

Communication Traps: Applying Game Theory to Succession in Family Firms

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Communication plays a key role in effective succession planning but has not been studied in-depth in that context. Based on their study of succession literature, the authors explore the interaction between the incumbent leader of a family business and the successor. Using game theory model, they examine how poor interpersonal communication affects family harmony in a succession process. They arrive at insightful findings that are presented in this summary.

Role of Communication in Succession

Process: Game theory approach

Game theory analyzes the decisions made by humans in strategic interactions as a series of interdependent choices. In case of family business succession, the incumbent and the successor are the two main players who consider launching a 'game' i.e. the succession process. Both the incumbent and successor have a decision to make - i.e. either to move succession process forward or to hold it back. Either can communicate their respective choices to each other. The process successfully moves ahead only when both of them move forward, while it remains in status quo if both of them hold back.

Deriving the rationale from succession literature the authors suggest that the founder tends to keep the dominant position in the 'game' and does not fully communicate his priorities to the successor, while the latter tends to be transparent to the

founder. Due to this mismatch, gaps arise among them which the authors term as "Communication Traps." These lead to uneven outcomes of the succession process, where one of the players holds back, while the other moves forward.

Communication Traps

The authors identify two communication traps due to which the incumbent and successor fail to move the succession process forward. These are -

(1) **First Communication Trap** - It occurs when the successor assumes that the incumbent would be proactive and moves forward but the incumbent holds back leading to a discord, hurting family harmony. Here the incumbent fails to communicate to the successor about his intention to hold back. The family members view the successor as aggressive and disrespectful. The succession process does not move forward.

(2) **Second Communication Trap** - This happens when the successor assumes the incumbent to be conservative and chooses to hold back, whereas the incumbent is proactive and moves forward, thus leading to tension and disagreement. If the successor would have known the intention of the incumbent, he/she could have moved forward and the succession process could have proceeded.

Practical Implications

The key learning for family businesses is that open and improved communication is essential for effective succession planning. Family business leaders and their successors must aim to minimize the possibility of traps in interpersonal communication leading to gains to all stakeholders involved. If there

are barriers between them, the incumbents and the successors can communicate through intermediaries like another close family member or an advisor or consultant. This will help the family members in engaging constructively for succession planning and save both the family and business from adverse outcomes.

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