



## The 8 Best Practices of successful multi-generational Families

*“Successful multi-generational families are just as concerned with the quality of their relationships with other family members as they are with financial measures - good governance can help the next generation build on these relationships.”*

### The Best Way Forward – A Summary of Best Practice

A requirement for the family and the business to operate professionally in their dealings with stakeholders - and especially each other – should be adopted as a key best practice outcome. This produces the "Three Cs" of family business:

- Clarity - what we are doing and why
- Certainty - how and when we are doing it
- Commitment - who is responsible for doing what we've agreed to do to achieve *this clarity and certainty*

These are already fundamental indicators used in the corporate world, supported by appropriate levels of detail, depending on the business. Companies have detailed plans for strategy, business planning, operations and delivery. Families need the same things, appropriately converted for family consumption, at levels that suit the individual family.

### This will include looking at:

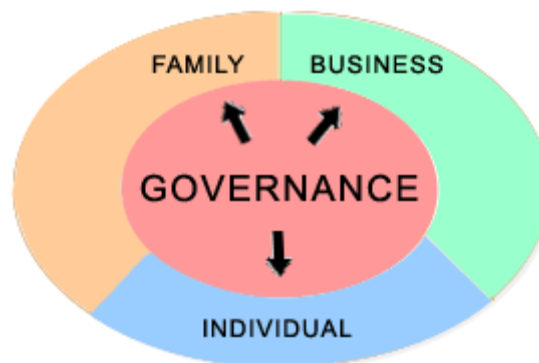
- **Values and Visioning:** who we are as a family, what we believe in, individual and collective goals
- **Strategy Plans:** where we're going, as individuals and as a family, and why we want to get there
- **Family Plans:** how to achieve our goals; individual and collective commitments and responsibilities; timelines; wills and estate planning; financial and retirement plans
- **Structures:** family boards and councils; family forums and other communication processes
- **Family Agreements:** codes of conduct; family constitutions; shareholder agreements; leadership transition and succession plans

### The Detail

What are the best practices that are used by successful multi-generational families to sustain family connection, steward their wealth and empower family members in each generation to leadership?

We suggest families define success as being as concerned with the quality of relationships, and the development of people, as they are with financial measures. They define success not just in financial terms, but also as sustaining a unified sense of family connection and developing competency and leadership in each new generation to take the family forward.

To achieve these goals, families tend to create a clear and consistent set of practices around **governance**. Effective governance generates a sense of direction, bringing the right people together at the right time to discuss the right things. While these practices can arise spontaneously, the most successful families who have sustained their entrepreneurial vigour and connection through generations, have cultivated and institutionalised these practices, rather than leaving them to serendipity.



**The challenges facing families who share a business or financial inter-relationship are not confined to any one dimension, but span all four.**

<p style="text-align: center;"><b>Governance</b> <b>Aligning Family Stakeholders</b></p> <p>Family members manage their involvement in business, asset management, and philanthropy and perpetuate their legacies, by forming family boards, shareholders’ assemblies, management teams and family constitutions that define and implement the values, mission and expectations.</p>	<p style="text-align: center;"><b>Business</b> <b>Transition for Succession &amp; Renewal</b></p> <p>For the business to operate effectively the focus must be on strategic planning, installing an effective management team, working with non-family executives and creating a board that allows appropriate ownership involvement and effective business development.</p>
<p style="text-align: center;"><b>Family</b> <b>Communication, Inheritance and Conflict Resolution</b></p> <p>Families have painful issues that need healing, and differences that are hard to discuss. They influence the process of inheritance, developing capable heirs, and sustaining family connection. Family concerns include fairness, expectations between generations and healing past hurts and misunderstandings. Individuals talk openly about difficult issues and resolve conflict, establish positive family connections, and pass their legacy to the next generation.</p>	<p style="text-align: center;"><b>Individual</b> <b>Mentoring for Personal and Professional Development</b></p> <p>Growing up in the shadow of a powerful founder can be a challenging experience. Young people need support and coaching to create development plans to achieve their potential. Family members assess their personal capabilities, discover their most effective roles and find ways to make a difference in the family and in the world.</p>

Therefore the eight proactive practices that characterise the most successful multi-generational families – spanning these 4 dimensions - are:

## **Articulate a clear and powerful vision**

Central to long-term success is a strong sense of shared purpose - the vision and mission of their family enterprise - and the values that frame how the family will work towards that purpose. This provides a motivating rationale for the family to remain unified across generations. It explains why the family is in business, how it will use its wealth, what it wants to stand for, as well as a broad strategy for achieving these commitments.

Typically, the founder articulates the mission for the business. Over time, this may evolve into a set of values about how business should be conducted and guiding principles for the family's role in community activities. They must be reinterpreted by succeeding generations to fit current realities and to integrate their values, interests and new realities. In many "clans", for example, the responsibility falls on a committee in each new generation of young adults to re-examine, renew and reaffirm the family mission statement.

## **Cultivate entrepreneurial strengths**

Many families define success as having an entrepreneurial spirit. From this spirit comes their passion for the business. Whether a businessman or a poet, family members have developed an understanding and appreciation of the entrepreneurial nature of wealth creation. Each generation understands that they have an opportunity and a responsibility to grow family assets.

Over the generations, as fewer family members are needed to participate in wealth-creating activities, this mindset is critical in sustaining unity for tough decisions. Individual family members need to agree to limit their dependence on family assets, and support the leadership in their choices and strategies. They sometimes have to put aside personal feelings about legacy investments that must be sold or new ventures about which they are uncertain. Family leaders, in turn, have to be accountable for results and not get by on good intentions. The family has to seek the best advice for their investment and focus on the best long-term development of their wealth, not just their income this year.

Families also encourage entrepreneurship through other types of activities. Some provide seed capital to young family members to start their own businesses or help trusted professionals to branch off on their own, with continued access to connections and mentoring from the family or external advisers.

## **Plan strategically to mitigate risks and capture opportunity**

Many family firms that prosper have renewed or regenerated their business strategies several times. Business renewal is often neglected. Most families are motivated when the next generation starts to say 'we are ready' or when something happens - death or a health issue. They all have trigger events - but some families have planned for it. They are proactive.

Thus, family ownership groups should:

- oversee, directly or through a fiduciary board, the strategic business and investment planning process for their assets
- take responsibility for an ongoing "ownership" strategic planning process, including the development of educated and responsible future owners, and estate and liquidity planning for each current owner
- develop succession plans for leadership of the family ownership group, management of each operating entity controlled by the family, fiduciaries of family trusts, and boards of operating entities

## **Build unifying structures**

Large multi-generational families may have scores of legal structures interrelated through ownership and management that are served by “family offices” responsible for overseeing the family's diverse interests. Each entity possesses its own governance structure consisting of the governing agreement and board of directors or trustees with fiduciary responsibility to oversee the entity in the interest of the stakeholders.

While significant effort goes into the establishment of these structures to achieve tax, legal and financial advantages, less attention may be paid to the human aspect. Who should be chosen to fill these fiduciary positions? How well will they interact with the family members? How effectively will they carry out the mission of the family and the business, especially in the face of constant changes in the tax, regulatory, social and economic environment?

As families move beyond the first or second generation, they find it necessary to define and formalise how the various parts of the system will interact.

Successful families ensure that their purpose and values carry through into the governance of the structures they establish that connect and integrate their family, business and community objectives.

Three structures are most frequently in evidence: a family council; a family constitution; and an empowered board of directors or advisers who oversee and integrate all the financial and business entities. These help organise the family to:

- specify how and when the family meets to discuss ownership issues
- provide guidelines for major choices about investment and financial matters
- make explicit how family members are appointed to boards, their terms and responsibilities
- define the processes for effective oversight of family assets
- define ways the family and its assets are engaged in the community

## **Clarify roles and responsibilities**

Each family member can wear many hats - within the family, the business and the community. These potentially conflicting roles can lead to misunderstanding and conflict. Successful families differentiate the responsibilities of family members from that of asset owners or enterprise managers and manage the challenges when individual family members move from one role to another.

In particular, ownership roles and responsibilities of ownership must be clearly understood. If not unintended consequences can affect the long-term viability of the family business. For example, a non-active owner may feel entitled to express strong opinion on tactical issues in the business. This confuses management and, over time, could weaken the ownership function. In another instance a domineering owner-manager may not pay enough attention to the needs of non-active owners and end up making them feel disenfranchised.

## **Communicate, communicate and always communicate**

Communication is not just about business. It is a personal process that involves building and sustaining long-term relationships. Of course family members must know what is happening with their investments. They need not only the numbers, but also the bigger picture – how the business is faring in the community, the outcome of key decisions and trends that may affect the business.

Personal bonds are equally important. Family members must be able to communicate within a network so they feel part of an entity. If family members understand where the train is going and feel they have had input towards deciding its direction, they will climb on board for the long run. If they are denied information and input, they tend to become suspicious.

Many mechanisms exist to help intra-family communication. Some depend on family councils and family retreats. Others may rely on newsletters and intranet sites to keep in touch. Still others have published family histories to reach out across the generations.

### **Help develop competencies**

Plans, structures and processes are only as good as the people taking advantage of them. Successful families help family members acquire the skills and knowledge to make effective decisions. If families do the job right, successive generations might even be imbued with a sense of passion for the family enterprise.

Each family member must develop a strong sense of self and confidence. Successful families make sure that each family member pursues an education, develops a profession, and learns the interpersonal skills to function effectively in the family team. Family members learn that 'being wealthy' is not sufficient as an occupation or a way to live. Successful families have learned that business is not the metaphor for the family. Each family member must learn the wisdom that 'I am not defined by my job, nor by the family business'.

Each family shareholder must be educated in their fiduciary responsibility as owners, and attain a basic grasp of the family's business and assets. This involves formal education but also includes at least a degree of financial knowledge. They also develop various forms of leadership from each generation - to run the many operating and investment entities and lead the family. To whom does the family head pass the reins? Who is capable of dealing with conflict and differences, supporting troubled or struggling family members, calling the troops together?

Some families insist that each young member intern at the family office for a summer. This experience helps them understand what is involved in their family's wealth management. Among the skills learned is setting the criteria for and conducting the search for outside professionals, whether for employees for the family office, investment managers or tax and legal experts.

### **Provide independence, including exit options**

Families achieve success by respecting the independence of each individual family member. This implies an ability of each member to stand on his or her own instead of relying on the family assets, and an ability to exit on terms that respect the interests of the remaining family. There are situations where an individual family member needs access to liquidity - to meet estate tax requirements, fund a private entrepreneurial venture or philanthropic interests, or simply because personal objectives cease to be aligned with the family group's. In addition, families face the issue of 'marginal' family members. There is tremendous energy expended by some families in dealing with mavericks. The family should be a voluntary association and be able to disconnect members who are not satisfied with the collective enterprise.

Each of these practices takes many forms for path-setting families. No family practices all of them. We are, however, of the strong belief that they indeed apply to all family businesses – large or small. Wealthy or otherwise. To varying degrees they are highly appropriate for the future. This review will hopefully help families to be more effective at creating their futures, maintaining entrepreneurial focus, sustaining positive connection and developing productive, fulfilled individuals for generations to come.

### **Putting it all together – the Role of the Family Business Adviser**

As the advisers' knowledge and experience of the family grows he will become increasingly confident about his process choices, which then form the blueprint to be considered for adoption and implementation. The process starts by separating and disentangling the family from the business - both structurally and functionally - to provide a foundation for objective situation analysis, program planning and decision-making. Specific issues such as family conflict are addressed and resolved (or at least neutralised) to avoid later derailing the process.

The process proceeds on parallel tracks - one for family and individual issues, the other for business issues. The tracks are reunited, with clear rules of engagement, later in the process. The process is approached as a family journey, with the journey being more important than the destination. It's planned in advance as a series of manageable, sequential stages, with subsequent stages being heavily influenced by what came before. Pragmatism and flexibility are built in, as diversions and surprises are not uncommon.

**In summary -**

### **Eight Practices for Successful Families**

- ***Articulate a clear and powerful vision***
- ***Cultivate entrepreneurial strengths***
- ***Plan strategically to mitigate risks and capture opportunity***
- ***Build unifying structures to connect family assets and environment***
- ***Clarify roles and responsibilities***
- ***Communicate, communicate and always communicate***
- ***Help members develop competencies***
- ***Provide independence, including exit options***

With thanks to Dr Dennis Jaffe for some of the material used here.

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