

# Theories and models in family enterprise advising

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In the late 1980s, the introduction of the family enterprise as a field separate from entrepreneurship marked a change in the way multi-generational family enterprises were looked at, from both science and social science perspectives. Since then, a field of practice and/or professional discipline for advisers and consultants has evolved in parallel with increased understanding and research on the family enterprises themselves. This new profession has identified, developed and espoused certain theories, models and terminologies to further articulate the skills and knowledge that professionals from related disciplines (eg, law, finance and behavioural and management science) should be aware of and conversant in, before they step out of or add to their profession of origin and engage with multi-generational family enterprise clients.

This chapter is intended both as a self-assessment tool and as a roadmap for ongoing education in the family enterprise advising field for those professionals who find themselves advising multi-generational family-owned companies or wish to extend their practices to family enterprise business – entities that generate somewhere between 50%–90% of the world’s economy.<sup>1</sup>

The chapter<sup>2</sup> is divided into four sections:

1. Foundational theories and models identifies concepts that are basic knowledge for professionals working in the family enterprise field.
2. Other theories and models identifies theories and models that more seasoned advisers should be aware of and consider using when advising their clients.
3. Emerging theories and concepts includes newer theories that contribute to the understanding and the education of advisers currently practising in the family enterprise field.
4. A concluding section brings the chapter together.

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1 Readers should note that there is no single source for this statistic since the percentages are tied to the definitions used for ‘family business’ and/or ‘family enterprise’.

2 For the purposes of the chapter, we use the term ‘family enterprise’ to include multi-generational companies with operating businesses, holding companies, and family offices. The term ‘advising’ encompasses advising and consulting, terms which are sometimes used interchangeably or with specifically identified functions.

## 1. Foundational theories and models

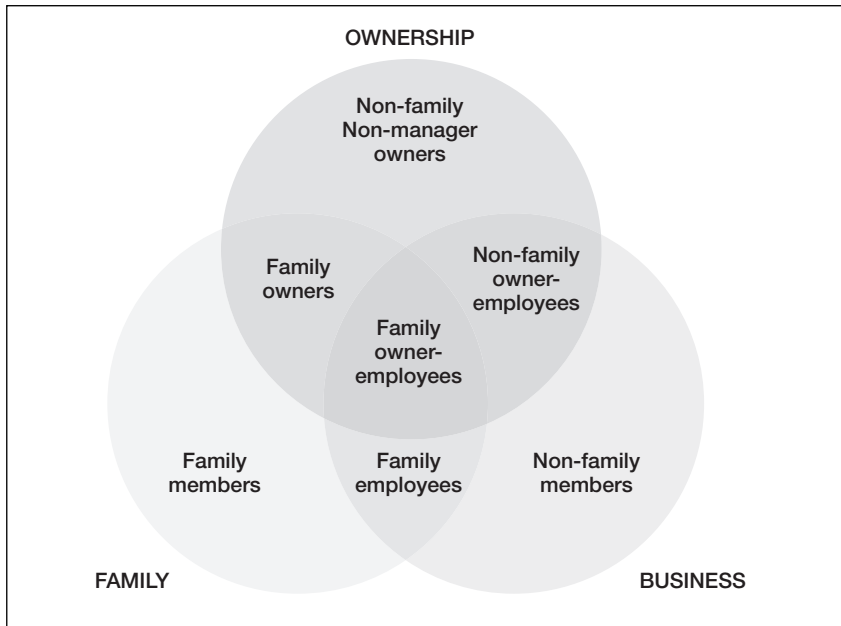
The family enterprise field was founded on four theoretical models, which are described below, and should be familiar to – and engaged with by – individuals and organisations working with multi-generational family companies.

### 1.1 Three-circle Model

The model that jump-started the approach to advising family enterprises is the Three-circle Model<sup>3</sup> developed by John Davis and Renato Tagiuri while both were professors at Harvard Business School in 1982. It remains widely used because it is easy to understand and provides a clear graphic snapshot that families can relate to.

The Three-circle Model is a Venn diagram that clarifies three interdependent and overlapping groups (family, business and ownership) that comprise the family-based system. Each sector must be respected and integrated to set direction for the family business system. The goals of the three circles can overlap or be distinct.

Figure 1: Three-circle Model<sup>4</sup>



3 Renato Tagiuri and John Davis, "Bivalent Attributes of the Family Firm", *Family Business Review*, vol 9, issue 2 (1996), <https://doi.org/10.1111/j.1741-6248.1996.00199.x>.

4 John Davis and Renato Tagiuri, Three-circle Model, published with permission.

Each circle has a governance structure and plan. A family council would govern the family circle and create a family plan; a management team would lead the business circle and prepare a management succession plan; a board of directors would govern the owners or shareholders circle and be responsible for the strategic plan, continuity plan, contingency plan and succession plan.

Within the three circles there are seven potential positions that intersect and overlap and that various individuals can hold. People normally evolve and change position during their lifetimes as they exit or enter the business or ownership. However, their family membership remains constant, although their role in the family will change as they enter adulthood.

Advisers do not have a clear place in the model.

In Figure 1, the boundaries around each circle are solid. However, in real life the boundaries are elastic and must be resilient. If they are not resilient, they will snap and cause problems. A sustainable system is one that allows the boundaries among family, ownership and business to flex, bend and absorb the occasional shocks. The boundaries are where innovation, creativity, change and destruction lie.

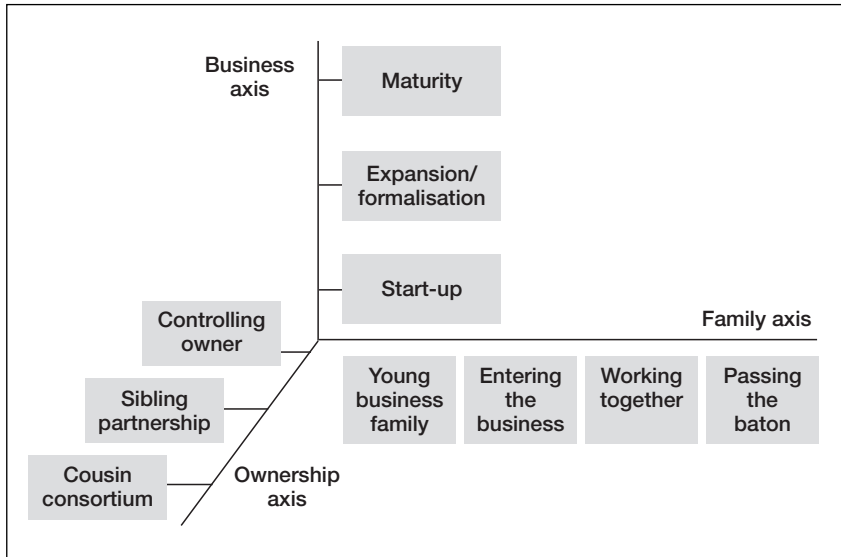
The most common issues family businesses face at the intersection of the boundaries include competition, guilt, the need for a powerful legacy, jealousy, seeking approval (from living persons and the ghosts of past authority figures), sandbox secrets, generational dynamics, blended-family complexities and adviser blocks. Additional stressors that impact these boundaries include mental illness, substance abuse, dementia, narcissism, poor financial planning and an unrealistic sense of financial realities. These boundary issues flare up when there is an inability to look in the mirror and take personal responsibility and when there are control issues between parents and children, among siblings and step-parents, and step-parents and stepchildren.

Advisers should be aware of the boundaries and their resiliency. It is important to understand that the process takes time and observation to reach the point where the boundaries can be elastic and not snap. A resilient approach is one in which communication and expectations are improved. It introduces independent, non-emotionally charged data, such as compensation surveys, job performance metrics and financial expenditure ratios to relieve the pressure on the boundary. A foundation of a resilient boundary is to put estate planning and financial planning in place (and monitor them on an ongoing basis) so that there is financial stability across all three circles and the system is financially sound. When there is a resilient approach to boundaries, the members of each circle own the responsibility for their own actions; there is no sense of entitlement. A resilient approach to the boundaries enhances and empowers the system. A rigid approach to the boundaries weakens and jeopardises the system.

## 1.2 Developmental Model

In 1997, Gersick, Davis, Hampton and Lansberg, in their book, *Generation to Generation*,<sup>5</sup> noted that the Three-circle Model is a snapshot in time and understood that a more elaborate model was needed to examine how each circle may change as time evolves. Their Developmental Model draws on the Three-circle Model and offers dynamic perspectives by introducing development stages along the family, business and ownership axes. Their thesis is that each component of the three circles has a different development stage.

Figure 2: Developmental Model<sup>6</sup>



In the Developmental Model there are three development axes: the ownership development axis, the business development axis and the family development axis.

The entire system changes as individuals move across boundaries inside the system. A person's movement from one circle to another sector (eg, 'family member' to 'family member who is an employee') can cause a reaction to the entire system. Estate planning, transferring shares and retirement are also examples of changes that affect the entire system.

The ownership development axis assumes (but not always) a progression from controlling owner to a sibling partnership to a cousin consortium.

5 Kelin E Gersick, John A Davis, Marion McCollom Hampton and Ivan Lansberg, *Generation to Generation: Life Cycles of the Family Business*, Harvard Business Review Press (1997).

6 Adapted from Gersick, Davis, Hampton and Lansberg, *ibid*.

The business development axis progresses from start-up to expansion/formalisation to mature business over the passage of time. There are important variations in growth, product maturity, capitalisation and indebtedness, non-family manager development and institutionalisation that arise from the business stages. The business development stages have a powerful impact on decisions, such as transferring family shares to outsiders and succession planning.

The family development axis progresses from 'young' (one generation) to 'entering business' (two generations) to 'maturity' (three generations). It captures the structural and interpersonal development of the family through issues such as marriage, parenthood, adult sibling relationships, in-laws, communication patterns and family roles.

Structure is needed to guide the development along each axis. For the ownership dimension, it is important to have shareholder meetings and a board of directors, or at least a board of advisers.

For the family dimension, it is important to provide a forum in which family members can articulate their values, needs and expectations vis-à-vis the company, often defined as a 'family council', which we will continue to use for ease of reference. The family council can educate the family members about the rights and responsibilities that come with business ownership and management, help clarify the boundary between family and business, provide a forum for discussions (other than including business discussions on family holidays), and provide a structure to help the family create a shared vision and code of understanding. The family council can establish a family plan that includes a family history, a vision of the future, a family mission statement and an action plan.

The business dimension structure includes forming a management development team and a management development plan. It is very important to coordinate the structure and plans for all three axes.

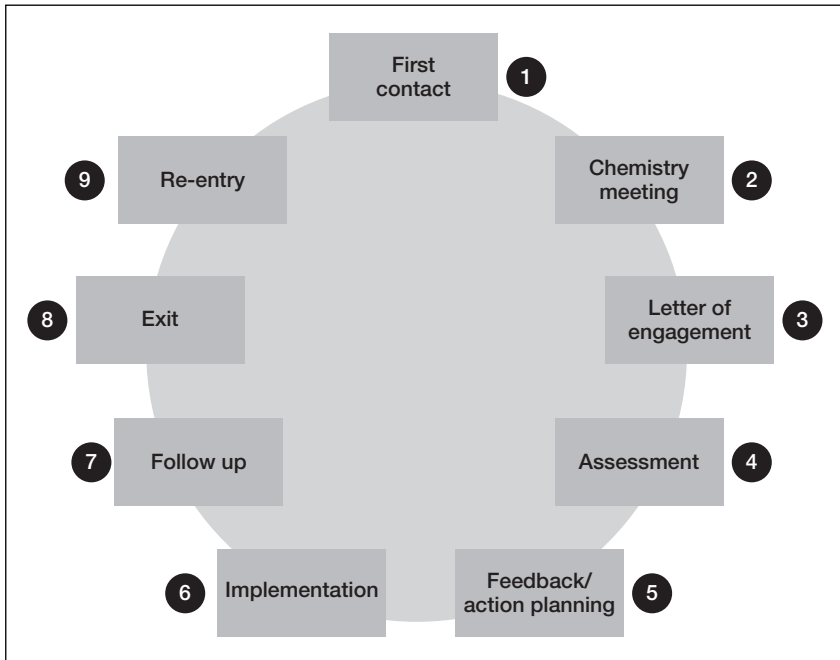
Since the publication of this model, the authors have evolved their thinking to reflect that rather than focusing on what happens within a single generation, the family development axis should reflect the stages of what happens as the family evolves from a nuclear family to a multi-generational family and then, possibly, to networks of families.

### **1.3 Process consulting**

In working with family businesses, the consultant must be able to provide information as well as manage the change process. Content and technical expertise and knowledge of change management are needed to work with family businesses. The adviser must know the difference between process and content, understand the importance of each and use not one but both as the situation indicates. For example, the consultant working with a business family must be able to answer specific questions about the estate plan, transfer of

ownership and management issues in the succession process, as well as manage and guide the change process. Most change efforts in family businesses are not likely to succeed unless there is the right combination of both content and process, creating outcomes as well as process improvement.

Figure 3: Process Consulting Model<sup>7</sup>



As soon as work starts with the client and the consultant has established trust and a set of ground rules for interaction between family members, the consultant continues to help the client by:

- *Clarifying communications:* For example, everyone speaks for themselves and differentiates between “what you think”, “what you feel” and “what you know for a fact”. The consultant may initially repeat what they have heard each individual say.
- *Encouraging a positive problem-solving approach:* For example, if there is a disagreement, the family decides at the first meeting how to make decisions, which could be by majority vote, consensus or that whoever is most affected decides. An agreed to process for managing the conflicts can be the foundation for solving the larger issues of management transition and company ownership.

7 Jane Hilburt-Davis, Process Consulting Model, *FFI Practitioner*, 2021, published with permission.

- *Challenging the family's way of seeing the problems and proposing solutions*, which might include regular family council meetings and/or executive management meetings, involving:
  - learning how to conduct effective meetings and making fair decisions; and
  - establishing agreed-to ground rules for the interactions, meaning the family will begin to solve their own problems.
- *Creating structures*: Structures are an integral part of the consultation process. These structures can provide the safety and predictability to rebuild the trust necessary for agreements and consensus. Building and enforcing structures in each of the systems – family, ownership and business – generates healthier interactions, enforces healthy boundaries, and offers methods and mechanisms for planning, solving problems and managing conflict. The ongoing dialogue, negotiations, compromises, exchanges of ideas and collaboration between the families and the business should sustain both the firm and the family over the long run. These mechanisms may include an 'offline' conflict coaching session with the consultant, a 'fishbowl' during the meeting with coaching from the consultant, or stopping the conflict with a "deal with that outside the meeting" admonition. In the ownership system, the structures may include an outside board of directors; in the business system, performance reviews for family members and fair compensation mechanisms are other examples.

**(a) Systems theory**

Systems thinking is about creating structures to manage the interactions between the systems. It involves working with multiple levels of the client system and the complex web of relationships. The family's reality has been constructed over time by their interplay and interactions. As they learn how to build new ways of dealing with each other, they develop more effective methods of solving problems. Much of the work is building structures, processes and procedures, such as family councils, family employment policies, shareholder agreements and codes of conduct to manage and monitor the interaction between the systems. It involves creating healthy boundaries, not barriers, between the family and the business. It emphasises the need to focus on the issues at hand while at the same time taking into account the dynamics of the entire system.

An example of systems theory is the Bowen Family Systems Theory,<sup>8</sup> originated by Dr Murray Bowen, a psychiatrist, which is a theory of human

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8 The Bowen Center for the Study of the Family, "Learn about Bowen Theory", [www.thebowencenter.org/core-concepts-diagrams](http://www.thebowencenter.org/core-concepts-diagrams).

behaviour that views the family as an emotional unit and uses systems thinking to describe the unit's complicated interactions. Dr Bowen described the 'fusion force' – when people tend to agree or disagree with each other without having formulated their own ideas. Bowen's theory was to take a three-generational family diagram and then coach the stronger ones in the family. He wanted to convey that a family system is a multi-generational field with values and instincts, and contains various levels of awareness and sensitivity. The differentiation of self is the cornerstone of his theory. It assumes that if one person becomes better defined and in better contact with family members, the individuals will be more responsible for themselves.

## **2. Other theories and models**

As the field grew after the Three-circle Model in the 1980s, other theories and models were created based on the foundational models. Four of these are described below.

### **2.1 Four-circle Model**

In 1996, Dean Fowler's Four-circle Model<sup>9</sup> was presented in the Family Firm Institute's conference proceedings. Designed to enhance the Three-circle Model, the Four-circle Model focuses attention on the individual adult in relationship to their family of origin.

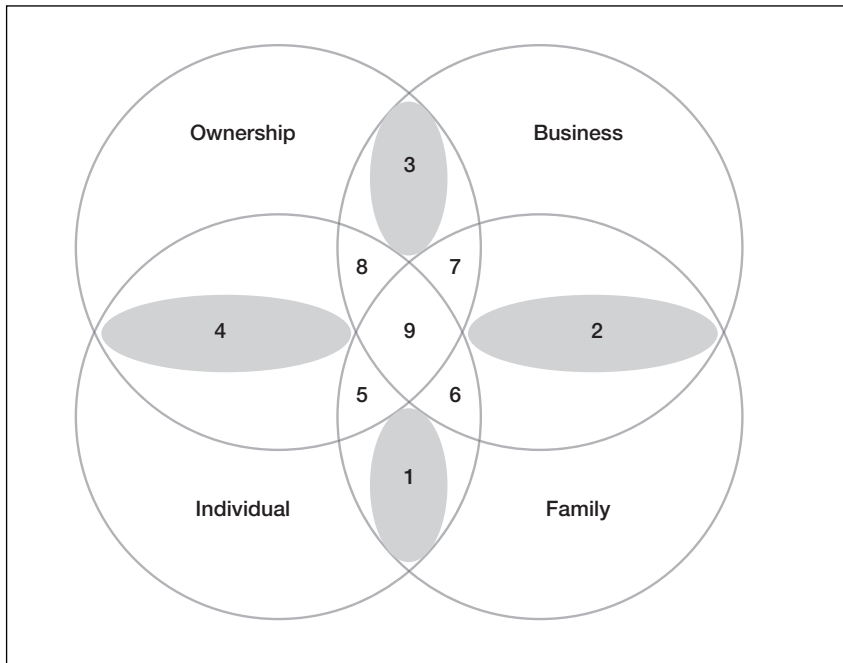
This model differs from the Three-circle Model in four ways:

- It adds an individual circle because family owners' business advisers often deal with a family of adults, and healthy adults typically individuate themselves from their family of origin. Healthy adult families are intentional.
- It focuses on competence, particularly the competencies that must be mastered at the four intersection points in the diagram.
- It highlights that individuals or individual beneficiaries within the family own the family business – not the family as one unit.
- Individuals serve as board members, and advisers who are not family members fit the model in section 8 of Fowler's diagram.

Fowler outlines 12 competencies that must be mastered by individuals and families for success: maturity, purpose, communication, roles, business competency, compensation, strategy, structure, leadership, succession, governance and estate planning.

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9 Dean Fowler, "The Four-Circle Model", *FFI Practitioner*, 6 October 2021, <https://ffipractitioner.org/the-four-circle-model/>.

**Figure 4: Four-circle Model<sup>10</sup>**

## 2.2 Cluster Model: an extension of the Three-circle Model

Nava Michael-Tsabari, Rania Labaki and Ramona Kay Zachary articulated an extension of the Three-circle Model in a 2014 *Family Business Review* article.<sup>11</sup> They regard the Three-circle Model as an oversimplification of the family enterprise, considered as consisting only of a single business entity. Although this may be true at the first stage of the business, in later stages, a family enterprise can control a portfolio of multiple firms. They propose a cluster model as an extension of the Three-circle Model to describe a family that owns more than one firm.

The Cluster Model describes a family that owns more than one firm and demonstrates the implications of the different constructs (eg, transgenerational wealth, transgenerational family effect and family entrepreneurial orientation) that are suggested at the family level to capture transgenerational survival. These constructs raise the understanding of how family businesses employ financial assets to create business continuity. In the Cluster Model, a family starts at the first generation with Firm A. In later stages, the basic structure of a family and a firm may evolve into a portfolio of assets.

<sup>10</sup> *Ibid*, published with permission.

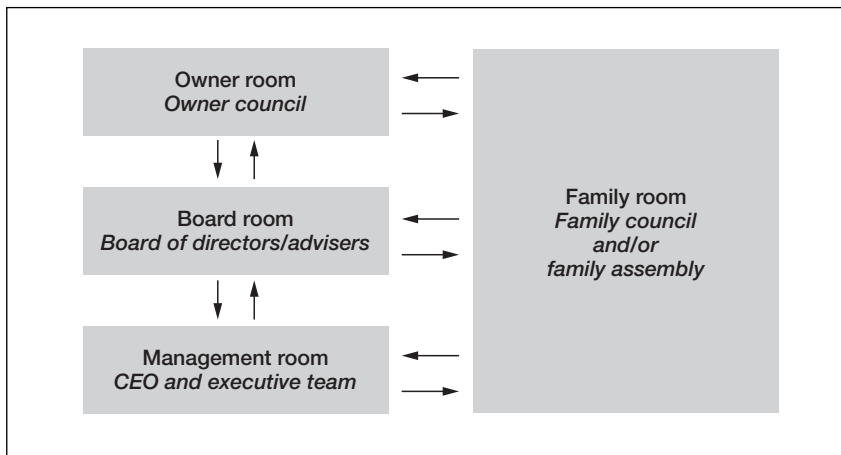
<sup>11</sup> Nava Michael-Tsabari, Rania Labaki and Ramona Kay Zachary, "Toward the Cluster Model: The Family Firm's Entrepreneurial Behavior Over Generations", *Family Business Review*, vol 27, issue 2, <https://doi.org/10.1177/0894486514525803>.

A family that owns a firm is referred to as 'organic'. A family that owns several firms is referred to as a 'portfolio' family firm. With the portfolio, the family's entrepreneurial behaviour is a cluster model for the family that acts by founding, selling, merging and buying other firms.

### 2.3 Four-room Model

This model, developed by Banyan Global,<sup>12</sup> uses the analogy of a home. There are four key rooms: owner room, board room, management room and family room. There are two key governance components: setting the structure of each room and the process of integrating the rooms.

Figure 5: Four-room Model<sup>13</sup>



- Owner room: owner, beneficiaries and trustees (power and influence).
- Board room: directors and advisers (wisdom and judgement).
- Management room: CEO, management, employees (competence and execution).
- Family room: descendants, spouses and next gen (love, unity and development).

This model divides the work of the family business into groups most appropriate for certain decisions. The model focuses on who and which discussions occur in which room.

12 Josh Baron, "Understanding the Four-Room Model", Banyan Global, <https://banyan.global/ideas/understanding-the-four-room-model/>. See also *The Harvard Business Review Family Business Handbook: How to Build and Sustain a Successful, Enduring Enterprise* by Josh Baron and Rob Lachenauer, [https://d2fahduf2624mg.cloudfront.net/pre\\_purchase\\_docs/BK\\_GDAN\\_004405/2021-03-03-02-31-19/bk\\_gdan\\_004405.pdf](https://d2fahduf2624mg.cloudfront.net/pre_purchase_docs/BK_GDAN_004405/2021-03-03-02-31-19/bk_gdan_004405.pdf).

13 Banyan Global, Four-room Model, published with permission.

- In the owner room, the owners should decide key ideas to hold onto and delegate the rest to other rooms.
- Owners should build a governance structure by establishing forums to do the work of each room – even if some people are involved in each of the rooms.
- The rooms should work together. The governance of the system depends on each person knowing the rooms he or she is allowed to enter and understanding how the rooms work together. The decision making and information flow among the rooms is critical.
- The placement of each room in the model is deliberate. The family room runs along the side of the other rooms to underscore the influence and development of the family members. The family members can eventually enter different rooms. It indicates the importance of maintaining family influence and unity, and developing the talent of family members.
- The model identifies four common problem areas in family governance: (i) the loft (an informal decision-making approach with few boundaries between decision makers. The roles and responsibilities of the decision makers are unclear); (ii) the silo (which replicates the decision-making approach of a loft but within individual areas or silos. People avoid any important cross-business decisions); (iii) missing rooms (often the owner room is missing); and (iv) messy rooms (a room or two that has lost its original purpose and function).

It is important to be aware of the lofts, silos, missing rooms and messy rooms. When these are visible, families need to go back and renovate the governance structure and process.

**2.4 ZOPA (Zone of Possible Agreements) Model: An approach for navigating emotional negotiations in family enterprises**

**Figure 6: ZOPA Model<sup>14</sup>**

My non-negotiables	ZOPA (Zone of possible agreements)	Another's non-negotiables

<sup>14</sup> Doug Gray, "The ZOPA Model: An approach for navigating emotional negotiations in family enterprises", *FFI Practitioner*, 14 March 2023, <https://ffipractitioner.org/the-zopa-model-an-approach-for-navigating-emotional-negotiations-in-family-enterprises/>.

In 2023, Doug Gray applied the ZOPA Model (2017)<sup>15</sup> to family business advising. With the ZOPA model, the adviser reduces the complexity of dealing with the emotionally charged issues of succession, continuity, conflict, communication and asset transfers.

In the column on the left is a list of the family's non-negotiables (what the family must hold true in the future). These are the family's core values and may include career clarity, ownership or asset management. If the 'important' is important and negotiable, it is added to the ZOPA column.

Each member of the family then lists possible non-negotiables for other family members who are involved in the negotiation. These are, of course, educated guesses. Examples may include specific assets and sunk costs in an investment. If the item is important and negotiable, it is added to the ZOPA column.

The ZOPAs should then be listed. Gray recommends listing at least 20 ZOPAs if possible. Examples may include:

- working together as a family enterprise;
- dividing assets for/among specific owners;
- distributing assets to the next generation;
- amending the shareholder agreement's buy/sell provisions regarding the transfer of assets within the family;
- distributing some assets outside the family ownership;
- defining phases of asset transfer; and
- gifting ownership from the current generation to the next generation.

### **3. Emerging theories and concepts in the family enterprise field**

As the field of family enterprise consulting continues to evolve, there is a noticeable change. While earlier research and existing practice have frequently focused on financial, managerial or innovative topics, there is growing interest in exploring non-financial outcomes, or outcomes that take non-financial as well as financial, innovative and managerial behaviours into account.

What follows are brief descriptions of selected non-financial concepts that are currently under exploration and development both in research and in practice in the field of family enterprise.

#### **3.1 Concepts of family**

Concepts of the family are evolving. Although values and traditions may remain, more complicated family issues now exist. Second marriages, same-sex relationships, children with one parent, transgender and gender identity issues are increasingly prevalent, and advisers should be aware that these issues are perceived differently across generations. The ramifications and impacts of these

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15 *Ibid.*

issues may not be front and centre, but they are present and have an impact on the system. Advisers must have eyes and ears open to bring the issues and discussion on the concept of the family forward.

### 3.2 Health and wellness

Evolving trends in society (eg, mental health, longevity, elder care, diversity, and drug and alcohol abuse) have a dramatic effect on the family enterprise and how the family and the enterprise are managed. Issues that were long buried or were not at the forefront of discussion are now commonplace conversations. Advisers to the enterprise need to be aware of these issues and the impact they have on the entire system.

### 3.3 Socioemotional Wealth (SEW)

SEW<sup>16</sup> is the family enterprise's intentional pursuit of non-economic goals and objectives that influence the enterprise's strategic decision making. It was pioneered by Luis Gómez-Mejía and colleagues in 2007. Objectives include control, transgenerational succession, social capital, emotional connection to the family enterprise and succession. SEW has been applied to social responsibility, CEO risk behaviour, non-family employment decisions, and research and development investments. While non-family firms may primarily aim to maximise financial value, a family enterprise may consider both financial values and SEW when making strategic decisions. A family enterprise may be willing to accept a level of risk and economic loss to prevent the reduction of its SEW.

### 3.4 Systemic investing

Jason Jay, professor at MIT Sloan, is a strong proponent of the evolving concept of systemic investing.<sup>17</sup> It drives the evolution of the impact of the investment on how it integrates and enhances the value of the broader world. It forces thinking past one investment to how that project, programme, asset or venture fits into a broader system that is shaped by thinking in broader terms. It is grounded in a systems view of the world and encourages a different mindset, which can be accomplished by:

- adopting a systems lens and an understanding that the world is interconnected, contingent and ever-changing;

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16 Luis R Gómez-Mejía and Inés Herrero, "Back to square one: The measurement of Socioemotional Wealth (SEW)" *Journal of Family Business Strategy*, vol 13, issue 4, December 2022, [www.sciencedirect.com/science/article/abs/pii/S1877858521000619?via%3Dihub](http://www.sciencedirect.com/science/article/abs/pii/S1877858521000619?via%3Dihub).

17 Jason Jay and John Davis, "Systemic Investing: A year-end conversation with 2023 FFI Scholar-in-Residence Jason Jay and John Davis", *FFI Practitioner*, 6 December 2023, <https://digital.ffi.org/editions/systemic-investing-a-year-end-conversation-with-2023-ffi-scholar-in-residence-jason-jay-and-john-davis/>. See also Jess Dagers, Alex Hannant and Jason Jay, "Systemic Investing for Social Change", *Stanford Social Innovation Review*, 12 December 2023, [https://ssir.org/articles/entry/systemic\\_investing\\_for\\_social\\_change](https://ssir.org/articles/entry/systemic_investing_for_social_change).

- being open to different understandings of investment success (not just the conventional rate of return);
- having respect for complexity and understanding the power of collaboration;
- deprivileging finance by searching for ways to put capital to use and understanding how it is interdependent with other actors and inputs; and
- focusing on the real economy with a view to how finance can help and shift systems that meet wider needs.

### 3.5 Wingspan Legacy's Four-circle Model: understanding the role of family enterprise in society and philanthropy

Christina Wing of HBS and her colleagues at Wingspan<sup>18</sup> have developed an emerging model that addresses the family enterprise as an ecosystem where family dynamics intersect with business, wealth and philanthropy. The model identifies four areas that require governance: (i) the family; (ii) the family office; (iii) the operating company; and (iv) the family foundation/philanthropy. Merging investments with philanthropy with an eye to society at large creates a paradigm for marrying social impact with long-term interest.

## 4. Conclusion

In this chapter, the authors have identified and discussed:

- Foundational theories and models that shaped the field of family enterprise advising consulting in the early years. Readers will notice that these foundational models are often based on models developed in related fields, since in essence, family enterprise consulting is a multidisciplinary activity.
- Other theories and models that evolved in subsequent years, based on these foundational models or on other models from what are frequently called the core disciplines or professions of origin, that is, behavioural science, finance, law and management science.
- Emerging theories and models that, for the most part, are based on non-financial considerations or changing constructs in the larger society, for example, concepts of the family, philanthropy, or concepts that are occasioned by the burgeoning family office component to the traditional family business governance models.

These selections are based on the authors' experience and research with

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18 Christina Wing, "Perspectives on Family Philanthropy and Social Impact Governance", *FFI Practitioner*, 19 March 2024, <https://ffipractitioner.org/perspectives-on-family-philanthropy-and-social-impact-governance-an-interview-with-christina-wing/>.

family enterprises and family enterprise advising, and are not intended to include all theories and models that have been created in the last 40 years. Nonetheless, we hope that these selections will be part of the ongoing corporate education and personal knowledge offered to multi-generational companies worldwide by advisers and consultants who work in and want to lead this new professional field.