INSEAD
R & D

Working Papers

# FAIR PROCESS: STRIVING FOR JUSTICE IN FAMILY FIRMS

by

C. BLONDEL *
R. S. CARLOCK**
and
L. VAN DER HEYDEN†

2001/45/ENT

* Senior Research Programme Manager, Family Firms at INSEAD, Boulevard de Constance, 77305 Fontainebleau Cedex, France.

** Opus Endowed Professor of Family Enterprise, Graduate School of Business, University of St. Thomas, USA and Visiting Professor of Entrepreneurship and Family Firms at INSEAD, Boulevard de Constance, 77305 Fontainebleau Cedex, France.

† Holder of the Solvay Chair of Technological Innovation and of the Wendel/CGIP Chair for the Large Family Firm, both at INSEAD, Boulevard de Constance, 77305 Fontainebleau Cedex, France.



Printed at INSEAD, Fontainebleau, France.

# FAIR PROCESS: STRIVING FOR JUSTICE IN FAMILY FIRMS*

**Christine Blondel**
Senior Research Programme Manager, Family Firms
INSEAD
Boulevard de Constance
77305 Fontainebleau Cedex
France
Tel : + 33 1 60 72 41 53
Fax : + 33 1 60 72 42 23
**Christine.blondel@insead.fr**

**Randel S. Carlock**
Opus Endowed Professor of Family Enterprise
Graduate School of Business, University of St. Thomas, USA
& Visiting Professor, Entrepreneurship and Family Firms
INSEAD
Boulevard de Constance
77305 Fontainebleau Cedex
France
Tel : + 33 1 60 72 41 42
Fax : + 33 1 60 72 42 23
**Randel.carlock@insead.fr**

**Ludo Van der Heyden**
The Wendel/CGIP Chaired Professor for the Large Family Firm
and Solvay Chaired Professor in Technological Innovation
INSEAD
Boulevard de Constance
77305 Fontainebleau Cedex
France
Tel : + 33 1 60 72 42 89
Fax : + 33 1 60 74 61 60
**ludo.van.der.heyden@insead.fr**

* Earlier versions of this paper were presented by C. Blondel & L. Van der Heyden at the FBN Conference, Stockholm 1999, and by C. Blondel, R. Carlock & L. Van der Heyden at the FBN Conference, London 2000. The authors acknowledge helpful observations from participants at both conferences, as well as from MBA participants in the INSEAD elective on Family Firms.

## ABSTRACT

This paper introduces procedural justice as a central notion for understanding the effectiveness of a family firm's decision making and planning processes. It posits that many of the common difficulties faced by family firms are rooted in a lack of *fairness* in the decision-making *processes* governing these business families and their associated firms. Conversely, improvements in fairness can be expected to improve the firm's performance as well as the commitment and satisfaction of those involved with the firm, whether as managers, owners, or family members.

We present a development of Fair Process in family firms grounded in social science and business literature, and our qualitative research on family firms. Recognising the wide variety of family firms, we propose five attributes which, taken jointly, aim to characterise Fair Process in family firm planning and decision-making. The paper's main argument is that the fundamental inequity of family systems, which are often influenced randomly by factors like birth order, gender, parenting styles, and so on, can be counterbalanced by the effective application of fair process.

Key Words: Fair Process, family firm justice, family firm governance, family firm ownership, family firm transitions, family business, family firm succession, family firm next generation

## INTRODUCTION

> "What distinguishes man …is that man perceives the good and the evil, the fair and the unfair, and all sentiments of a similar nature, and whose communication precisely form the family and the state." (Aristotle, Politics, p.6)

The concepts of fairness and justice are fundamental themes in law and in society. Aristotle saw this. So did Rousseau in his work on the importance of the social contract. Rousseau was one of the philosophers identifying the central role played by justice in binding the individuals of a "just" society:

> "Ce passage de l'état de nature à l'état civil produit dans l'homme un changement très remarquable, en substituant dans sa conduite la justice à l'instinct, et donnant à ses actions la moralité qui leur manquait auparavant." (J-J Rousseau, Du Contrat Social, p. 24)
>
> [This passage from a natural to a civilised state produces in man a remarkable change, by substituting justice for instinct in his conduct, and giving his actions morality that he lacked beforehand.]

Rousseau furthermore insisted on a voluntary consent to the principles of justice. This active commitment to fairness is an essential feature of fair process, as we will argue later.

The most known modern statement of the importance of justice for economics and sociology is by Rawls (1971, p.4), in his *Theory of Justice*:

> "…Although a society is a cooperative venture for mutual advantage, it is typically marked by conflict as well as by an identity of interests. There is an identity of interests since social cooperation makes possible a better life for all. There is a conflict of interests since persons are not indifferent as to how the greater benefits produced by their collaboration are distributed … A set of principles is required for choosing among the various social arrangements. These principles are the principles of social justice: they provide a way of assigning rights and duties in the basic institutions of society and they define the appropriate distribution of the benefits and burdens of social cooperation."

Business organisations too are "*cooperative ventures for mutual advantage*." It is therefore not surprising that justice is increasingly recognised as being fundamental to management and organisations as well. Organisational issues—including managerial dispute resolution, compensation and reviews, layoffs and equity-pay inequalities for women—can be resolved through applications of organisational justice concepts (Greenberg 1990).

In this paper, we introduce the concept of justice as an essential element in family firms, which are a special form of organisation linking two societal institutions: family and firm. Family firms also represent a cooperative venture for mutual advantage, one in which conflicts, and especially issues, arise about the appropriate distribution of the advantages thus obtained, and about the principles which should govern the resolution of such conflicts and issues.

In seeking to position procedural justice as a key performance and satisfaction factor for family firms, we will first discuss procedural justice, which has also been termed Fair Process. We then discuss the relevance of this concept in the context of family firms. Our many interviews with family firm members led us to a new definition of Fair Process, grounded in a set of real cases concerning family firms. In our conclusion, we argue strongly in favour of the development of "our family firm law," which by definition will be unique to each family firm.

## "PROCEDURAL JUSTICE:" A THEORETICAL FRAMEWORK

### Observing the role of procedural justice in society and organisations

The concept of procedural justice is, in the recent literature, often credited to two social scientists, Thibaut and Walker, and their work *Procedural Justice: a Psychological Analysis* (1975). These authors combined their interest in the psychology of justice with the study of judicial processes. Focusing their attention on legal settings, they sought to understand the influence of judicial procedure on the perception of fairness. They coined the term *procedural justice* in order to differentiate the concept from traditional theories of *distributive justice*, which examine the fairness of distribution of allocations and outcomes. Their early thinking, and subsequent research by others, established that perceptions of procedural fairness positively affect individual reactions to outcomes, so that procedure as well as the outcomes themselves contribute to justice in society.

Subsequent research applied procedural justice (as applied in the court of law) to organisational settings. In his theoretical work, Leventhal (1980) argued that the relevance of procedural justice went beyond legal settings. Lind and Tyler (1988) demonstrated the applicability of procedural justice concepts across diverse cultures and social settings.

Kim and Mauborgne (1991) illustrated the conceptual power of procedural justice in their empirical study of strategic decision-making in transnational corporations. They found that subsidiary managers who believed their company's processes to be fair displayed a higher level of trust in, and commitment to, the organisation. This in turn engendered the managers' active cooperation in implementing these decisions, thus improving performance. Conversely, when managers felt decision-making processes were unfair, they "hoarded ideas and dragged their feet". Following on this preliminary research, Kim and Mauborgne explored procedural justice in other business contexts—for example, in companies in the midst of major transformation, in teams engaged in product innovation, and in corporate partnerships with suppliers. The theme that emerges from this research is that individuals are most likely to trust and cooperate freely with organisational systems—*regardless of whether they themselves win or lose by participating*—when what Kim and Mauborgne (1997) termed Fair Process is observed. Conversely, grave and prolonged violations of Fair Process were shown to at best generate a form of passive performance, and at worst a form of negative behaviour motivated by a desire to practice sometimes very destructive forms of *retributive* justice.

**Defining "Fair Process"**

The initial research on procedural justice identified that the nature of legal procedures influenced perceptions of fairness. Adversarial procedures, where each party could present their values and arguments, were compared with inquisitorial procedures, where parties were questioned. Specifically the ability to *have a voice* was identified as a discriminatory element in support of fairness (Lind and Taylor, 1988).

Leventhal (1980) expanding beyond legal settings suggested six rules for procedural justice: *consistency* of the procedure across persons and across time, *suppression of bias* by the decision-maker, *accuracy* of information, *correctability* (e.g. appeal procedures), *representativeness* ("all phases of allocation process must reflect the basic concerns, values and outlook of …individuals") and *ethicality* (conformation of the procedure to personal standards of ethics and morality).

Kim and Mauborgne (1991) built on this thinking in their work on transnational organizations and their subsidiaries. They identified five components of Fair Process; four of their elements were drawn from Leventhal and other procedural justice research (bilateral communication, consistent application of procedures, ability to refute decisions, and accuracy of information). Their fifth element was the full accounting of headquarter decisions to the subsidiaries.

In their subsequent writings on Fair Process in organisations, Kim and Mauborgne (1997) synthesised these five elements into three elements which have become known as "the 3 Es" of Fair Process: *Engagement* (of all affected by the decision), clarity of *Expectations* (with regards to those affected), and *Explanation* (of the final decision). They found these three factors to be key to fostering the commitment of knowledge workers in building innovating organisations.

We were struck by the strong parallel between Kim and Mauborgne's conclusions on knowledge workers, and individuals we observed in well functioning business families. Our subsequent experience and reflection have confirmed the relevance of Fair Process in family business practices.

## THE FAMILY BUSINESS CONTEXT

Fairness is a fundamental concern to families facing ownership and leadership transitions. Families and family members typically consider the fairness of ownership transfer in terms of what each member receives, and the fairness of management succession in terms of who is appointed to senior executive positions. This *distributive justice* concept of fairness examines distribution of allocations and outcomes, as discussed earlier. Ayres (1996), in his article on family justice, suggested that outcomes be based upon family members' needs. Need is one of the principles one can apply in determining outcomes, equity and equality being the other two most common ones (Baldridge and Schulze, 1999). Lansberg (1989), applying the three concepts of justice (distributive, procedural and retributive) to family businesses, emphasized the need for identifying sub-groups in the family business system within which individuals would be treated equally.

However, in the application of distributive justice, agreement on a particular distribution of outcomes is a principle limitation. The exclusive focus on outcomes often creates conflict rather than resolves it, because of the difficulty in assessing the inherent fairness of outcomes. Such discussion is often reduced to an argument about the "fair principle" to be applied: should it focus on equality, equity, or individual needs?

Family firms face a challenge that goes far beyond the division of particular ownership rights. The challenge of the family firm lies in creating value for shareholders, family members, and employees today, as well as looking to the future by creating individual and collective development opportunities for next generation family members, future employees, and further shareholders. Such considerations point to the impossibility of ever agreeing on a fully fair *outcome* in family firms, as neither the outcome, nor all the parties to the outcome can be fully described, let alone agreed upon. The fact that some branches of the family inherit less than others is, in a sense, similar to the issue of fairness concerning the different roles that managers, workers, and shareholders play in the firm. The family firm tests the limits of distributive justice, and thus begs for another concept of justice. We have argued earlier that justice is indeed essential for preserving the community of interests prevailing in the family firm. For this community of interests to survive and flourish, it is critical that this community be able to create an *environment* that is perceived as fair. (Carlock and Ward, 2001). It is fairness in this environment that will encourage the participation of the next generation family members—as well as in-laws and non-family managers who are often unfairly treated. We argue, therefore, that Fair Process is an essential part of establishing fairness in the family environment and improving the performance of the family firm.

The creation of fair processes in family firms is often hampered by the natural structure and functioning of families and businesses as separate entities. Families are organized around hierarchies based on *the parent-child relationship*. As children develop, a behavioural pattern evolves as parents seek to control their children's lives to insure their safety and development. Even after the children mature, this parental role remains a part of the family's structure, and the younger generation members remain perceived as "children" as long as their parents are alive. Business organisations form hierarchies based on *roles, competences, and authority*. Senior management and large shareholders contribute decisively to the business' direction and strategy. Successful performance reinforces this structure and its associated decision-making processes.

The overlap of the family and business systems within a family firm often creates a situation of substantial difficulty in decision making, implementation, or, more broadly, commitment. For example, during the adolescent and young adult years, struggles over balancing parental control with personal autonomy may be played out in the family first, but then carry over to the business when the children assume management responsibility. Family feuds may keep valuable family members at distance from the firm, instead of contributing to it. Senior family members, used to their seniority in the family, may act nepotistically, either at board level, or with managers. Family shareholders may not be given any voice concerning the financial returns from their shares. In sum, the systemic nature of the family firm—with its three spheres of family, business, and ownership—makes the concept of justice even more important in family firms. Injustice in one sphere will typically have implications going far beyond that area. Conversely, positive effects of fair process in one sphere will have positive externalities in the other two spheres.

One particularly critical point concerns succession and the development of the younger generation. In business families especially it is important that, as members evolve from parent–child relationships to a family of adults, the younger generation be offered the opportunity to negotiate their new roles and experience family interactions based on fairness and mutual respect. This negotiation process can be a difficult challenge. Members of the younger generation often perceive their parents as being unfair in family dealings, never quite giving the younger people sufficient time to explain or defend their decisions. They seek the legitimacy to freely express their often novel ideas and aspirations. They find that they are too often criticized for challenging management's proven formula for success. The older generation may perceive the younger ones as unfairly critical in their judgement, and dismissive of the older generation's business achievements. With the prospect of the absence of any meaningful participation or influence, and with a feeling of being trapped by their parents' influence or sensitivity, the younger generation may reduce their participation and commitment. This breakdown of intergenerational communication about the family business is a result of a lack of fair process. It may lead to potentially grave consequences, including the loss of valuable energy in the younger generation, or even the sale of the business.

In our experience, sustained violations of fair process are at the root of many family rifts. Repeated and profound value destruction appears to be commensurate with the degree of violation. Our interviews in family firms confirmed the importance of fairness in decision-making. Once we had discussed the concept of fair process with them, disillusioned family members expressed a desire to integrate a greater degree of fairness in their family firm's decision-making. They were able to improve their fair process practices quite rapidly, with clear gains in satisfaction and performance for the family business system.

## A FAIR PROCESS FRAMEWORK FOR FAMILY FIRMS

From our interventions and interviews in family firms, we developed a Fair Process framework, *based on a set of principles or characteristics* that enable families to understand and use fair practices in a variety of family and firm settings. We describe Fair Process in family firms as deriving from five factors: Communication, Clarity, Consistency, Changeability, and Commitment to fairness.

### Communication

The first principle of fairness in decision-making processes is giving those concerned with a decision a voice, so that they can have their views heard. The same applies to business families. Younger family members, for example, are often ignored in family business decision making, when in fact the decisions being made may strongly affect their own future. Giving these members a voice in family meetings is also the best way to both engage their participation on issues related to the business or to the family, and for them to develop their opinions. In larger family firms the general assembly of shareholders is the best place to engage family members. Internships are a good tool for informing the younger members about the reality of the family business in a way that is helpful for their own professional development, whether or not they join the family firm later in their career. Not only family members, but non-family managers and minority investors also ought to be given a proper forum for communication. The main point is that communication amongst all members is essential to fair process.

## Clarity

With younger generations and in-laws representing valuable potential resources for the family firm, an important family business theme is the need to clarify individual, family, and management expectations, in a way that includes all family members, in-laws, and non-family managers. To be sure that they understand each other's goals, families must gather facts and evidence, and disseminate accurate information. Some of the nastier issues that business-owning families face are too often the result of misunderstandings of individual or family goals, or of particular aspects of the family firm's decision-making processes. This lack of clarity is increasingly seen by the young generation as very negative. A statement, or at least a good understanding, of family principles affecting decision-making in the family firm is an integral part of clarity. In essence, fair process requires clarity and clarity enhances fairness.

## Consistency

Consistency is particularly important in the context of a family business to counteract perceived or real feelings of injustice, whether in the family—"my brother was treated differently than me"—or in the business—"we are treated differently than non-family members." Decisions, and the processes through which they are reached, should be consistent between people, over time, and with agreed upon family firm principles. This call for consistency, both within the family and within the business, was strongly expressed in our interviews. Young family members want a process that ensures employment or other decisions based on capability and performance, not on family position or relation. Talented family members in particular are eager that their careers be based on competence and achievement; in fact, they strongly refuse the notion of family privilege in employment and wish to be treated like the non-family members. Consistency can be a critical element in the development of self-esteem in the young generation, which is thereby more assured of honest and consistent feedback. Explicit family agreements and policies related to roles, employment, and ownership ensure consistency too.

## Changeability

All family businesses must be prepared to address changing business conditions, new information, or family life cycle transitions. The ability to adapt and to change is a critical success factor for all organizations. Family businesses too must be willing and able to review and reconsider plans, policies and agreements based on new environmental contexts and on new opportunities and principles. Even more so in that family life cycles continually interfere with business life cycles. The need for changeability is best demonstrated by examining ownership or employment agreements made by previous generations. The idea of limiting ownership to the eldest male or employment to males only is now unacceptable to many families. Changeability acknowledges the family's need to make changes to previous family agreements so as to better reflect current family values and interests, as well as current business needs. Such changes are often suggested by the younger generation who must co-opt the elders for

changes to be accepted and effective. Conversely, a lack of changeability of past rules and principles is increasingly viewed as both unfair to the new generation, and ineffective for the family firm. A family that practices changeability is more open and more able to reviewing decisions based on new information, and therefore has a greater chance to adapt to the ever more rapidly changing set of business opportunities and requirements.

**Commitment to Fairness**

In our efforts to characterise Fair Process, we identified communication, clarity, consistency, and changeability as essential features of the decision-making processes. However, we have discovered that a family business can have clear procedures and principles, can communicate, act consistently, and allow for changes, and yet still fall short of good Fair Process practice. This is the case when either family or business members' actions seem to reflect fair process practice, but do so in a mechanical way, without espousing a deep commitment to fairness and justice. In such cases, Fair Process can be seen as a utilitarian exercise to improve family firm performance, or, even more simply, to facilitate decision-making. This can be the case when the firm or its leader are not established and seek commitment from collaborators and partners. When the family firm or its leader become more established and more powerful, behaviour often changes, and commitment is replaced with requirements or demands. This behavioural change may affect the family business or business family, causing commitment to be replaced with cynicism and resentment. The potential gains of Fair Process then are rapidly replaced by the liabilities of its mechanical or instrumental application.

People tend to view justice as an absolute concept whose essence can only be aimed at in practice, and never fully attained. In a particular situation, there is no guarantee that its application will remain outstanding. Even Fair Process has to be looked at in a relative sense, as its absolute application remains an ideal to strive for. Fair Process, if it is to last, must therefore be driven by a deep commitment to the principle of fairness as a value in itself. It is this commitment that allows the continuation and even improvement in fairness in the planning and decision-making processes governing the family business system.

We made one additional observation on the relationship between family values and Fair Process. Several of our interviewees insisted that family values, in addition to generating a strong sense of ethical conduct and family identity, were critical for family decision making. The values referred to were quite often of a general nature, and relatively similar between families. Respect for family members, commitment to develop people, search for truth, responsibility toward one's fellow human beings are all values that are fully consistent with Fair Process. They in fact facilitate the implementation of Fair Process practices, and, in turn, are promoted by procedural justice, as we defined it. But it should be stated that, beyond a commitment to fairness, the practice of Fair Process indeed reinforces and strengthens the family's ethical values beyond the already broad notion of fairness.

## IDENTIFYING FAIR PROCESS PRACTICES IN FAMILY BUSINESS

We will now describe five cases concerning common behaviours we observed in family businesses . Each case is based on interviews with the people involved, and demonstrates Fair Process "in action" in five different areas: ownership, family membership, recruitment and career development, management transitions, and family participation. They show both the positive implications of Fair Process, and the negative consequences of violations of Fair Process. The cases thus are a testimony that fair processes build the family firm by promoting commitment and enhancing performance; while unfair processes break the family and its firm apart.

### Fair Process for Shareholders

Georges[*], a management consultant, is a 6th generation shareholder in a family-owned industrial corporation. The corporation has been unwilling to explore options outside the traditional markets that the business has served for over 150 years and that have now matured. Changes in business strategy are required if the firm is to generate a greater economic contribution. Worse, Georges is concerned that without these changes the future of the business may actually be in jeopardy.

Georges has repeatedly attempted to share his views about current value destruction with family management and shareholders. Initially ignored, today he does not even have the right to speak any more at family meetings or at the general assembly, some of the family's leaders having reacted quite negatively to his breach of "family cohesion." He says:

> "The company is run by family members, whatever their ability. There is an incredible inertia, which endangers the company and destroys value… I am interested in understanding how to make change happen and to prove that better [things] can be done… For 80 years, all shareholder votes have been unanimous, until I voted against a proposal. Eighty percent of the family has not spoken to me since."

Here we see a lack of Fair Process in the discussion of business strategy, which ironically is clearly needed if the current underperformance of the family business is to be changed. One of the family's younger members, with potentially valuable business input—after all, other companies *pay* for his professional advice—is denied a voice in these matters and is furthermore threatened for speaking up critically against the current status-quo. How long will Georges, who is an active shareholder caring deeply about his family business, risk further family alienation by arguing in favour of strategic change? And if he decides not to speak up, what factor will finally lead the business away from its current path of value destruction?

[*] All names and circumstances were disguised in order to preserve confidentiality.

**Fair Process in "business family" membership**

Steve is a young executive with several years of successful management experience in a large multinational corporation. After earning an MBA, he received several attractive offers from large public companies. One career option, however, was not open to him: working in the company founded by his great-grandfather. Ownership and management was traditionally restricted to the male heirs with the family name. This excluded Steve.

The situation was made more complex because the males of Steve's generation with the "right" name lacked interest and preparation for major management responsibility in the firm. Steve wanted, at least, to be considered for a career in the family business. He was not asking for favours, only a fair hearing. His managerial experience and training suggested that he could be a positive force for the family firm. His joining would furthermore show the family's continued interest in the firm. As is often the case in family business, Steve's interest was fuelled by his particular attachment to his grandfather and to the business the grandfather developed. Steve wanted to contribute to continuing the family legacy.

> "I was told not to be part of it for so many years——I would like to have been asked."

However, the exclusion of female shareholders and their children from management responsibility was an obstacle the senior generation was unwilling to discuss.

The rule that only males with the proper name would have management positions was *clear* and *consistent*. It may even have been perceived as the right thing to do, by earlier generations. But clearly times had changed.

Steve's biggest frustration was that there was no *changeability* of past decisions in this family business system. In addition, Steve had no voice on the matter. The rule excluding female descendants and their offspring from managerial responsibility possibly prevented the best young family talent from joining the business. The lack of changeability of current governance rules limited the healthy development of the family business. Perhaps not surprisingly, the family eventually decided to sell the business, thus bringing about changeability in a radical way.

**Fair Process in recruitment and careers**

Family members like Steve or Georges who feel the family business has excluded them may end up quite frustrated. We have also seen the opposite extreme, as the next case shows.

After performing very well in a large public company, François was excited about being offered a position in the family business. At the same time he wanted to be sure that his recruitment, as well as his career advancement, would not differ from those of non-family managers. He said:

> "When my uncle asked me if I would join, I hesitated. I was afraid to be in an environment where my performance would not be objectively measured. I have a degree of self-exigency… I would never have asked to join the company. Asking would be like saying, 'I do not have a place to go, would you take me here?' Our great leaders did not ask."

In short, François wishes for greater *clarity* in the treatment of family members in management, as well as for greater *consistency* with the careers of non-family managers. He seeks a *culture of fairness* in the selection, development, and promotion of *all* managers in the firm. This would seem to also serve the interests of the family business by opening up opportunities within the firm and by widening commitment of performing managers.

A comment from the member of a different family firm underlines the opportunities and challenges of family members' involvement in the business:

> "...A person can work at different levels of productivity depending on the situation, and the passion for sustaining a family legacy is a realistic driver of high individual performance. The implication for me is that one is not necessarily depending on favouritism or nepotism when one pursues a family business opportunity, but rather one may be choosing the environment where one is likely to perform at his best. As long as one is then judged fairly against non-family members, one is not taking advantage of a birthright, but rather embracing it."

The career development of family managers is thus particularly demanding of Fair Process. Lack of clarity on family policies regarding recruitment of family managers is detrimental to both the business and to the family. Special considerations for particular family members invariably create conflicts later on. It also is not fair to family shareholders to leave the family firm in the hands of under-performing family managers. It is similarly not fair to family managers to deny them the same professional reviews and feedback as non-family managers. In some firms, family members are in fact assigned the firm's best managers as supervisors, precisely to ensure that their evaluations and reviews are as fair as possible. In other families, professional issues concerning family members are trusted to outside board members to ensure a more objective and consistent treatment of family managers.

Agreements on mandatory retirement ages for executives and board members are another form of fair process. Such rulings give more opportunity for the next generation to assume responsibility and for them to have a *voice* in the business. Such rulings add *clarity* to the succession process, and help minimise the chance of conflicts. By retiring on time, executives and board members contribute to the development of the family and the business, rather than taking advantage of them.

**Fair Process in leadership transitions**

The Villiers own a very successful family business, currently led by third generation family members. The company's founder was a strong-minded entrepreneur who left his four sons with the explicit and final instruction to preserve family unity above all else.

The sons used informal family meetings to regularly inform the whole family about the business. Third generation members joined the business at entry-level positions. They were expected to work their way up through the ranks of the company based on merit. Family members even borrowed names when working in the field, in order to avoid any favouritism the family name might generate.

Management transition in the business from the second to the third generation took several years, but was remarkably clear and smooth. The second generation, at the beginning of the transition process, engaged the younger next generation team by challenging them to produce a business plan for the next ten years. For objectivity and refereeing, a prominent senior non-family manager was added to the team. This "succession team" took a year (with consulting advice) to conclude their analysis and agree on recommendations with regards to the future of the business. When finally ready, they presented their plan to the leaders of the second generation. Their plan included not only strategy for the business, but also new governance structures and a modified business organisation. The team had also worked out mechanisms for conflict resolution, should it arise. The plan was warmly embraced by the family's senior leaders, who only requested minor modifications. The leadership transition was formalised in an official ceremony, attended by family members and key non-family business managers.

This case illustrates several key elements of Fair Process. The next generation was given a *voice* (actually several voices) when asked to prepare their vision for the business. *Consistency* of treatment of family and non-family managers was sought when third generation members did their training under borrowed names. The official passing of leadership contributed to provide substantial *clarity* during the whole leadership succession process, including on the future evolution of the business after the transition. As is often the case when Fair Process is applied, managers in fact over-performed when providing a future plan by, for example, even including a process for conflict resolution.

Finally, we wish to underline that this transition process, because it was so well handled, was also fairer to the other stakeholders, including non-family managers, employees, and outside investors. Fairness requires that all major parties are given a voice in the transition process; again, clarity and communication increase commitment to and performance of the family firm. What was particularly remarkable in this case was that the process produced not only a senior "succession team," but also a strategic blueprint —which is much rarer.

**Fair Process in family participation**

Fundamental to the application of Fair Process is securing the participation of family members in the family business. If family members are not invited to participate in discussions pertaining to the family firm, it is unlikely that they will perceive planning or decision making as fair. Many large European business families have institutionalised activities to encourage family participation.

One large multi-generation family business uses the younger generation's coming of age to invite them to join the "business family." The family holding sponsors introductory weekends during which next generation family members explore the family business'

history and its culture. The family handbook of family policies is explicitly reviewed and actively discussed. An important part of this education process is to start involving the younger generation and to ensure that the family handbook has meaning to them, and to consider changing it if it does not. It has become one way of passing the culture of fairness on to the next generation. The weekend concludes with each member being offered the choice to sign the handbook and to receive one share of stock, again on a voluntary basis.

In this highly entrepreneurial family, family members are further encouraged to continue the entrepreneurial tradition set forth by some prominent elders in the family. They are invited to submit new business ventures to the family for feedback and possible funding. Funding comes with certain conditions, including proper governance of the venture and possibly the presence on the board of senior family members with experience relevant to the venture. This remarkable process of family venturing has reinforced family cohesion and transmitted a strong spirit of entrepreneurship to members of the next generation. The initiation ritual *clarifies* family policies and functioning. Family members are given a *voice* and are actively encouraged to organise family activities and to start businesses.

The existence of precise rules, far from decreasing the freedom of family members and preventing initiatives, on the contrary encourages them. As in law, where a set of rules or even a constitution provide a reference, a framework enhances the functioning of the family and reduces opportunities for conflict. Family charters increase the fairness of the system; they increase *clarity* while also favouring *consistency.* In the family we describe here, the family charter has already been revised several times, demonstrating the family's practice of *changeability*.

### "Our Family Firm Law"

As the above family story illustrates, the development of a book of rules and guidelines serves to clarify the family's conduct towards its family firm. A formal "family firm law" governing the major events and decisions of family firms (succession, recruitment of family managers, appointment of family and non-family board members…) is a desired and logical outcome of our drive for fair process.

Families having survived multiple generations often seem to have precisely such "laws"—under a variety of different names, such as family charters, protocols, handbooks, constitutions—but serve the same purpose. Quite critical for continued survival then is the possibility of amending these "laws," typically with the consent of a sufficiently large number of family members. *Clarity* is thereby greatly enhanced, so is *consistency*. *Changeability* is understood to be an option, based on *voice* and *clarity* of argument. We see the establishment of a "family firm law" as a desirable and necessary step to increased Fair Process in family firms.

## FAIR PROCESS: A BASIS FOR FAMILY FIRM GROWTH AND SURVIVAL

Fair Process is critical to many aspects of our work as leaders, managers, workers, teachers, parents and so on. Process matters: the absence of Fair Process prohibits

desirable outcomes, whereas its presence allows the implementation of difficult outcomes unfavourable to some.

Introducing fairness in human interactions corresponds to a basic human desire. All of us desire to be valued as human beings. We wish to be treated with respect for our qualities. We wish our ideas to be taken seriously. And we seek to understand the rationale behind specific decisions concerning us.

Fair Process offers a potential for substantial performance gains. More voices applied to clearer agendas will generate improved solutions. Improved performance resulting from Fair Process practices has the beneficial result of fully validating these fair practices. They also demand even more procedural justice in the future. This constitutes the positively reinforcing cycle of Fair Process: *Fair Process generates greater performance, which in turns calls for more fair processes.*

In contrast, a prolonged absence of Fair Process has precisely the opposite effect: Prolonged violations have been seen to trigger "retributive justice," where people take "revenge" on those responsible for the prolonged unfairness, in a manner that may far exceed the original unfair treatment of a particular individual.

We have also argued that it is important when considering Fair Process to aim for improvement over current practice, and not to aim for any absolute fair process standard, which seems elusive anyway. It is the improvement (in voice, clarity…) that matters, and that motivates further implementations of Fair Process.

Fair Process does not require that families and businesses become democracies. Fair Process recognises that certain members have greater responsibility over the final decisions, and therefore also have greater power and control. An entrepreneur may wish his oldest son to succeed him. He may even have the authority to name him as successor. What Fair Process theory says, however, is that, if he wishes to maximize family support for the future CEO, strengthen family relationships and also the firm, he be well advised to practice Fair Process with regard to his personal succession issue, namely to listen and fully consider his family's and other stakeholders' input, and especially his son's opinion, as this will improve both the quality of the father's decision and people's commitment to the decision.

This greater search for inputs and arguments often represents a difficult change in behaviour for family and business leaders. Often, the first reaction is that the time commitment is a luxury that cannot be afforded, or that one will be opening a can of worms. However, families who have gone through the process realize that the time and energy spent is critical for ensuring the contribution of the family's emotional and intellectual talent to support the family firm, and for a better and less conflicted execution of decisions afterward. In fact, if one properly counts the time until full and successful implementation, the Fair Process "way," though initially slower to converge on a decision, is much faster in implementation and much more effective. So, there really are no known "counter-indications" to the Fair Process medicine…

Improving the degree of Fair Process in family firms brings many benefits. Having a voice allows family members to feel recognized and valued. It allows them to accept more readily decisions that do not favour them and that are even unfavourable to them. Fair Process allows more solutions to be considered. By looking more broadly, families give energies and ideas more opportunity to surface. Fair Process increases the

performance of the “next generation” team: they will execute things more superbly if they have them in themselves, if they made them “their cause” and contributed to shape them. Finally, Fair Process minimises the reasons for the “alliance” between the family and the business to break down: every bit of unfairness chips away at the alliance, every bit of fairness glues it and yields commitment.

**References**


Ayres, G. (1996). Rough Family Justice: Equity in Family Business Succession Planning, *The Best of FBR,* pp.181-190.

Baldridge, D.C. and Schulze, W.S. (1999). Fairness in Family Firms: An Organizational Justice Perspective on Agency Problems, *Academy of Management Proceedings* (August).

Carlock, R.S. and Ward, J.L. (2001). *Strategic Planning for the Family Business: Parallel Planning to Unify the Family and Business*, New York: Palgrave.

Greenberg J. (1990). Organizational Justice: Yesterday, Today, and Tomorrow, *Journal of Management,* 16(2), pp. 399-432.

Kim, W.C. and Mauborgne, R.A. (1991). Implementing global strategy: the role of procedural justice. *Strategic Management Journal*, (12), pp. 125-143.

Kim, W.C. and Mauborgne, R.A. (1997). Fair Process: Managing in the Knowledge Economy, *Harvard Business Review*, (July-August), p.65.

Kim, W.C. and Mauborgne, R.A. (1998) Procedural Justice, Strategic Decision Making and the Knowledge Economy, *Strategic Management Journal*, (19), p.326.

Lansberg, I. (1989) A Framework for Understanding Issues of Justice in Family Businesses, Family Firm Institute Conference Proceedings.

Leventhal, G.S. (1980). What should be done with equity theory? New approaches to the study of fairness in social relationships. In K. Gergen, M. Greenberg and R. Willis (eds.), *Social Exchange: Advances in Theory and Research*, (pp.27-55) New York: Plenum Press.

Lind E.A., and Tyler, T.R. (1988). *The Social Psychology of Procedural Justice*. New York, London: Plenum Press.

Rawls, J. (1971). *A Theory of Justice*, Cambridge, MA: The Belknap Press

Thibaut, J. W. and Walker, L. (1975). Procedural Justice: a Psychological Analysis, Hillsdale, NJ: Erlbaum.