Fair Process: Striving for Justice in Family Business
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The social science and business literatures on procedural justice or fair process attest that improvements in procedural fairness can be expected to improve both a firm’s performance and the commitment and trust of the individuals involved with it. This article examines the relevance of procedural justice for family business. When a family is an influential component of a particular business system, the application of justice is typically rendered more complex than might be the case for nonfamily firms. Different criteria (need, merit, and equality) guide the application of distributive justice among families, firms, and shareholders. This divergence in criterion also lies at the heart of many conflicts inside the family business. In this article, we argue that the application of procedural justice reduces occurrences of conflict and, in some cases, may eliminate conflict altogether. We propose a definition of fair process that extends and enriches the one existing in the literature. We offer five fundamental criteria essential to the effectiveness of fair process in family firms. We conclude with a series of case studies that illustrate typical questions faced inside family businesses. We show that a lack of fairness in the decision and managerial processes governing these businesses and their associated families is a source of conflict. We describe how increasing fair process practices improves the performance of these businesses while also increasing the satisfaction of those associated with them.

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

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...

Rawls, Theory of Justice
Introduction

The concepts of fairness and justice have long been fundamental themes in law and in society. More recently, these concepts have been recognized as fundamental to organizations as well. Global strategy formulation and implementation, managerial dispute resolution, compensation, layoffs, and gender-biased pay inequalities are examples of issues that have been rendered, in some cases, less conflictual through the implementation of organizational justice concepts.

In this article, we position the concept of procedural justice or fair process as fundamental to creating a sense of fairness for people involved in family businesses. Family businesses link two societal institutions, family and firm, in cooperative ventures for mutual advantage. In these ventures, conflicts unavoidably arise about the appropriate distribution of the advantages gained, and about the principles that should govern the resolution of those conflicts. A key difficulty is that perceptions of fairness and justice differ across family and firm. Therefore, we saw a need for a rejoinder.

Our main argument is that the principles of fair process provide this rejoinder. Negative tradeoff between family and firm, which essentially consists of a choice between emotions or economic performance, is not a fatality; the application of fair process largely eliminates this negative tradeoff. Therein, in our view, lies the power of the fair process concept. Indeed, the remarkable result of fair process in family firms is that it improves both the economic performance of the business system and the satisfaction and commitment of family and nonfamily individuals involved with it.

The article first reviews the literature on procedural justice inside organizations. We then discuss the relevance of the concept for family firms. Literature in this domain is scarce. One of our aims here is to clearly place fair process as a central concept in the family business literature.

We then argue that the more traditional form of justice—that of distributive justice—is applicable to resolving conflicts within each of the components of the family business system, but is less effective when applied to the systemic issues that affect multiple components simultaneously. Our argument is that different criteria—need, merit, or equality—generally guide the application of distributive justice among families, firms, and equity holders. This divergence in criteria severely limits the role of distributive justice in family firms. One solution, we argue, lies in turning from “outcome-based” justice to “process-based” justice. Conflicts generated by the interface of family, shareholding, and business interests should benefit from an effective application of fair process principles.

We make two contributions to the fair process literature. First, we provide a more complete definition of fair process in order to facilitate application of the concept. Second, we present five characteristics essential to fair process practices.

The relevance of fair process for family firms is demonstrated in case studies taken from our field experience with family firms. The examples attest to both the positive impact of fair process and the negative impact of violations in this domain. The examples are broad in nature. They pertain to conflicts among family shareholders, human resource questions inside the family business, leadership succession, and the organization of the business family.
In sum, our point is simple: There are neither counterpoints nor obvious caveats to the introduction of fair process. Family businesses and business families that implement fair process should expect gains in both business performance and family harmony.

“Procedural Justice”: A Brief Review of the Literature
Observing the Role of Procedural Justice in Society and Organizations

The concept of procedural justice is, in the recent literature, often credited to two social scientists, Thibaut and Walker, and to their work *Procedural Justice: A Psychological Analysis* (1975). These authors combine an interest in the psychology of justice with the study of judicial processes. Focusing their attention on legal settings, they explore 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* devoted to examining the fairness of outcomes and the distribution of allocations. Their early thinking, and the subsequent research by others, established that perceptions of procedural fairness positively affect not only individual satisfaction and acceptance of outcomes, but also generate greater compliance with the resulting decisions. Fairness in judicial procedures was thus unequivocally established as being as critical to perceptions of justice in society as the outcomes themselves. Procedural fairness was found to be critical to the generation of trust, commitment, and harmony in society.

It is also important to mention that the work of Thibaut and Walker followed the seminal modern statement by the philosopher John Rawls of the importance of justice and fairness to the orderly functioning of society. In his *Theory of Justice* (1971), the philosopher demonstrated the pertinence of traditional political philosophy to the affairs of society, thereby continuing a debate that can be traced to Rousseau and Aristotle, among others. Rawls argued for a central role to be played by procedural justice: if a procedure can be found that embodies the moral ideals of justice, then justice amounts to correctly applying this procedure; its outcomes will be just and perceived as such. Rawls was skeptical about humankind’s ability to discriminate among various outcomes. He viewed individual fairness judgments as unreliable, if not indeterminate in particular instances. For Rawls, the search for a procedure that would meet particular fairness constraints seemed preferable to an inconclusive debate on the degree of fairness of social outcomes.

Leventhal (1980) is generally credited as having first asserted that procedural justice (as applied in the court of law) was greatly relevant outside legal settings as well. Researchers started applying this concept to a host of social settings and diverse cultures, confirming Leventhal’s assertion in such varied contexts as education and politics. The seminal reference in this regard is the book by Lind and Tyler (1988).

Greenberg (1986) was one of the early scholars who applied procedural justice ideas to business issues. His early interest centered on performance evaluation for promotion and pay decisions. Organizations, like societies, are communities of individuals that are very sensitive to procedural justice. Wherever fair process prevails, trust, commitment, and harmony soon follow (Greenberg, 1990).
More recently, Kim and Mauborgne (1991, 1997, 1998) vividly illustrated the conceptual power and applicability of procedural justice concepts inside the multinational enterprise. 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, their organization. This in turn engendered the managers’ active cooperation in implementing these decisions, typically improving performance. Conversely, when managers viewed decision-making processes as unfair, they “hoarded ideas and dragged their feet.” Following this preliminary research, Kim and Mauborgne explored procedural justice in other business contexts—for example, in companies in the middle 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 organizational systems—regardless of whether they themselves win or lose by participating—when fair process is observed. Conversely, grave and prolonged violations of fair process were shown to—at best—generate a form of passive resistance and—at worst—a form of negative behavior motivated by a desire to practice sometimes very destructive forms of retributive justice.

**Defining Fair Process**

The initial research on procedural justice identified the key observation that the nature of legal procedures influenced perceptions of fairness. Adversarial procedures, where each party could present its 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 & Taylor, 1988).

Leventhal (1980) expanded these considerations beyond legal settings and suggested six rules for procedural justice in decision-making procedures.

- Consistency of the procedure across persons and across time.
- Suppression of bias by the decision maker.
- Accuracy of information.
- Correctability (e.g., through appeal procedures).
- Representativeness, in that all phases of the procedure must reflect the basic concerns, values, and outlook of the individuals concerned.
- Ethicality, so that the procedure conforms to personal standards of ethics and morality.

Kim and Mauborgne (1991) built on this thinking in their work on transnational organizations, specifically in the relations between headquarters and their subsidiaries. They identified five components of fair process. Four were drawn from Leventhal and other procedural justice research (bilateral communication, consistent application of procedures, ability to refute decisions, and accuracy of information). A fifth component was specific to their setting and concerned the full accounting of headquarter decisions to the subsidiaries.

In subsequent writings, Kim and Mauborgne (1997) synthesized these five components into three principles, which have become known as “the 3 E’s” of fair process.

- *Engagement* of all affected by the decision (including the possibility of refutation).
- *Explanation* of the final decision and the arguments behind it.
• *Expectations* regarding the rules of the game and the roles and responsibilities of the actors, now that a decision has been made. The context for their paper was the issue of commitment by knowledge workers inside innovative organizations.

We were struck by the strong parallel between Kim and Mauborgne’s conclusions regarding the behavior of knowledge workers inside organizations, and that of individuals associated with well functioning family business systems. Our subsequent field experience and reflections only strengthened our conviction about the distinctive contribution this concept holds for the family-firm field.

**The Case for Procedural Justice in Family Business**

Lansberg (1989) was one of the first authors to discuss justice in family firms, which he recognized as “messy and complicated.” Aiming for clarification, he distinguished three forms of justice: (1) *distributive justice*, which concerns the allocation of resources and hardships among members; (2) *procedural justice*, which Lansberg principally views as pertaining to the determination of the actors involved in making particular decisions; and (3) *retributive justice*, which deals with punishment of members violating particular norms.

Expanding on this clarification, Lansberg further emphasized the need for identifying subgroups inside the family-firm system within which individuals would be treated equally. A necessary requirement, then, is to clearly delineate boundaries among groups that have similar positions in the family-firm system. The “three circles” framework of Tagiuri and Davis (1982) allows a straightforward identification of seven such subgroups, ranging from family owner-managers to family members not involved in the family firm or nonfamily managers without shares in the family firm. The second and corollary observation presented by Lansberg is that members in the family business system have different perceptions of *entitlement* that, if unfulfilled, will generate feelings of injustice. The overlapping nature of family business relationships creates further potential for conflict.

Leadership transition in either ownership or business management is a critical challenge for all business systems. This is particularly so in family firms. Family-firm stakeholders typically consider the fairness of ownership or management transfer in *distributive terms*, namely, in terms of the allocation of rights: what each member receives (e.g., shareholding or wealth) or how each is affected (e.g., appointment to a senior management position). Ayres (1996), in his article on family justice, suggested that ownership succession be based on family members’ *needs*. Need is only one of the principles one can apply in determining outcomes, albeit a key one inside families. *Equity* and *equality* are the other two principles commonly invoked when applying distributive justice (Baldridge & Schulze, 1999).

**Need-Based Justice Inside Families**

As well argued by Ayres, need is indeed a proper principle for allocation of resources (both financial and emotional) inside the family circle. Families are largely organized around *hierarchies based on the parent-child relationship*. As children grow, the primary focus of their parents or care-
givers is to help the children mature, and to meet their basic needs for safety and nurturing. When one child requires more attention and support than the others (e.g., due to particular developmental problems), the privileged attention by the parents toward that child would be considered perfectly legitimate inside the family circle, even when such support comes at the expense of “less” needy ones. Similarly, imagine that one of the children has qualified for more selective and expensive education. This child is typically entitled to claim greater financial support than those not pursuing advanced education. Let us assume that this child succeeds in his or her education, and enters a professional field in a high-income position. The other children might be happy or envious, but they would typically not expect or require financial compensation from their successful sibling—unless they could present an argument that again would involve legitimate needs. As children develop and their needs are gradually met (possibly by others), the behavioral pattern reverses, as the needs of aging parents increase. In sum, the family is an institution that is geared toward meeting the needs of its members, typically those of the young ones first, then the aging ones.

**Meritocracies Among Managers**

Firms, in contrast, form hierarchies based on individual competencies—established through past performances and perceived future potential. Successful performance reinforces position and authority. The principle of resource allocation inside a firm is thus one of equity based on performance and merit, and not, as in the family, based on needs. Competent managers are listened to, given more responsibility, and, when successful, receive greater rewards. When pursuing particular actions and strategies, these managers and their teams may be allocated more resources—because they are seen as meriting this allocation more than their less successful peers.

**Equality Among Shareholders**

The situation is, once again, different when it comes to shareholding or equity ownership. The norm for resource and, to an even greater extent, profit allocations is *equality*: all shareholders should receive, at least within their class, the same dividends. The price for each share should be the same for all, and information should be distributed uniformly to all shareholders. This is precisely why “insider information” is considered to create an economic disadvantage for “outsiders” (and is illegal in some countries). Because it concerns a financial endowment position, equality might be a principle for the allocation of inheritance. However, ownership succession blends family questions with ownership or wealth succession questions—needs and equality. We see the limits of the application of distributive justice in the family business setting.

**Difficulties With Distributive Justice in Family Business Systems**

The difficulty of any application of distributive justice to the family business system is that family, shareholders, and employees will judge the fairness of particular outcomes with very different criteria (respectively, need, equality, and merit). There is an inherent near impossibility that the different stakeholders will reach agreement on a *fully fair distributional outcome* in family firms. An exclusive focus on distributive justice within
family firms may therefore engender more conflict and disagreement than resolution.

The family firm tests the limits of distributive justice because the business family faces a dual challenge that goes beyond the allocation of particular ownership or management rights. Not only must the family design and operate a business system that creates value for its customers, employees, shareholders, and family members, it must also sustain the system beyond the horizons of the current actors toward further shareholders, next-generation family members, and future employees. Though economic value creation (or at least break-even) is naturally a key requirement, family businesses often privilege long-term survival and independence over short- and medium-term profitability. A satisfactory application of distributive justice in a context where neither actors nor outcomes can be fully described is thus an illusory goal.

The overlap of family and business systems, each with different guiding principles, 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 may carry over to the business later, when the children assume management responsibility. Family feuds may keep valuable family members at a distance from the firm, instead of contributing to it. Senior family members, used to their seniority in the family, may act unilaterally, either at board or managerial levels. Family or minority 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—creates many opportunities for injustice. Injustice in one sphere, or across two spheres, will typically have negative implications beyond these areas, ultimately threatening the viability of the entire family business system.

Procedural Justice as a Fundamental Fairness Principle for Family Business Systems

We argue that one resolution to the issues described above may come from principles of procedural justice, namely, from the degree of fairness of the process applied to resolving contradictory claims from various stakeholders in the family business system. Sustained violations of fair process are at the root of many family conflicts. Furthermore, value destruction appears to be commensurate with the degree of violation. Undeniably, family firms are a kind of social institution presenting a wide range of interests. As argued by Rawls and others before him, a context of fairness is essential for preserving social institutions and for allowing them to flourish (see also Carlock & Ward, 2001). Fair process is therefore an essential part of establishing trust, commitment, and harmony in family firms. An environment of fairness, according to fair process theory, improves both the performance of the family firm and the members’ satisfaction with it. Another positive result of fairness is that the family firm is better able to attract next-generation family members, as well as qualified nonfamily managers or shareholders. Our experience with family firms, as described in the case studies below, fully confirms the importance of fairness in decision making.

When we discussed the concept of fair process with disillusioned family members, they fre-
quently expressed a desire for a greater degree of fairness in their family firm’s way of making decisions. In families where this desire for fair process is put into action, we see rapid gains in individual satisfaction and system performance.

We will describe in greater detail below the framework we use in such interventions. It extends and integrates the literature in this area and is motivated by the family-firm context. The last section of the article validates and illustrates our framework.

A Dual Framework for Fair Process in Family Firms

We characterize fair process in family firms as a dual construct encompassing both a clear description of the steps defining a decision-making process perceived as fair, and five characteristics these steps must include.

The literature on fair process has never explicitly linked fairness characteristics with a precise definition of process. We have found it useful to first describe the decision-making process in detail, and then elaborate on what is required for such a process to be perceived as fair. The resulting framework appears in Figure 1.

Specifying the Process

The literature on decision making is relatively consistent in describing a decision-making process as consisting of a set of iterative steps. Russo and Schoemaeker (2002) define these steps as: Framing, Gathering Intelligence, Coming to Conclusions, and Learning from Experience. The last step typically starts a new decision-making cycle; depending on the content of the learning, the process may continue at any of the three prior steps.

We have made some modifications to this definition. The first change is that we have integrated key observations emanating from the fair process literature. Kim and Mauborgne (1997) identify engaging of relevant actors as a key step for effective decision making, as well as explaining the decision reached. They further stress that fair process requires an explanation of both the rationale for the decision and a statement of expectations for the proper implementation of the decision.

The other change made to the Russo and Schoemaeker framework concerns the introduction of a step corresponding to the execution of the decision. This single addition enlarges the application of the framework from decision making to managerial behavior—be it in the business, family, or ownership spheres. We have found the latter extension to be welcomed in family firms.

Framing and engaging

The first step of a well-formulated process consists of framing the issue: examining whether it is well understood, what aspects are important, and what criteria ought to be used to guide the selection of an “optimal” outcome. The viewpoints of those
responsible for the issue or having a stake in it, and those with specific expertise in the area, are particularly relevant at this stage and ought to be probed. One typically also identifies the major uncertainties that may affect the outcome, as well as the various dimensions along which outcomes can be measured. Early agreement on criteria to be applied for selecting an “optimal” decision can eliminate many problems later.

To this now standard definition of framing, we purposely add what Kim and Mauborgne (1997) refer to as engagement. At this point, one should ask: Have we truly involved those concerned in an active way, allowing them to challenge us, and encouraging them to suggest alternative ways of viewing the problem (and also of solving it)? It appears to us that this engagement step is critical and needs to be taken early in the process in order to frame the decision properly and commit people to the resolution of the issue or the implementation of the outcome. Inspired by Kim and Mauborgne, we agree that proper execution is greatly facilitated by proper engagement of those involved at the framing stage. Naturally, once engaged, relevant actors tend to remain involved throughout the process.

Exploring and eliminating

The second step consists of creatively generating a list of available options and evaluating the implications for different constituencies. Relevant facts and uncertainties—and their likely effects on the decision outcome—also are considered at this point. As the family explores the implications of possible actions and eliminates some of them, the list of desirable options is gradually reduced. This step corresponds to the most common method of issue analysis in decision making. It is central in Russo and Schoemaeker (2002), but not mentioned by Kim and Mauborgne (1997).

Deciding and explaining

Having examined the pluses and minuses of the various options, the family needs to come to closure by selecting a decision for implementation, a step that Russo and Schoemaeker call Coming to conclusions. Naturally, the decision itself could be in the form of an implementation process over time. Our premise is that at some point, a decision has to be selected that closes the exploration phase, at least for a certain period of time.

We felt it useful to link the stage of decision with the Explanation requirement of Kim and Mauborgne. We find that when stakeholders are kept informed, they are more likely to be satisfied and, in addition, this helps the leaders to validate their decision. This is why we explicitly refer to it here. Finally, this is also the point at which expectations are set with regard to the effective execution of the decisions reached.

Implementing and executing

As mentioned earlier, we have found it useful to explicitly introduce a step devoted to implementation and execution. During our fieldwork, it appeared evident that for managers and family members one of the keys to successful decision making, and to the managerial process, concerned the way decisions were implemented and executed. This was especially so in the context of fairness, which implies that “people ought to do what they say, and also ought to say what they do.”

The introduction of this step appeared important to those involved to elevate the debate from decision making to a full framework for action.
We agreed with this recommendation and received positive reactions to this framework.

Evaluating and learning
The decision-making literature has recently underlined the importance of evaluation as an integral part of the decision-making process. If this step is not taken, there can be no learning over time, improvement will be limited, and mistakes may be repeated. Recognizing that most issues that require decisions tend to reoccur, due attention to the evaluation step is now considered an essential part of any decision-making process, as evident in the framework of Russo and Schoemaeker (2002). It ensures that today’s decision will benefit from the lessons of past decisions. The lessons from a proper evaluation typically pertain to one of the other steps in the process (Framing, Gathering Intelligence, Coming to Conclusions). For example, one lesson might be that more attention ought to be shifted to the framing step and to greater ex ante agreement on explicit criteria for the selection of a “best” option.

The working hypothesis of the decision-making field is that, over time, a well-formulated decision-making process will be more effective in producing good decisions than a poorly formulated one. All five steps are therefore essential, and deserve the family’s full attention. Techniques and tools exist for each of them, as well argued in Russo and Schoemakers (2002). Conversely, if any of the five steps is curtailed, one result may be inferior decision making over time.

Characterizing Fairness in the Process
So far, our framework has emphasized the steps of a process to be followed, without much comment about the manner (commitment, clarity, ethicality, etc.) in which these steps should be executed. Our full framework results from the introduction of fairness characteristics in our description of the process steps. These characteristics are largely the ones mentioned in the literature on procedural justice in organizations.

Communication and voice
The first principle of fairness in decision-making processes consists of giving those concerned a voice, ensuring that their views are heard and represented (Leventhal, 1980). This voice gives stakeholders a way of shaping the decision under consideration.

In larger family firms, the general assembly of shareholders is an opportunity to engage family members if the assembly is conducted in an open manner. However, nonfamily managers and minority investors regularly complain about a lack of voice with respect to family-firm decision making, leading to frustration and lower commitment on their part. Engaging communication, from all concerned, is the first step for building fairness in the process.

The development of the younger generation is especially important for business families. As members evolve from parent-child relationships to a family of adults, the younger generation should be allowed to negotiate its 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 one as unfairly critical in its judgment 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 its parents’ influence or sensitivity, the younger generation may reduce its participation and commitment. This breakdown of intergenerational communication typically originates through a lack of communication and voice. It can lead to potentially grave consequences, including the loss of valuable energy in the younger generation and, ultimately, the sale of the business.

Internships are a good tool for communicating to the younger members the reality of the family business and the emotion and pride the business holds for particular family members or nonfamily managers. Internships in the family business are a wonderful and underutilized means of engaging the younger family members. This experience is often very useful for their own professional development—regardless of whether they join the family firm later in their career—and will certainly be helpful if they participate one day at the board level or in the family office.

Clarity of information, process, and expectations

This is what Leventhal (1980) identifies as accuracy of information. Kim and Mauborgne (1997) underline that the requirement goes beyond access to the most relevant data to include explanations and expectations as well. Lansberg (1989) would suggest that clarification of entitlements should fall under this rubric too. Finally, given that clarification of the process steps is a key to fairness (as we argued above), it is obvious that this chapter, too, can be quite voluminous in family business.

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 nonfamily managers. This clarification helps the participants in the family business system to develop a shared understanding of goals and potential areas of conflict.

The gathering and validation of facts and evidence, and their dissemination, must become standard practice for fair process to prevail. Some of the recurring difficulties that business-owning families face are often the result of misunderstandings of individual or family goals, or of particular aspects of the family firm’s decision-making processes. The younger generation increasingly views this lack of clarity quite negatively. In sum, fair process requires clarity and clarity enhances fairness.

Consistency across people, over time, and with agreed values and norms

This is the consistency requirement of the procedure across people and across time identified by Leventhal (1980). We also see consistency as supporting Leventhal’s ethicality requirement—as ethicality requires consistency with values and norms—as well as the suppression of bias by the decisionmaker (and those involved with it). Consistency of current decisions with past ones forms the basis for the precedence rule in law. In management, “walking the talk” requires actions to be in line with espoused intent.
Consistency, in the context of a family business, helps counteract feelings of injustice in the family (“my brother was treated differently than I was”) or in the business (“we are treated differently compared to nonfamily members”). Decisions, and the processes yielding them, should be consistent across individuals, over time, and with family-firm principles.

This call for consistency, both within the family and within the business, was strongly expressed in our field interviews. Youn family members want a process ensuring that employment or other decisions are based on capability and performance, not on family position or relation (i.e., consistent with the meritocracy norm of business). Talented family members in particular are eager that their careers be developed through competence and achievement, measured by the same performance reviews used with nonfamily members. This consistency gives them a greater chance to benefit from the honest feedback that is so critical for professional development. Explicit family agreements and policies related to roles, employment, and ownership ensure that decision-making processes are run in a consistent manner, contributing to commitment and trust in the family business.

Changeability of decisions, process, goals, and principles
Judgments reached in courts of law are presumed to be fair. When new evidence or circumstances are brought forward, the courts typically follow particular procedures to review past decisions and possibly alter them. One established forum for such reviews is the appeal court.

This is the basis of the correctability requirement of Leventhal (1980). It is important to note that this requirement conflicts only in appearance with the previous one, which emphasized consistency. The resolution lies in the clarity and communication requirements: a clear procedure should be followed when altering past decisions, or when changing process, goals, or principles. For fairness to prevail, changes must be done in a clear and transparent manner.

We argue that an inability to alter course turns a family firm into a prison on many levels (e.g., professional, financial, emotional). Therefore, family businesses must be prepared to address changes to the business as well as family conditions due to natural or economic lifecycles. The ability to adapt values, goals, and commitments in the light of changes in the surrounding economic, social, political, and physical environment is a critical success factor for all organizations. In the case of family businesses, changes in the family—whether in the composition of the family shareholding or more simply in the family’s changing needs and aspirations—should lead the family and its business to reassess plans, policies, and agreements. A unique challenge of family business is that family lifecycle events (e.g., birth, divorce, or death) can suddenly cause discontinuities for the business.

The need for changeability in family business norms is best demonstrated by examining ownership or employment agreements made by past generations. The idea of limiting ownership to the oldest male, or employment to males only, is now being challenged by many families. Similarly, expectations of rewards and recognition based on performance or merit have greatly increased as well. Changeability acknowledges the family’s need to alter previous family agreements so as to better reflect current family values and interests, as well as current business needs.
Such changes are regularly suggested by the younger generation, which often must co-opt its 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 detrimental to the family firm (sometimes fatally so). Families that practice changeability are more open and more able to review decisions based on new information and changing contexts. Such families therefore have a greater chance of adapting to changing business opportunities and requirements and, ultimately, are more likely to survive. We were impressed by one 300-year-old firm we studied whose planning horizon is constantly geared toward the upcoming 5- to 10-year period. Its permanent focus lies on a vital issue: What changes should be made to ensure performance and survival during the following 10-year interval?

Commitment to fairness

In our efforts to characterize fair process in the family business context, we largely followed Leventhal (1980) and identified communication, clarity, consistency, and changeability as essential features of the decision-making processes. However, we have seen that a family business can have clear procedures and principles, can communicate, act consistently, and allow for changes, and yet still fall short in its fair process practices. This occurs when either family or business members’ fair process practices are mechanical, without a deep commitment. In that case, fair process is perceived as a utilitarian exercise intended to facilitate decision making or maintain support. This can happen when the family’s leader becomes more established and more powerful: his or her commitment to fair process may be gradually replaced with more pressing executive responsibilities and a more authoritarian leadership style. This behavioral change, if left unchallenged, can end up affecting the family business system, causing a culture of commitment to be replaced with cynicism and resentment. The benefits of fair process then are rapidly replaced by the liabilities of its mechanical or instrumental application. We have concluded that a deep systemic commitment to fairness in the family business is the best antidote to gradual, pernicious change in leadership style and behavior.

A second observation is that people tend initially to view fairness and justice as absolute principles that can never be achieved in actual practice. This leads them to conclude that the concept has no relevance for the business or the family. As clearly demonstrated by Kim and Mauborgne (1991, 1997), it is critical to see fair process as a relative concept, precisely because in practice its full essence can only be aimed at, never fully attained. There is no guarantee that application will always be exemplary. But by and large, and this is key, increase in fair process will improve performance and individual satisfaction, with a consequent increase in commitment and trust. This implies a fundamental change to the entire system, as well argued by Weick (1984). No gain, however relative, should be discounted, and arguments about the impossibility of absolute fairness miss the understanding that the concept has great incremental value. A systemic commitment to the practice of fair process is the best way to avoid any tendency toward an increasingly mechanical application of the requirements we describe above, or to an abandonment of fair process all together. On the contrary, this deep
commitment not only ensures continuation of fairness, but also is likely to generate improvement in the processes governing the family business.

We would like to make one final observation on the relationship between family culture and fair process. Several of the individuals interviewed about fair process (family members as well as nonfamily managers) insisted that family culture, in addition to generating a strong sense of ethicality and family identity, is critical for family decision making and conduct. The culture described—respect for family values, commitment to the development of employees, a search for truth, responsibility toward one's fellow human beings—was quite often of a general nature and relatively common to all families. These values and practices are fully consistent with fair process; they facilitate the implementation of further fair process practices. Conversely, the enacted practice of fair process reinforces and strengthens the family's culture and conduct.

Identifying Fair Process Practices in Family Business

We now examine five cases concerning common behaviors we observed in family businesses. Each case is based on interviews with the individuals involved. Each demonstrates fair process (or lack thereof) “in action” in five different areas: ownership, family membership, recruitment and career development, management transitions, and family participation. Collectively, these cases illustrate both the positive implications of fair process and the negative consequences of any violations. Through these cases, we aim to demonstrate that fair decision-making processes build the family firm by promoting commitment and enhancing performance, while unfairness in such processes reduces the performance of the family firm and the satisfaction of those involved with it.

Case A: Unfair Process Among Shareholders

George, a promising executive in an international firm, is a sixth-generation shareholder in a family-owned industrial corporation. The corporation has stayed in its traditional markets since its creation and its aging leaders are not open to exploring new options for the business. Changes in business strategy are required if the firm is to reverse a declining revenue trend and improve its economic performance. George is concerned that without such changes the future of the business may be in jeopardy.

George has repeatedly attempted to share his views about current value destruction with family management and shareholders. After sharing his thoughts with close family members, he addressed the issue at a general shareholders meeting. Several of the family's leaders reacted very negatively to his initiative, perceived as a breach of family cohesion. He says:

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

Discussion

Here we see a lack of fair process in the exploration of business strategy; ironically, fair process

1Names and identifying circumstances have been disguised to preserve confidentiality.
is clearly needed if the current underperformance of the family business is to be changed. George, one of the family’s younger members, has potentially valuable business input, which is not surprising given his successful career. However, not only is he denied a voice in the family firm, he is furthermore retaliated against for speaking up against the currently prevailing status quo. George is an active shareholder who cares deeply about his family business, but how long will he risk further family alienation by continuing to argue in favor of major strategic change? Turning away from it all is one alternative he so far has refused. His lack of impact, and the growing hostility of the senior family managers, lead him increasingly to consider withdrawing his interest from the family firm.

Today, most family members—both those who agree with George and those who react very negatively to his interventions—are discouraged by the family’s failure to organize an adequate forum for arguments to be heard, and for proposals to be explored. Now that the senior directors have silenced George, what will it take to lead the business away from its current course of value destruction? A lack of clarity in the strategymaking process results in reduced personal satisfaction and in a substantial opportunity cost for the business and a majority of family shareholders. Lack of representation and lack of exploration of options are two major shortcomings at the level of strategic decision making.

This case exhibits a common pattern with regard to younger family members: a disregard for their potential contribution generates disaffection among them. The reduced commitment of these often-talented individuals leads to lower performance and increased current and future costs.

**Case B: Unfair Process in “Business Family” Membership**

After earning an MBA, Steve received several attractive offers from large public companies before joining a multinational organization. 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 male heirs with the family name. Steve, whose uncles were running the business, was excluded because he was not a descendant of a male family member.

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 would have liked to be considered for a position in the family business. He was not asking for any special treatment. He only wished for a fair hearing so he could state his case: it was time to reverse the long-standing policy that prevented daughters and their offspring from working in the business.

Steve’s managerial experience, training, and commitment suggested that Steve could be a positive force for the family firm. Furthermore, if he were allowed to join, this would show the family’s continued interest in the firm. As is often the case in family business, Steve’s interest was fueled by his particular attachment to his grandfather and to the business the older man had created. Steve wanted to contribute to continuing the family legacy: “I was told not to be part of it for so many years—I wish I had been asked.”

**Discussion**

This case illustrates the family’s *unwillingness to change* outdated agreements. The exclusion of
female shareholders and their children from management responsibility was an obstacle the senior generation was unwilling to discuss. The rule privileging direct descendants with the family name was clear and consistent. It may even have been perceived logical by earlier generations. But, clearly, times have changed.

Steve’s biggest frustration lay in the absence of any changeability concerning past decisions in this family business system. Steve also had no voice on the matter. The rule excluding female descendants and their offspring from managerial responsibility prevented some of the best family talent in the younger generation from joining the business. The lack of changeability of governance rules limited the healthy development of the family business.

Eventually, the family decided to sell the business, thus bringing about changeability in a radical and unforeseen way.

**Case C: A Call for Fair Process in Recruitment and Career Development of Family Managers**

After performing very well in a large public company, François is excited about the position he has been offered in the family business. At the same time, he wants to be sure that he will be hired and evaluated according to the same criteria as the nonfamily managers in the company.

When my uncle asked me if I would join, I hesitated. I am afraid to be in an environment where my performance would not be objectively measured. I set standards for myself and also need a clear assessment of my performance...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, nor will I.

In short, François wishes for greater clarity in the treatment of family members in management, as well as for greater consistency across all managers, including nonfamily ones. He seeks a culture of fairness in the selection, development, and promotion processes that govern all careers in the firm. This clearly serves the interests of the family business as it opens up opportunities for excellent managers—including family members—while calming their fears about nepotism, and widening their commitment.

A comment from a member of another family firm underlines the opportunities and challenges inherent to family members’ involvement in the business.

A person can work at different levels of productivity depending on the situation. 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 favoritism or nepotism when one pursues a family business opportunity, but rather one may be choosing the environment where one is likely to perform at one’s best. As long as one is then judged fairly against non-family members, one is not taking unfair advantage of a birthright, but rather building on it to perform better in a way that is transparent and open to all.

**Discussion**

Fair process practices should play a critical part in recruiting and performance evaluation of family managers. Lack of clarity on family policies regarding their recruitment is detrimental to all those involved with the family business, including nonfamily members (be they managers or shareholders). Special considerations given to a family member based on family affiliation or position will eventually cause conflict. Leaving the firm in the hands of underperforming family management causes lower business performance and lower individual satisfaction for business managers and equity holders alike.
It is similarly unfair to family managers to deny them the professional review and feedback needed for personal and professional development. For this reason, in addition to standard performance reviews, some family firms systematically ask the firm’s most qualified managers to supervise the most promising family managers. This is viewed by all concerned as being in the best interest of the firm. The family is reassured that the family firm is indeed a meritocracy in which sons and daughters can grow and develop. In other families, professional issues concerning family members are trusted to a special committee of outside board members and professionals to ensure a more objective and consistent treatment of family managers. Perfection is not of this world, but some systems are indeed clearly superior to others.

Agreements on mandatory retirement ages for executives and board members are another form of fair process. Such rulings provide clarity of expectation with regard to the succession process. This sort of agreement typically reduces the chance of conflict by forcing the next generation to assume responsibility for the business earlier than it might otherwise have done. A clear and practiced policy on timely retirements of both executives and board members contributes to the development of a healthier family business, where successions are expected and managed, in contrast to situations in which certain family members “corner” the family business to perpetuate their personal interests and advantages.

Case D: Fair Process in Leadership Transition

This case concerns a family that owns a very successful business, currently led by third-generation family members. The company’s founder was a strong-minded entrepreneur whose last wish to his four sons was very explicit: preserve family unity above all else!

The four sons very ably developed the business further over the years. Informal family meetings allowed the whole family to stay acquainted with business progress and challenges. Third-generation members later joined the business at entry-level positions. They were expected to work their way up through the ranks of the company, with advancement based solely on merit. Some of them even disguised their family identity when accomplishing traineeships in the firm to avoid any favoritism that their family name might have generated.

Leadership transition in the business from the second to the third generation was unusually clear and effective. It also took several years. The second generation, at the beginning of the transition process, challenged the younger next-generation team to produce an enticing business plan for the next 10 years. To add objectivity and guidance, a prominent senior nonfamily manager was added to the team of three cousins, who were further invited to call on the help of consultants if they felt this to be appropriate. Alternate options were thoroughly examined and, after a year of work, the “succession team” was ready to present its 10-year plan to the four leaders of the second generation. Not only did the plan include a strategy for the business, it also proposed new governance structures and a modified business organization. Mechanisms for conflict resolution were presented as well. The family’s senior leaders warmly embraced the proposals from the succession team, requesting only minor modifications. They immediately agreed to pass the leadership to the “suc-
cession team” while they themselves joined the board. The transition was formalized in an official ceremony attended by family members and key nonfamily business managers. All parties were greatly satisfied with the smoothness of the transition process. The business has continued to thrive.

Discussion
This case illustrates several key elements of fair process. Consistency of treatment of family and nonfamily managers was sought when third-generation members did their training under borrowed names. However, the most remarkable aspect is the succession process. The next generation was given a voice (actually several voices) and thoroughly engaged by being asked to prepare its vision for the business, which, if approved, it would then be asked to implement. The process produced substantial clarity about leadership succession and the future evolution of the business after the transition. As is often the case when fair process is applied, managers overperformed in terms of exceeding the expectations of their elders, both in the content of their proposals and in their design of the governance process.

This transition process was remarkable in that it produced both a strategic blueprint and a senior executive team committed to carrying it out. Because of its quality, this excellent outcome can also be considered fairer to the other stakeholders, including nonfamily managers, employees, and outside investors.

Case E: Fair Process in Family Participation
One large multigeneration family business invites the younger generation’s members to join the “business family” as soon as they come of age. The family office organizes introductory weekends during which the younger generation explores the history and culture of the family and its business. The handbook of family policies is explicitly reviewed and the younger members are invited to actively discuss its content. They are told that the family wishes to acquaint them early on with the family handbook, for educational reasons but also to ensure that the handbook continues to have meaning for them. Indeed, they are told that the family will consider changes to the handbook if there is a sense that it is losing relevance with the next generation. These meetings have become one way of passing onto the next generation the culture of fairness that characterizes this family. The weekend concludes with each member being asked to sign a statement confirming his or her agreement with the principles in the handbook. Those who sign receive one share of company stock. Share ownership entitles new members to regular information updates about the family firm and to invitations to shareholder meetings and activities.

This very strong organization does not prevent the family from keeping its entrepreneurial culture, which is deeply rooted in its traditions. Family members are encouraged to start new business ventures and many do so.

Discussion
This very successful family firm has a thorough and systematic process for including family members at an early age in the affairs of the family. The invitation is a very open one: the young generation is invited to validate the family handbook after reflecting on its consistency with new generational norms and practices. The process is
transparent and open in that it is not forced on members; they can join the family business, or not, and they are all eligible to propose business ideas to the family’s venture capital fund. Again, benefits come with obligations.

The initiation ritual clarifies family policies and functioning, which are explicitly described in the family handbook. Family members are given a voice and are actively engaged in exploring new family activities and businesses. Changeability of the family handbook (and therefore of the family’s rules and procedures) is part of the next generation’s initiation into the business family circle.

Contrary to sometimes prevailing ideas, the existence of precise rules does not decrease the freedom of family members, nor does it prevent initiatives. As in law, an established set of rules provides a clear and explicit framework for action. This enhances the functioning of the family and reduces opportunities for conflict. Family charters typically improve the fairness of the family business system by increasing clarity while also favoring consistency and specifying the conditions for engagement and changeability. In the family we describe here, the family charter is regularly revised. It is collected in a loose-leaf binder rather than in a hardbound document, thus emphasizing the flexibility of the family’s rules.

Conclusion: Fair Process as a Basis for Family Business Development and Survival

Fair process is critical to many aspects of our work as leaders, managers, workers, teachers, parents, and so on. It supports the implementation of difficult decisions, even those unfavorable to some or possibly many. It corresponds to a basic human desire for individual recognition. All of us want our ideas to be taken seriously, and we need to understand the rationale behind the decisions affecting us, or those around us.

Fair process in business organizations offers the potential for substantial performance gains. More voices applied to clearer agendas can generate improved solutions. Improved performance resulting from fair process practices validates these practices, leading stakeholders to demand even more procedural justice in the future. This constitutes the positively reinforcing cycle of fair process.

In contrast, an absence of fair process has precisely the opposite effect: Prolonged violations have been seen to trigger retributive justice, where people “take revenge” on those they hold (even partially) responsible for their perceptions of unfairness. The revenge may far exceed the degree of the original unfairness. Consider the sudden, unexpected decision to sell the family business by a family owner-manager. It may well be that he or she is frustrated by an inability to get his or her children to approve what the owner-manager considers legitimate plans for the business. The sale might be a form of revenge, motivated by a desire to harm the children for their perceived lack of interest or cooperation. Disappointed family members may resort to “emotional” resignations or sales of equity shares in situations of prolonged unfairness, thereby endangering the very business they are so attached to or dependent on.

We have also argued that it is important to aim for improvement over current practice, but not to set an elusive absolute fair process standard as a benchmark. It is the improvement (in voice, clarity, etc.) that motivates further implementations of fair process. Inspired by systems thinking,
one might argue that it is operationally more beneficial in a system to change components gradually, thereby allowing stakeholders to see the impact of component change on the entire system. That such small steps can indeed alter the entire social substance and dynamic has been well argued by Karel Weick (1984). Over time, the proper exercise of fair process may result in the effective and approved implementation of possibly radical changes.

Fair process does not require that families and businesses become democracies where decisions are made by majority vote. Firms are hierarchies and so are families, and for good reasons. Fair process recognizes that certain members have greater responsibility over the final decisions, and therefore are given greater authority and control. Fair process has everything to do with how authority is exercised—but is not about refuting this authority. The exercise of fair process typically increases authority, in an implicit way and immediately. To illustrate our point, take the case of an entrepreneur who wants his oldest son to succeed him. Assume further that, as sole shareholder, he has full authority to name the son as successor. If the founder wants to maximize family support for the future CEO, and hence strengthen the firm’s future performance and the family’s commitment to it, he would be well advised to engage the family in fair process during the succession period. He should extensively listen to and consider his family’s and other stakeholders’ input, including his son’s opinion. The family’s commitment to the decision will be strengthened through the process, ultimately confirming the authority of the father and of the son.

Fair process can require difficult behavioral change. Often, the immediate reaction is that the time commitment required by fair process is a luxury that the family cannot afford. Another instinctive and related reaction is that it risks “opening up a can of worms.” There is a certain merit to these arguments. First, fair process is a demanding concept that requires thoughtfulness and skill. There is the lurking danger of excessively raising hopes and falling short, especially when the promise concerns justice. However, families who have gone through the process confirm that the time and energy devoted to a satisfactory outcome was well spent—and implementation quickened. Second, although fair process may bring conflicts to the fore, it does not create underlying structural weakness. On the contrary, it ultimately clears the air and reduces future discord.

The concept of fair process originated in the courts of law. In family businesses, as well as in legal settings, the presence of a “law” will greatly facilitate fair process in decisions. As one of the above family cases illustrates, the development of a book of rules and guidelines typically serves to clarify the family’s conduct toward its business. This “family firm law”—which can be called family charter, protocol, handbook, or constitution—details policies regarding succession, recruitment of family managers, appointment of family and nonfamily board members, share ownership, and other important matters. It is the reference for decisions and brings clarity and consistency. Critical for continued survival is changeability, namely, the possibility of amending these “laws” following debate and ultimate consent of a sufficiently large (and agreed) number of family members.

Improving the degree of fair process in family firms brings many benefits to the family and all the involved stakeholders. Having a voice allows
family members to feel recognized and valued. It allows them to more readily accept decisions that do not favor them, or might even be unfavorable to them. Fair process allows more solutions to be considered. By looking at them more broadly and openly, families give ideas and new vital energy more opportunity to surface. Fair process increases the performance of the “family-firm team”: the team will execute decisions more superbly because they have contributed to shape them, have been given a chance to make them “their own,” and hence appreciate them much more.

In sum, fair process minimizes stressors that may cause the “alliance” between the family and the business to break down: every bit of unfairness weakens the alliance; every evidence of fairness consolidates it and generates commitment.

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