives. Is there any social grouping that contains a greater disparity in trustworthiness of its members?

At some point, shouldn't family members be able to take one another's trust and trustworthiness for granted? No. The more interdependent a relationship is, and the more different situations it covers, the more each member has invested—risked—in that relationship. All the more reason *not* to take one another for granted. Furthermore, the knowledge we rely on, in ourselves as well as in those we trust, is *learned*. The whole family serves each of its members as a dynamic learning and teaching environment—children above all.

But there is no reason to think those processes have reached a conclusion at the time family members begin to work in a business together. One might expect that those who've had particularly bad experiences trying to rely on one another, seeing a family member as dishonest or incompetent or unreliable, would not want that person as an employee, boss, or

[1] This article is the second in a series of three. The first, entitled "Incompatible Stories," is available at www.kaye.com/fambz/Trust1.pdf . The third will have the title "Trust is Emotional."

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partner. I know of no research on that question, but plenty of examples to the contrary.

My observations suggest that both generations in many early stage family firms are vulnerable to errors of too much trust, relying on hope rather than experience. A parent hires a son, daughter, or in-law for a position the latter isn't qualified to enter. Or a young person comes into the family business expecting to be treated more generously than is prudent, given their value to the company or the personalities involved. But the process is self-correcting. Conflict prompts the members to reduce trust until problems can work themselves out through the normal process of testing and adjustment.

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Although more involved with each other than the non-business family, the healthy FOB is at least a group of *adults*, dwelling apart and more or less individuated socially. In some FOBs, however, difficult new challenges arise. Among the reasons:

- Parent/child or sibling "baggage" is carried over into work relations, as they continue playing out the dynamics of child development.
- They try to cope with role confusion, interdependence both in their work and their economic future; but being family, they underestimate the need for detailed discussions and written statements of roles, rights, obligations, etc.
- They criticize each other's neuroses, but are afraid to discuss serious addictions or character disorders candidly enough to do anything about them.

Consequently, I don't understand the assertion some have made, that trust is high in early stage family firms (Steier, 2001; Sundaramurthy, 2008). It may be high in some (partly due to the overtrusting I mentioned), but there is no research evidence that those families will become less trusting later. Nor that those in later stages who are low in trustfulness and trustworthiness had more of those qualities at an earlier stage.

The conflicts around trust that we do see in FOBs are surprising, because enterprise owners are usually savvy salesmen who have already succeeded in business primarily by gaining and maintaining trust. Customers, vendors, and employees trust their knowledge and integrity. Why, then, do some fail with their own families? Because they forget to treat them as their most important clients. They don't seem to want to *earn* their loved ones' trust. They take it for granted.

Some, the ones who "cannot delegate," are blind to the importance of trusting. Others trust blindly. Some lose trust they once had, by disrespecting the points of view of family members who don't behave as they'd wish. And not all owners are trustworthy to their family members. A son or daughter might discover that their father has been using business or family investment funds to support a mistress, for example.

Power relationships make it harder for people to assess true loyalty and trustworthiness. "Power creates a fog or shroud of attributional ambiguity in interpersonal relationships between the powerful and those over whom they exert power." (Kramer and Gavrieli, 2004). And that works both ways, as subordinates tend to attribute sinister motives or conspiracies to those in power over them.

The FFO: a more systematic business

A family financial office (FFO) is a business that exists for the management of its owners' own wealth. It may provide a variety of services (tax and estate planning, investment planning, accounting, trust administration, personal aircraft management, etc.). But its clients are not the general public. They are the owners themselves. Variations of the FFO include multi-family offices, which offer their

services to additional high-wealth families besides the owners. What I'll say about FFOs applies to those variations as well, so far as trust among the owners is concerned.

I learned from my colleague Sara Hamilton of Family Office Exchange that families who can't take an operating business to the next generation may still be able to stay together in a family office enterprise. That fact is explained by some differences between the FOBs and FFOs among my clients (Table 1).

The opportunity to compare ordinary FOBs with FFOs has shed light on the nature of trust problems in the former. In FFOs, the professionalizing of the owners' business relationships is legally compulsory. Governance and clear policies are either already in place, or a consultant has been engaged specifically to recommend them and moderate the members' drafting of by-laws and so forth. The great majority of role confusion clears up and neurotic acting out is mitigated when their only shared business is a FFO.

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FOBs, too, are well advised to institute structural and procedural clarity as they mature. But it is inherently more difficult for any family-controlled FOB under active family management (whether privately held or publicly traded) to clarify roles as precisely as a FFO can, and to keep family dynamics out of the executive suite. No matter how clear the governance on paper, in a FOB the parental power structure and legacy of childhood will be factors to some degree. Professionals within the business as well as outside advisors are more likely to remain answerable to the parent.

Nonetheless, to the extent it is feasible for a FOB to institute formal systems like those imposed by the legally controlled entities of a FFO, they can help simplify at least some of the continuous testing that any relationship of trust entails.

The FFO virtually forces its members to clarify every aspect of their business relationship. It specifies where each does and does not have to interact with the others; clarifies status of in-laws; and limits most of the members' business interactions to those with staff (client-professional) rather than with each other. In contrast to the trust challenges of the FOB member who on any given day may have no choice whether to deal with his brother-in-law as manager of a department in the business, representative of the firm to customers, abuser of an expense account, purchasing agent, dissident board member, uncle to his children, or annoying husband of his sister, in a FFO their business contacts might be reduced from daily to perhaps once a quarter, at most. When they do convene for a meeting, it is likely to be more formal, with clear boundaries on the issues that require agreement or cooperation.

This is not to suggest that interpersonal issues and distrust don't arise among the members of a FFO. They certainly do. But their resolution is often easier, as illustrated later in this article.

When consultants advise their FOB clients to clarify governance, mission, management structure, employment policies, and so forth, they are helping to promote the smooth operation and profitability of a business. But the same advice is particularly apt for the building and maintenance of trust among the FOB members. That is so because of the nature of trust.

Trust is always context-dependent, conditional, and uncertain

Social scientists have studied trust experimentally as well as observationally, from the points of view of economics, sociology, developmental psychology, organizational development and management.[2] The diverse experts agree that *trust entails a decision by a person or group to take some* <u>*risk*</u> *in relying*

[2] Scholarly references are kept to a minimum in this version of the article.

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Table 1. Comparison of two types of family enterprise, among those engaging a specialist in conflict resolution

Factors that affect trusting	Common family business (FOB)	Family financial office (FFO)
Customers/clients	Other people	The owners themselves and their assets held in trusts or partnerships
Current ownership	Shares based on gifts, inheritance, or purchase; usually limited to blood descendants of founder.	Shares have no capital value but represent ownership by those whose assets are managed, often including spouses.
Voting control	Often, control remains with the parent(s); for certain purposes there may be a Board with one vote per director, though voting rights often observed loosely.	Voting rights clearly defined: by shares on certain matters; most matters either one vote per partner or one vote per branch.
Board of Directors	Nonexistent to token*	Legally adequate to fully functional*
In-law status, typically	Eligible for employment and non-voting participation on Board and/or family council, not for stock ownership.	Eligible for full participation at all levels, as long as marriage lasts.
Clarity and consistent implementation of policies about family members' roles	Dysfunctional to adequate*	Adequate to good*
Next generation preparation	Nonexistent to adequate*	Adequate to good*
Professional advisors' accountability	Mixed; always accountable to the controlling figure to some extent.	To the individual client/owner.
Member's primary source regarding his/her legal and financial concerns	Parent(s); sometimes parents' lawyer or accountant	Professional in the family office, with whom the member has full client status and confidentiality
Do issues about interpersonal trust normally arise?	Yes	Yes
System intrinsically designed to resolve ambiguities conducive to distrust?	No	Yes, if a client-owned financial office is independent of original operating business.
Can trust conflicts be resolved without going into family history, psychodynamics etc.?	Usually not, because members are still living in their parent/child relationships.	Often, yes, thanks to equality of status within the organization, clear limits to their domains of interdependence, and exit options.
How receptive to consultants' recommendations about clear governance and management?	Typically resistant, or inconsistent in conforming to formal structure and processes.	Proactively seek formal structure and processes.

* Author's subjective ratings of the range among a majority of cases, at the time of seeking help for conflict in the family. There are cases outside the high and low ends of this range.

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on the performance of another person or group. Those who trust expect to benefit by reducing the complexity of a situation they cannot, or cannot afford, to control. By definition, there is always a chance that the trusted one will fail to perform, and may even exploit the trust giver. Trusting means we accept risk (the possibility of non-performance) in exchange for giving up some personal control.

Trust depends on the *situation*: one trusts another person more in certain areas, less in others. Business owners who trust me as a family healer would not hire me as an electrician or a fashion consultant. Trust is *conditional*: one trusts the other only so long as certain criteria are met. The employee has an expense account, but has to turn in her receipts. The bank extends credit only so long as periodic financial statements meet certain criteria.

Even within those contexts and conditions, trust is always *uncertain*: the fact that one trusts another does not mean he is sure the other will perform. It means he will take a chance on that performance, monitor it, and adjust future trust based on the outcome.

Trusting and trustworthiness both rely on the assumption that the relationship has a future. Although people point to all kinds of grievances about the past, nearly all of the conflicts we see in business-owning families come down to fears about not being able to trust certain relatives, partners, or employees *going forward*. In other words, they fall into the trap of fighting about who did what to whom or failed to do what for whom, but what really matters to them is how those past experiences predict what the other's integrity, competence, honesty, and intentions will be in the future.

Finally, trusting and trustworthiness have an unfortunate reciprocal correlation—a positive feedback loop. Someone who is less trustworthy has less reason to trust others. And someone who is highly *distrustful of* a particular person has less reason to be *trustworthy for* that other person. Being trustworthy, after all, is also a risk: a trusted worker endeavors to be trustworthy only so long as she trusts the employer for payment. And the employer is trustworthy in paying so long as she trusts the employee. That correlation is inevitable, but unfortunate in a way, because a disappointment on *either* side leads to less trusting and less trustworthiness on *both* sides. Equilibrium would never be restored if not for the fact that there could be no human existence at all if people didn't take chances on one another.

In the third article in this series, entitled "Trust is Emotional," I will go more deeply into the psychology of giving and earning trust. In the remainder of this article, I want to use an actual case of improved trust in a family enterprise to demonstrate that it is not about the persons, but about the "job description."

Consultant interventions in conflicts about trust are essentially the same in FFOs and FOBs

There are two main things consultants do in treating those ills. As mentioned, we advise and badger our clients to institute clearer governance, employment policies, performance reviews—all the formalities that characterize a "business first" as opposed to a "family first" enterprise. The larger they grow, and as they transition from parent-owned to sibling-owned or from siblings to cousins, the more they need to professionalize how they do business.

The other thing we do is analyze the specific problem. We listen to the individuals who are battling, and reflect upon what their real battle is. Many of the things they're arguing about, including some of the distrust issues, are what I call *side shows*—symptoms of distress but not the *main line* that will lead to constructive change (Kaye, 2009). For example, a sister is described as "going postal" every few weeks, screaming at her brothers in the office about their failures to follow procedure or about where they park

their cars. Yet this sister is a workaholic on whose obsessive dedication the whole service arm of their business depends. Focusing on her behavior, or even on the matters she wants addressed, would be side shows. The main line for a consultant is the family's unspoken fear that this generation has no leader they can trust with a credible vision of the future beyond their parents' active control.

If the main line is about trust, as is often the case, we try to convince them to renegotiate its context and extent. For example, a 35-year-old may be identified as the family firm's "rotten apple," perpetually disappointing in his performance and a troublemaker in meetings. His kin say they don't trust him. But must it be all or none? Is *he* the problem, or are the expectations inappropriate? Adjust the job description, reporting lines, or his understanding of what his role is supposed to be in family business meetings. Find the extent of trust and monitoring that he and other members *can* accept, and where he can trust them to support him. If his only involvement is as a Director or family council member rather than day-to-day employment, we might encourage assigning him a committee role on that body. The principle is to maneuver those who've had problems with each other into new contexts of interaction, where the tasks are better and more narrowly defined. Thus the amount of trusting they're asked to do (the degree of risk) is reduced.

The main line

RB Management Co.[3] was the family office for eleven adults in two generations. The FFO's staff of 16 people oversaw invested assets of about $600M and provided estate planning, insurance, administrative and tax services for 38 individuals, more than 50 trusts, two charitable foundations and a dozen real estate partnerships. In addition to bill-paying and accounting for the members' private homes and vehicles, the office scheduled and paid expenses for a legacy ranch used as a joint vacation retreat. The CEO of RB called me about a problem the family council labeled as "communications and trust."

Interviewed by the family's executive committee, I learned that nine of the eleven members had problems with one person: Paul, the 32-year-old husband of the youngest member. He had disrupted the process of governance reformation, in which they had been engaged with another consultant. They were a non-confrontational family, relying on courtesy and compromise to avoid conflict. Paul was voluble, argumentative, and most troubling to the senior generation, called his wife's assets "ours" rather than hers. His wife, Mary, did likewise.

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Over a period of three years since their marriage, Paul had irritated members of both generations by his frank questioning of policies and decisions regarding, for example, use of aircraft, cost allocations for the ranch, and evaluations of office personnel. As they attempted to control him directly and through private suggestions to Mary, her relatives offended both of them. Consequently, Mary distanced herself from her mother and sister as well as a cousin, Lisa, with whom she had been close before her marriage. When the members said they didn't trust Paul, they meant three things: they didn't trust him not to "blow up" in meetings; they didn't trust his motives regarding Mary's assets (they suspected he wanted her to work with an independent investment advisor, over whom he'd be able to exercise control); and they didn't trust his intentions regarding Mary's relationships with her family. She and Paul had begun spending less time at the ranch when others were there, and missing get-togethers with her own branch as well as the extended family.

[3] Names and other identifiable details in this actual case are changed, as always.

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Mary said they had made her husband a scapegoat. Neither she nor Paul trusted the family and its FFO to serve their interests.

The family members and CEO feared that Mary and Paul would actually cause a break-up of the FFO. A company of this type returns value to its owners through its purchasing power, obtaining services at better rates jointly than any of them could get individually. For Mary to pull out her own assets in the near future, and another $100M or so at her mother's death, would mean reorganizing and downsizing the office. It was a serious threat to the enterprise as presently sized and staffed.

My initial attempts to facilitate direct discussion of the problem among all family members, and separately among Mary, her sister and mother and their husbands, seemed to exacerbate the problem as Paul became more defensive, someone called him "intolerable" and Mary was in tears. At my second meeting with the family council, I suggested that much of their anxiety was due to uncertainty about what would happen if they couldn't agree on policies or if the majority overruled a vocal dissenter. I had noticed that their by-laws said nothing about terminating anyone's membership, voluntarily or involuntarily.

In other words, I had recognized that the "main line" they should address was the uncertainty about whether they were all prisoners of this partnership. To have stuck with the problem as initially framed—a conflict of personalities and styles—was a mistake for at least three reasons:

- It put both sides on the defensive, maintaining the "us versus them" problem.
- It kept attention on a raft of "side shows"—grievances for which there was really no legitimate redress, such as Mary's relatives nostalgia for their old relationships with her;
- It focused on persons and personal behavior rather than the "job description," that is, the actual matters they needed to trust one another about in their joint governance of the enterprise.

On the new tack, the council agreed to form a committee of five, consisting of their executive officer and one person from each generation from each branch, to research how other FFOs dealt with questions of voluntary and involuntary termination. The committee was to make specific recommendations to the Council. It was no surprise that Paul volunteered. I suggested Lisa as the other member of their generation. Although wary of having to work with Paul, she was also the most involved and committed member, the most outspoken other than Paul. And she was a likely candidate to succeed her aunt as Managing Partner. So she had a strong stake in the outcome of these governance/transition meetings.

Two members of the older generation volunteered to fill out the ad hoc committee. One of them suggested that Lisa chair it. I was a resource by telephone, but didn't attend their meetings.

Forced to work in a smaller group on a specific topic, Paul and Lisa communicated less defensively and more productively—even without a facilitator. The fact that the committee succeeded in proposing a set of exit rules—votes to be required in the involuntary case, how much advance notice and on what time schedule the assets would leave, how the costs would be allocated in the transition year—did something even more significant than relieving Mary and Paul's sense of being trapped, and the rest of the family's view of Paul as having hijacked Mary. What it also did was let them see that each area of the members' interaction was voluntary. They did not all have to spend weeks together at the ranch. They didn't all have to participate in every investment or every philanthropic donation.

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Paul and Lisa's participation on the committee was in one way similar to an exercise they might have been assigned on an "experiential" retreat: it altered their previous interaction context and challenged them to produce something together instead of as antagonists. But it didn't take them to an artificial setting or task. It simply reduced the number of variables, narrowed the topic of discussion, forced them to compare thoughts on a subject neither had preconceived ideas about, and moved Paul off the exercise of finding fault with *past* processes. He was no longer the outsider, and Lisa no longer the privileged insider. They were equals on the committee.

Had they failed at the task, I would have tried something else. On the other hand, their success at creating exit options actually made the family's fear of Mary's pulling out of the FFO a realistic possibility. That did not happen, but if it had, the new rules would have made it an orderly, fair process, not the blood bath her family feared.

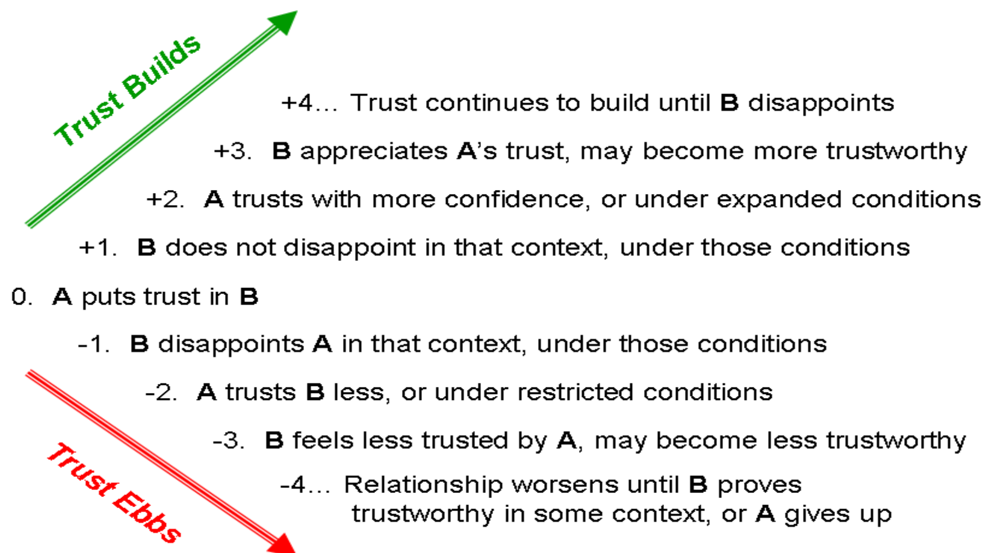
Paul and Lisa didn't become personally close, but proved they could work together without liking each other, staying within the limited forms of cooperation that a partnership of the FFO kind demands. The first cousins, Mary and Lisa, began to rebuild their relationship.

Trust is a process

Because it is context-dependent, conditional, and uncertain, trust is never a fixed attribute of any relationship. As I discussed elsewhere (Kaye, 1995, 1996), trust is always a dynamic process. The diagram below depicts the fact that party A's level of trust in party B is affected one way or the other every time A relies on B in any way.

A's trust in B is always a work in progress, because always context-dependent and always being tested. In the philosopher's model of time as a river, they never step into exactly the same relationship as on a previous trial. Meanwhile, the same goes on with respect to B's trust in A—which is not necessarily reciprocal. One may be more trustworthy than the other, in any or all areas of their relationship.

However, the likelihood of human beings' reciprocating their degree of trust in one another is much higher than chance, because B's learning that A doesn't trust him not only discourages him from being trustworthy (line



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-3 in the diagram), it also makes A less trustworthy in B's eyes. As B senses that A suspects him of looking to take advantage of A's trust, B *will* try to take advantage before A acts on that belief. ("Do unto others before they do unto you.") Conversely, the more B feels trusted (line +3 in the diagram), the more he stands to gain by justifying A's trust.

Of course, it's never just a matter of degree of trust, in general. It's trust within some domain. Research findings consistently distinguish between trust in someone's technical competence or knowledge, and trust in her honesty and commitments. I always ask clients about at least three distinct types of trust. One is whether they trust the *honesty* of the other individual ("does she tell you the truth about …" the business, her spending—whatever the domain of concern is). I ask whether they trust the other's *intentions* ("does he have your shared interests at heart, rather than just his own interests?") And I ask about *competence* ("do you trust her skills, discipline, and learning ability commensurate with the responsibilities you're entrusting?"). Mishra (1996) identified these same dimensions of trust, plus a fourth: *reliability*.

Just as the natural dynamics of trust are an ongoing process, so the resolution of conflicts must be a long term process. A consultant doesn't fix the problem and build mutual trust in a day, or even a year. What we can do is give the trust process a push in the upward direction. That means maneuvering the parties to a test in which they are less likely to disappoint each other—where they have a chance to move from 0 to +1 in the diagram, or from -2 to 0 to +1, or -4 to 0 to +1 as the case may be. (I would say that Paul and Lisa moved from about -4 to -2.)

A secret: conflict resolution uses nature's own process

The intervention exemplified above is one instance of a normal, probably instinctive, way human beings facilitate learning: by reducing the number of variables in a task. (An analogue would be taking student drivers to an empty parking lot to learn steering, braking, and changing gears before they're ready to be trusted in traffic.) Assigning a specific, well-defined responsibility is merely one way to narrow the scope within which particular "problem" partners can try working together. They have felt distrustful because their expectations of one another lack definition. Within a broad or undefined scope, one or both of them finds the other untrustworthy in some ways. They do, indeed, need to trust that person to a *lesser* extent, at least at present. But their feeling that he or she can't be trusted at all isn't warranted. The question is not about the person, it is about the scope of the trust: the job description, in effect. So the consultant proposes, with or without explaining his rationale, that they try trusting each other within a narrower scope.

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That may be successful, as it was in the case described, or they may decide they're unwilling to risk the relationship even within the narrower scope. Ultimately they may decide to end it altogether; if so, they won't have done so hastily.

This secret recipe for improving the trust/distrust decision works in both FOBs and FFOs, and no doubt in other organizational or community conflicts.[4] It works by reducing the risk of practicing trust, but it only works because of human beings' innate desire to be in trusting relationships. The research literature refers to this as the "non-calculative" motive (Hardin, 2006).

In thinking about how to narrow the interaction domain, the consultant should not regard "lack of trust" as the problem. Lack of

[4] The first article in this series described a committee assignment for a brother and sister in a FOB, and also noted that Gerry Adams (2003) credited a breakthrough in the Northern Ireland peace process—after decades of violence—to a similar intervention by U.S. envoy George Mitchell (Kaye, 2009).

trust is like low blood pressure, a symptom; a physician can't solve that by increasing pressure on the existing blood supply, she has to induce the body to produce more blood cells. We must ask ourselves, from each side of the dispute, in what sense has this person been acting *appropriately*, given that they suspect some essential aspect of needed cooperation cannot be counted upon? Explore their reasons for suspicion.

Assume good reasons for the amount and nature of distrust on *both* sides. Instead of facilitating debate about their justifications, look for a meaningful context where they can work together. The precipitating problem was not insufficient trust, it was insufficient data to convince themselves one way or the other, whether trust *can* be brought up to the level of a productive relationship. The facilitator's job is to elicit those data. Regard the parties as frustrated and stuck, afraid to give up on the relationship but equally afraid to move forward together. How can you lead them to decide one way or the other?

In summary …

Distrust isn't a "dysfunction" in any type of family enterprise. Because trust is inherently uncertain, the healthy family will continually assess and adjust the trust extended by every member to every other. It helps that people (in every culture in the world) have a strong drive to acquire trusting/trusted relationships.

When problems around trust arise, one type of enterprise, the family financial office, has an advantage for conflict reduction in that there are fewer matters requiring agreement among the clients/owners. Furthermore, the FFO relies on well-articulated governance systems whose forms and processes were designed centuries ago for business relations among corporate, not family partners. Those systems and the process of periodically reviewing them go a long way toward reducing distrust and clarifying the nature of the trust that individual members bestow upon each other.

Certain guarantees of separation between owner/clients of private financial offices make it easier for them to trust one another—even if they don't get along due to personality or cultural differences, or are distant relatives who barely know each other.

The implication is not that families should start FFOs to resolve their problems of distrust. The reasons for starting a FFO are financial, and the incentives are only available to those with many millions in individuals' net worth. But the fact that FFOs mitigate many of the trust problems found in ordinary FOBs illustrates how problems in the latter result from greater complexity of overlapping roles, looser structures, and vague procedures. The article discussed some characteristics that facilitate trust in both kinds of family enterprise, and an intervention that capitalizes on humans' instinctive propensity to trust.

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