Fair and Equitable

by Deb Houden, Ph.D. (ABD)

Deb Houden, Ph.D. (ABD), a member of the Dean Fowler Associates team, specializes in communication, conflict resolution and perceptions of fairness in the process and distribution of resources within families-in- business.

"That's not fair!" -- I often hear one of my children telling me I'm not fair when I impose rules upon them.

Then I get the next part of it:

"You don't make (insert one of my children's names here) do that! How come I have to. . . ? You like him/her more than me!" Or, "Why does he/she get more than me? Why do they get that?" It's a whine that starts to fade as they age and accept their own responsibilities, but it can make for interesting dynamics during succession in a family business. So interesting, in fact, that my dissertation is on perceptions of social justice and how they relate to conflict during family business succession.

Research consistently finds that people care about being treated fairly, whether it is in the family, or an organization. Fairness is a perception that is personally defined. When resources are allocated, individuals are concerned not only with their share, but how their share (and those of others) is determined, and how those procedures are communicated to them.

These notions of fairness are critically important to those involved in a family business, whether or not they are personally involved in the business. Family business succession is rife with siblings feuding over resources that were deemed to be unfair, processes that were favorable to one party or another, and communication that was non-existent, or worse, destructive to relationships.

These perceptions of fairness are dubbed social/organizational justice, and are highlighted by the three types of justice that are of concern to families-in-business:

- Distributive justice
- Procedural justice
- Interactional justice

Distributive justice is the perception that any resource distributed in an acknowledged (like the family or the business), has been distributed in a fair manner based upon receivers' inputs. There are three bases of distributive fairness: equality, equity or needs.

Equality is based upon the premise that recipients receive resources distributed equally amongst the number of participants. There is an equal share of the pie, regardless of input or need. In a family business, each child would receive the same amount of the family business ownership during succession, whether or not they are suited, interested or have contributed to the family business.

Equity is based upon inputs, whereby allocations are based upon the proportion of input provided. In a family business situation, a child would receive a proportional share to the family business based upon the older generation's perceptions of inputs. Inputs could include education received that is specifically suited for the business, amount of time put into working for the family business, or even in extreme cases, birth order and gender of siblings.

Needs are based upon distributions that occur when recipients who are considered to have the greatest need receive the most allocations. In a family business, a child could receive more of the resources if the older generation thought they needed the money, security, title or structure of the business.

In a family, need-based allocations are prevalent as children grow to maturity. Needs are assessed and generally each child is given what he or she needs to grow and develop to their full potential, be it educational, medical, or psychological needs. An organizational generally uses more equity-based, and equality-based needs. Each individual affected by the distribution of resources is judged based upon merit, such as a sales promotion that goes to the individual who makes the most sales, or a specific department receives a larger operational budget. Equality is not as prevalent in organizations, unless there is profit sharing, or possibly an entire department of equal employees receives equal resources. Either way, the combination of a family business would tend to incorporate all types of distribution, unless one is shunned for the other.

My research has shown that successful family business successions rarely revolve around need. Unless a child has a specific mental or physical disability, successful transitions are not based upon need. Too many instances of bailing Johnny/Joanie out undermine trust, respect and loyalty to the parents and recipient of the resources, leading to conflict. These qualities of trust, respect and loyalty are important in a family, as well as a good functioning business. They are imperative in a family business. Either way, distributions that are based on need or equity can be perceived as fair as long as procedural justice is perceived as fair.

Procedural justice is the perception that procedures to determine who gets what outcomes are deemed fair. If family members perceive fairness in the procedures used to determine the succession of the family business, such as procedures that are unbiased, based on accurate information, applied consistently across all members, with an offer of voice to those involved, then the satisfaction with the decision making, whether or not the distributive outcomes are perceived as fair, should be high. Research has shown that procedural justice leads to generation of trust, commitment and a sense of harmony in those in a ; also important qualities that make up successful families and businesses.

Interactional justice is simply the perception that those individuals involved feel they are treated with interpersonal fairness. In any organization, conflict is inevitable, but many times very constructive. Constructive conflict can bring about new ideas and procedures that are helpful to the organization. If conflict is to remain constructive, and cohesion levels of the family are to remain functional, then individuals should feel high levels of respect, status recognition and trust from family members. This can be accomplished by involving family members in decisions, giving them a voice in the process, and being open to correcting decisions that need to be corrected.

During the next 5 years, nearly half of family businesses will be in a state of transition from one generation to the next; however, only 37% have written a strategic plan on succession. In fact, only 30% of family firms survive into the second generation, while 12% endure into the third.

What is less understood is the impact the succession has upon family relationships and how many family relationships survive into the next generation. By understanding how perceptions of fairness can lead to successful transitions of the family business, families-in-business have a greater chance of keeping family relationships intact while keeping the business at an optimal functioning level.

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Dean Fowler Associates, Inc. 17100 W. North Ave. #202 Brookfield, WI 53005