The Keys To Family Business Success

Leslie Dashew, MSW, Sam Lane, PhD,
Joe Paul, MS, Darrell Beck, PhD, CMC, and
William Roberts, CLU, ChFC

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DEDICATION

We dedicate this book
to
our co-author, partner and dear friend,

Sam Lane

who sadly did not live to see this book in print

Contents

Acknowledgements

Writing a book is always a team effort, and so many have contributed to this one. First, we have a great team of colleagues who collaborated as authors. Jayne Pearl, our editor, and Ruth Bredleau, who coordinated the logistics of getting the book together and out, supported our writing.

Our inspiration comes from our clients, the many families whom we have been honored to serve in our practices and who have attended our annual Aspen Family Business Gathering. You have trusted us as your partners in addressing your greatest challenges and striving to reach your dreams. Working through this process with you and witnessing the success of your efforts has helped us understand what is important to share in this book.

We have traveled on a path over the past twenty-five years with colleagues in the Family Firm Institute with whom we have created a body of knowledge that sustains our work. The multidisciplinary group with whom we have met informally and formally over these years has fed our thinking and our growth.

Finally, all of us appreciate the love, understanding, and support of our families. Without them, this book would not have been possible.

Introduction

What images do the words “family business” call to mind? Maybe it’s the neighborhood ethnic restaurant you frequent, where parents, grandparents, and children work together to cook, serve, and clean in joyous harmony. Then again, it might be the Shoen family of U-Haul infamy. L. S. Shoen built a billion-dollar empire and a family of twelve children. Then he watched as both slipped through his fingers in a maelstrom of lawsuits, violence, and murder. His own sons then kicked him out of the company he had founded. Maybe it’s business-owning families beloved by television soap operas, like the Walker family of *Brothers and Sisters*, who run a wine and food distribution company that personal, political, and professional conflicts overrun. Or it’s the dysfunctional Fosters of *Six Feet Under*, who run the family funeral home while coping with inheritance battles, drug use, freak accidents, and hostile takeover attempts.

When the Bancroft family sold Dow Jones & Co., Inc., and its flagship, *Wall Street Journal*, it was well reported in the news that one of the family members told his relatives that losing the firm was the price for passivity. “Our real legacy,” Crawford Hill wrote in a published Bancroft family letter, “was an inherited lack of awareness as to what it takes … to be responsible, engaged, and active owners of a family business.”

What is your family business legacy? Do you know what it takes to be a responsible, engaged, and active owner of a successful family business? By the time you finish reading this book, you will.

Most family businesses aren’t subject to the intense media scrutiny the Bancrofts of Dow Jones or the Shoens of U-Haul have had to endure. Most aren’t wracked by the kinds of scandals and conflicts reported in the news or gleefully depicted in television dramas and movies. Yet many family business owners probably feel their stories could be the stuff of engaging reality TV.

From the headline grabbers to the everyday, these are all stories of family business struggles. Together, they represent a range of issues that family business owners would be wise to address and resolve, but far too

many neglect, either because they are in denial or overwhelmed by the emotional minefield their problems represent to them. But without confronting the dilemmas and the tough choices piling up before them, the family and the business will not be able to move forward and future business success will be stifled. The very reason family businesses are so often the subject of television programs and movies is that they are such fertile ground for dramatic challenges that ensnare them in vicious cycles of conflict.

Given all the challenges and the reality that family businesses are operating in a tough and rapidly changing global marketplace, it's probably no surprise that only 30 percent [1] of family businesses survive into the second generation and only 12 percent make it into the third. A mere 3 percent continue on to the fourth generation and beyond. Adding to the usual economic, emotional, organizational, and other internal and external pressures that family businesses encounter under even the best of times is the large number of firms that are facing the crisis of succession right now because so many were created after World War II.

Dire survival rates don't stop families from starting businesses. Defining a "family business" as one in which at least two family members (by blood or marriage) are involved in ownership or management, 90 percent of all American businesses are family-held. Family businesses produce half of the gross national product and employ half the country's workforce, and they are on the rise, increasing in size and impact at a never-before-seen rate. There was an 82 percent increase from 1980 to 1985 in the number of businesses started by couples (265,398 to 482,993). And there is a strong trend for women to start their own businesses, especially when they hit the glass ceiling in large corporations. With unemployment peaking as of this writing in mid-2010, many un- and underemployed Americans, whether they have just graduated from college or have lots of experience, are likely to turn to entrepreneurship.

As the number of family businesses continues to grow, so have the number, type, and sophistication of advisors and consultants to help them survive the many challenges that family businesses face. The family business consulting profession has evolved during the past twenty years in its breadth, including various disciplines from psychology, organization

development, accounting, finance, law, investing, estate planning, succession planning, and more. Increasingly, professionals have acquired the education and experience in two or more such disciplines, while many others have created multidisciplinary partnerships within their practice to offer a holistic approach to family business transitions and day-to-day challenges.

As a result, many family businesses that had not been able to cope with these problems are getting the help they need. More than ever, they are taking a proactive approach by implementing strategic, succession, estate, and other plans that are contributing to greater chances of success.

You may wonder if you should work through the issues on your own or get outside help. Think about times when you have a cold and sore throat and tend to matters yourself by getting aspirin or cough medicine, taking a couple days off, drinking lots of liquid, and sleeping. There are also times when the severity is such that you seek medical advice because you know the problem is bigger than a do-it-yourself solution.

Similarly, there are times in this book when we'll recommend seeking advisors or experts outside the family. There are other times when we'll offer tools for the do-it-yourself approach. And there will be middle ground suggestions when you've taken it as far as you can without outside help, so you seek advice or expertise from outside.

For instance, chapter 10 stresses the importance and the methods by which a family can assess and develop tomorrow's leaders from today's offspring. Chapter 12 discusses situations of estate planning, tax minimization options, and insurance options, where the family should definitely seek expertise outside itself. In either case, we are striving to give you the most responsible advice we can.

Keys to Family Business Success is for families who are in all states of health. We five consultants, each with our own family business areas of expertise, have been working together in the Aspen Family Business Group for more than twenty years. We have helped companies and families in a wide variety of industries, legal structures, and locations around the world to tackle problems and find solutions. Further, we have helped families in business to implement policies, implement smooth transitions. We know how tough it can be to work through these difficult issues even with the help of experienced and skilled outside advisors. Without such help, the

odds of understanding, let alone successfully resolving, the complex emotional financial, legal, and organizational dynamics are slim at best. We have written this book to share our knowledge with you.

This book is for you if you:

- Work in, own, or are part of a family who is involved with a family business
- Want to avoid the common family businesses trap of shirtsleeves to shirtsleeves in three generations
- Want to help sort out how to make a family business successful
- Want help to figure out your role in the family business
- Need to know how to handle sticky situations that inevitably arise in family business
- See the value of assuring that the family is harmonious and the business is making money

This book gives families access to professional perspectives, approaches, and solutions to many common problems. We present this information in many different formats to make the information as accessible and user-friendly as possible. In an attempt to accommodate individuals' different learning styles and comfort zones, we offer several points of entry into the world of family business planning and problem-solving. Some people relate more easily to stories than facts and figures; others want or need the theory behind recommended actions before trying out new ideas. Yet others prefer to find just the issue they are facing at the moment, along with suggested solutions they can dive right into. We provide something for each of you.

Part one presents the story of a family business. Among the authors, we have more than one hundred and fifty years of experience writing, lecturing, and working with adults, and we know that adults learn differently. We know that almost everyone can learn from stories. The case study can help you, the reader, see the interconnection among elements of family functioning, see how one element affects another, and have a better appreciation of how the rest of the sections of this book relate one to

another. If you aren't one who learns from stories, feel free to skip it and go to the rest of the book.

The story is about the "Symington" family, which is experiencing a host of common problems that they have worked hard to avoid in the past. In chapter 1, we meet the family members just as the son-in-law, Sam, is at the end of his rope and has contacted a family business consultant for help. Chapter 2 describes the consultant's assessment of this family and its many issues, while chapter 3 details a custom-designed planning retreat during which the consultant helps the Symingtons begin to work through the problems that have threatened to tear apart the family and business. We have created several checklists throughout these chapters where you can note which scenarios, circumstances, and conflicts seem to play a part in your own family and business drama.

Part two delves into the predominant theories about the dynamics of family businesses. Chapter 4 looks at the big picture and explores those overlapping circles of the family system and business system. It provides practical ways to enhance communication, trust, and boundary maintenance. It also explains the typical stages of family business development from generation to generation and the most common pitfalls that cause many family businesses to stumble. In chapter 5, we describe some of the characteristics of healthy family businesses.

Part three describes the keys to success for family businesses. Each chapter in this section begins with a description of common problems around the chapter's topic, which family business members may experience, and then presents suggested solutions that will help families avoid or resolve these problems. Chapter 6 shows how successful families develop healthy boundaries that allow individual members to differentiate their identity without sacrificing strong ties. Chapter 7 presents tools that help individuals with diverse personalities and styles communicate constructively with each other. Chapters 8 and 9 show how to create effective structures and governance, such as a family council, board of directors, and management teams, as well as policies and formal agreements to help the family and business run smoothly. Chapter 10 helps parents identify leadership strengths and weaknesses in their children from a young age and suggests ways to enhance those strengths and minimize those weaknesses. Chapter 11 provides guidance on how to know when you

need an advisor (and what kind), how to select the right advisor for your family and business circumstances, when to invite advisors to your board of directors, how to work effectively with advisors, how to recognize when you have outgrown an advisor, and how to get your advisors such as your lawyer and accountant working together as a team. In chapter 12, we discuss transition planning, which guides family businesses through the process of identifying a shared vision of the future and leadership development, plus strategic planning, estate planning, and life/retirement planning.

Part four concludes the book with thirteen principles of success that will help you to be sure you cover all of your bases. A final case study summarizes how a family business has used the principles and practices in the book to address their challenges in transition.

Throughout this book, we will provide worksheets that you can use to initiate discussions with family members and/or your family business advisors to help you move forward. While we recommend reading the book through cover to cover, we have structured it to serve as a handy reference guide as well, making it simple for you to find topics that most resonate with you and speak to your current concerns. We provide readers:

- **Just enough**: This is fundamental information accessible to anyone who wants perspective and tools to help deal with real challenges.
- **Just in time**: Just as one goes to the "Plumbers" section in the yellow pages when in need, we offer freestanding sections of the book, written in natural language, that can be accessed quickly in times of need. The book can be read in its entirety or used in a targeted manner.
- **Just for me**: This book is for the family member or family business member who wants basic information to answer a question or solve a problem he or she has, for example, "How can my family handle conflict better?"

What does it take to be a responsible, engaged, and active member of a successful family business? This book will guide you through the process of tailoring answers that reflect your family's and business' unique circumstances to help you create the family business legacy you want to deliver to future generations.

[1] Joseph Astrachan, Ph.D., editor, Family Business Review, “Facts and Perspectives on Family Business Around the World” (United States data), 1/2005. Also available at http://www.ffi.org/default.asp?id=322.

Part One

The Symington/Thompson Family Business Story

We have created a fictional case study representing many of the common business challenges and difficult family dynamics that often concern family members who work together. Some of their financial, legal, emotional, or other problems and conflicts may seem uncomfortably familiar.

You also may find that your family and company share some of this fictional family's and company's strengths. We invite you to notice which problems and which resources can be found in your situation. Which character fills a role most similar to yours? Then you can explore the tools and information the Symington family accessed throughout the book and use them yourself.

Chapter One

Seeking Help

Sam Fellows picked up the phone and put it down several times before dialing. He was an in-law who had married into the second-generation Thompson family manufacturing business. And he wasn't at all sure how the family would react to his contacting an outsider for help. Sam felt both in and out of the family. Emotionally, he knew he was as committed to the success of the family and the business as anyone. But the family sometimes treated him as an outsider, not one of us. It was clear to him that the problems were bad and not getting better and that others in the family vacillated between denial and blame. He was tired of worried, sleepless nights. He finally made the call. He called Dale Williams, a retired advisor who continued to work with a few families. Sam had heard Dale speak at several family business groups around town, and he hoped Dale would help.

They met at Starbucks near his office, as Sam was uncomfortable having Dale come to the corporate offices of Thompson Manufacturing. Sam shared with Dale that he was the thirty-nine-year-old son-in-law of the co-founder of the company. He had worked as an engineer for another plant for several years after graduating from college and earning his MBA. He met his wife, Sharon, at a church singles program and knew nothing about her connection to this well-known local business because her name was not the same as the company name. Sharon was not involved in the family business at this point, although, growing up, she had worked as an assistant to the bookkeeper and even helped in shipping occasionally when the company got stuck getting out an order on time. Sam and Sharon married when he was twenty-seven and she was twenty-four.

Shortly thereafter, his father-in-law, Marc Symington, recruited Sam to work as an engineer helping design products in the machining plant. Sam sensed that Sharon's brother, Tony, resented him. Steve, Sharon's cousin

(whose late father, Richard, co-founded the business), owned stock but didn't work in the business. Sam told Dale that his father-in-law had hinted that he wanted Sam to be his successor, but feared Tony's reaction and knew Steve had his own ideas about who should be the successor. No one would talk about it openly. That was his greatest concern. There didn't seem to be a rational way for them to discuss the future of the business and the family.

Dale described to Sam how he worked. In order for him to work effectively with the family, they would all have to see Dale as neutral, not as Sam's consultant. They would have to give their input into hiring Dale so they all felt comfortable with him as their advisor. Dale told Sam that he conducted an initial family seminar called "Perils and Pleasures of Family Business" and the family could all get to know him first. Then they could decide if it made sense for them all to work together. If so, they would know that Dale was neutral and would consider everyone's point of view.

Sam was worried. He didn't know how he would convince his father-in-law, brother-in-law, and cousin to come to that kind of a meeting. They just wanted their way and didn't like listening to him. They considered Sam an outlaw, not a real part of the family. He didn't know if they would be candid with Dale or each other. Dale suggested that Sam speak to his father-in-law and provide him with information about this process. Then he could report what his initial reaction was.

A few weeks later, Marc Symington called Dale and asked him to conduct the "Perils and Pleasures" seminar. He was confident that his son, daughter, and wife would be willing to attend, but worried about his nephew, Steve, and Steve's mother/Marc's sister-in-law, Cynthia. They seemed to have chips on their shoulders and were not open to these kinds of things. Dale encouraged him to let them know that he was embarking on a process that he hoped would secure their futures and he wanted them to participate in that process. Dale explained that people who are unhappy with the status quo often feel left out and they would perhaps take this opportunity. Dale also suggested that Marc offer them several options for dates to demonstrate his commitment to having them attend. He was successful in setting up the meeting.

Perils and Pleasures

Dale met with the Symington/Thompson family at their attorney's spacious conference room, a convenient location for all of them. The first person to arrive was Sharon (Symington) Fellows. The petite blonde, who looked more like she was eighteen than thirty-six, introduced herself as Marc's daughter and Sam's wife. A very gracious person, she wanted to make sure Dale had everything he needed.

Then in walked her mother, Margaret, also petite and looking just like her daughter with the same sweet smile. She was also very warm and outgoing. Margaret had helped her husband and her brother, Richard, when they first started the business. She worked as the secretary and bookkeeper when there were just three or four employees in addition to the three of them. As the business and her family grew, Margaret decided to stay home to take care of the kids. Marc and Richard hired an office manager to take over her duties.

Next, her sister-in-law, Cynthia, fifty-seven, entered the room. She walked right past Dale, Sharon, and Margaret and sat down. Her obvious anger and unhappiness changed the mood in the room immediately. True to what Dale had heard, Cynthia was not speaking to her sister-in-law. Sharon tried to greet her and received a terse response.

All four men walked in at the same time and moved toward the open chairs. Marc, fifty-nine, balding and a bit overweight, was dressed neatly in jeans and a work shirt with the company logo on it. Sam greeted Dale briefly. Marc Symington waited until everyone else was seated before he came over to introduce himself.

He then pointed to Tony. "That's my boy, Tony." Then he pointed to Steve. "And that's my nephew, Steve."

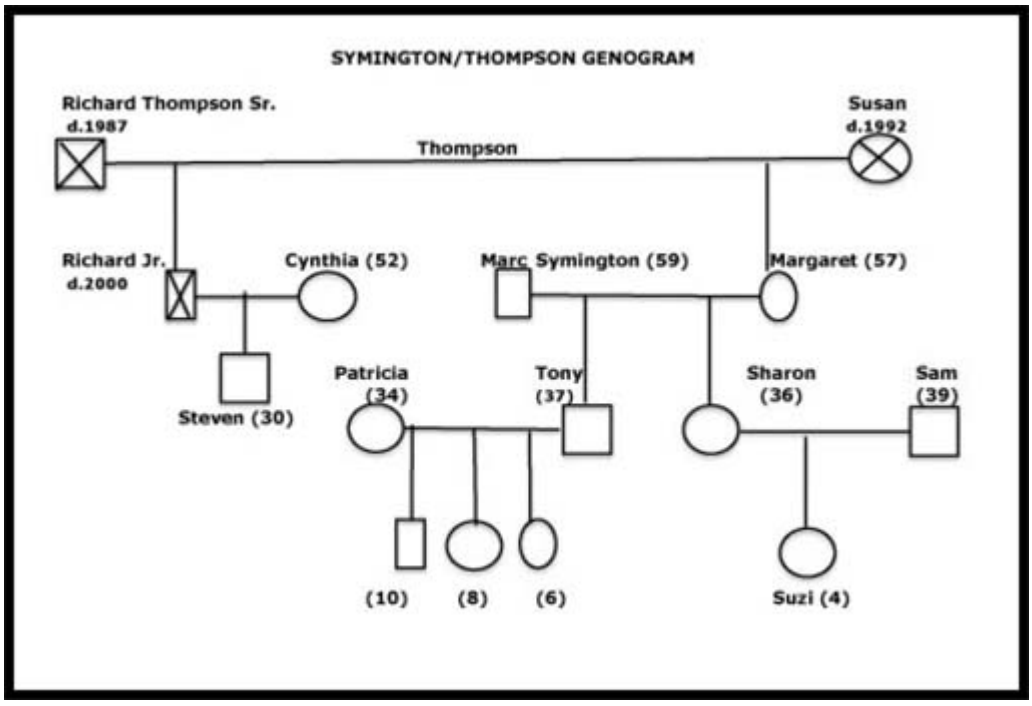
They both nodded at Dale. Tony's wife, Tricia, was not there.

Dale asked, "Tony, will Tricia be attending?"

Tony looked around uncomfortably. "Yeah, she'll be here. She had to finish up something with the kids."

Dale reiterated his background for the group and let them know that today was an introduction to him and the field of family business. He reminded them that, at the end of this seminar, they could decide if they felt

comfortable working together with him. To start, Dale drew a family tree on the flip chart.



Dale began the seminar by sharing some family business failure statistics, stories about famous families in business, the typical reasons family businesses fail and succeed, and common kinds of conflicts. Dale asked them to make notes on their handouts about what sounded similar to their experience. Then he facilitated the discussion.

Cousin Steve felt that “who is in or out” was the major issue in this family. He felt he had been treated unfairly since his father died and Uncle Marc became the president. He believed he should have gotten to take his father’s role as a leader to keep the families equal in their involvement in the business. He blamed his uncle and cousin’s husband, Sam, for his inability to find a job.

Tony, who worked in the plant overseeing production of small parts, was a quiet guy. He was competent technically, but, according to Sam, not very good at supervising plant employees. His wife, Tricia, who came in late, felt he should have a bigger position in this company. After all, he was the boss’ son. So she checked “who is in charge” and “who gets what” as the most important issues. She stayed at home with the kids at this time, but had

worked in cosmetics for a small store before they chose to have her stay home with the kids. She felt it was unfair that her brother in-law got more salary then her husband.

Sam's main concern was whether the company had too small a niche. It was making parts for only a couple customers, and he felt the company was at risk if something happened to those customers. He also felt they suffered from the dinosaur phenomenon, that is, they were not keeping up with new ways of doing things and would go the way of dinosaurs. The family could automate much of its business with CNC machines and use more robotics to keep down labor costs. While Marc was hesitant, their competition had already embraced this technology, which enabled it to come in with lower bids lately.

Sharon identified recognition as an issue that concerned her. Her dad was dedicated to the family and the business and had built the company. However, it was hard for him to share praise with the family. She felt Tony often retreated from discussions because their dad seemed harsh to him. And their dad didn't acknowledge Sam's good ideas and contributions to the business.

"Oh, Daddy!" she said. "I don't want to hurt your feelings. I know you love us all. It's just hard for you to tell us how you feel!"

Marc sat back. He listened during Dale's presentation and took notes. He looked at the information on the flip chart and at his notes. He didn't make much eye contact with anyone. He just chewed on the tobacco pipe dangling from his mouth the entire time. When his daughter-in law began complaining about unfairness, he started moving around in his chair and watching her intently. He didn't look happy. But he didn't say anything yet.

Dale would later learn that Richard's wife had engaged in the same kind of injustice collecting against Marc and Margaret as Tricia was doing against Sam and Sharon. Cynthia had stopped talking to Marc and his wife, and that was very painful for them. Marc feared Tricia might go down the same path.

Margaret, on the other hand, loved to talk and jumped in on the conversation during the seminar to add comments about her family and how it connected to the conversation. She was a bubbly blonde who knew more than she let on. Margaret picked poor communication as the issue that was

most problematic in their family business because her husband was quiet and her sister-in-law would not speak to her.

During a break, Margaret confided in Dale that she was very concerned that her sister-in-law's bitterness had rubbed off on her nephew. That was why he didn't trust them to run the business. Steve always raised questions about how Marc ran the business and whether he was getting his fair share of the distributions. Steve couldn't seem to hold a job, ran through his money, and constantly looked for more. Margaret couldn't ask her sister-in-law about Steve because she still wasn't talking to Marc or her. But she was concerned about her nephew.

As Dale reviewed the family's scores on the handout, "Qualities of Families that Stay Positively Connected," he saw they did care about each other and were there for each other during difficult times. They were also good at maintaining privacy, but maybe too much! They scored themselves lower in activities for maintenance of relationships. They didn't do much together as a family outside of work. They didn't reach out to each other much, especially the two branches. And, aside from Marc, everyone rated shared power pretty low. Marc thought power was shared among those who worked with him at the plant. He seemed surprised that the others didn't agree.

By the end of the seminar, Dale had gotten a good glimpse into the challenges of this family and how they related to each other. As he began to wrap up the afternoon, Marc interrupted Dale and put his pipe down."Thank you for your presentation and for getting our family to come together and put our problems right here on the table. I have been listening carefully and watching everyone participate. I'm even more worried about whether our business can survive the family than I was before. We have a lot to learn, and I think you can help us. But I want to talk to each member of the family by myself now and see what he or she thinks. If they are willing to go along with this process, I will, too."

Cousin Steve scowled and mumbled something about more money out of his pocket. Marc gave him a stern look and closed the meeting.

Exhibit 1.1 Types of Conflict *Check the types of conflict you believe might exist in this family/business.*	**Exhibit 1.2 Why Family Businesses Do Not Survive** *Check factors you think may put your business at risk.*	**Exhibit 1.3 Ten Qualities of Healthy Family Businesses** *Score your family on a scale of one to ten (one is low; ten is high) on each dimension.*
☐ Who is in/who is out? ☐ Who does what? ☐ Who is in charge? ☐ Who gets what? ☐ Who is recognized for what?	☐ Too small a niche ☐ Dinosaur phenomenon ☐ Founder too much at the center ☐ Family needs overtake business needs ☐ Poor communication ☐ Business runs like a family ☐ Role conflict	_Shared values _Shared power _Traditions _Willingness to learn and grow _Activities for maintenance of relationships _Genuine caring _Assist and support _Trust _Healthy interpersonal boundaries _Privacy

Chapter Two

Family Business Assessment

One week after the seminar, Marc's office manager called Dale to set up a time to meet. When Dale came down to the plant, Marc told him that everyone in the family was enthusiastic about starting their work together, except Steve and Cynthia.

"You'll have your work cut out for you with those two!" Marc said.

They discussed the plan for the next steps. There would be an assessment of the family based on one-on-one meetings with each individual. A planning retreat followed. They agreed that, in addition to the family members and spouses, Dale would interview the office manager and another key employee. Marc understood that the individual interviews would be confidential and Dale would share a summary of his findings with the family at their retreat.

During these interviews, Dale learned about the challenges that the business was facing and the issues plaguing the family. He also saw how the business hurt the family and the family hurt the business. Like most family business, the Symingtons and Thompsons had trouble separating the family roles and responsibilities from their business roles and responsibilities.

Beverly Winters

Dale's first interview was with Beverly Winters, Thompson's office manager. She had been with the company since Margaret retired to raise the kids more than thirty years ago. She was very loyal to the family and dedicated to her work.

Beverly told Dale stories about the early days of the company, when Marc and his brother-in-law, Richard, were just beginning to make payroll

without sweating it out every week. Beverly handled payroll and accounts payable, so she saw how they had to adjust which vendors to pay so they could make ends meet. She described Richard as the more outgoing of the two partners. He was a charmer, and most of the customers looked forward to his visits, as he would make sure they had the parts they needed and many good stories to entertain them as well.

Beverly said the plant was a more congenial place back in those days. Everyone worked hard for survival, and Richard would keep up morale even in the darkest of days economically. She became teary as she spoke about him and the last years of his life when he struggled with cancer. Dale asked her about the relationship between Marc and Richard. She said they were like two opposites: one more outgoing and the other more serious and detail-oriented. She said they appreciated each other's strengths and depended on each other to make the place work. When Cynthia started having her problem with Marc and his family, it was very tough on Richard.

Beverly said Cynthia never understood why Richard placed such importance on his relationship with Marc and Margaret and why she seemed so jealous of them. Richard was always the protective older brother and saw the business relationship with Marc as another way to take care of his sister and secure everyone's financial well-being. Margaret and Richard had been very close from childhood until Cynthia and Richard married. Cynthia resented the time the business took from her and Steve and seemed angry all the time. It made sense to Beverly that Richard would avoid going home. And then Beverly abruptly stopped her story. When Dale tried to inquire further, she changed the subject.

Dale asked about Steve and if he had worked at the business as well. "When Steve was ten or eleven," she said, "Richard would bring him down to the plant on Saturdays. Steve was very curious and wanted to explore all the machines, which could be dangerous. To keep Steve out of harm's way, Marc … who was in charge of the plant then … would not allow Steve on the plant floor. Steve saw it as his uncle being mean."

Beverly continued, "Steve seemed to lose interest in the plant during high school. His dad would bring him on sales calls, but Steve was bored. Richard and Marc tried to get him involved with different aspects of the business, but he couldn't seem to find a niche. His older cousin, Tony, loved to work in the plant, and it was clear that he would work there as soon as he

could. Tony loved to take apart machines and put them back together. He could fix anything. Steve never seemed to have the stick-to-itiveness to make anything work. He would get frustrated easily and give up."

"It turns out," Beverly added, "that Steve had attention deficit disorder, but it was not diagnosed until much later when he got into trouble with drugs." She let out a big sigh as if to say, "Okay, the cat's out of the bag."

After high school, Steve went to the community college to try to figure out what he wanted to do. He struggled with academics there, too, and began spending more and more money. Richard confided in Beverly that he was very worried about Steve and his continual request for more money. Every time he raised the issue with Cynthia about his problems, Cynthia would protect Steve and tell Richard that he was just going through a stage. When Steve failed college, Richard gave him a job at the plant in estimating. That was a big mistake. He couldn't focus enough to learn how to do estimating, which was critical to the success of the business. The other employees tried to help Steve, but he resented it. Eventually, the problems got to Marc. Richard and Marc let Steve try working in purchasing. Steve seemed to love feeling important to the vendors, who wanted him to buy from them. He started taking long lunches with the vendors and returning in what others described as an altered mood. No one wanted to confront the boss' son or tell on him. He got away with this behavior for six months. He was eventually stopped for drunk driving and given a choice of going into treatment or going to jail. After that incident, Steve did not come back to work at the plant.

Beverly described Tony as a nice boy who was gifted as a mechanic, but lacked the confidence and communication skills to be a leader. He was content with his job in the plant, other than having to try to supervise others. Beverly worried about what would happen in the future when Marc retired. Speaking of retirement, Beverly said she wanted to retire when she was sixty-five, only five years away.

Cynthia Thompson

Cynthia Thompson was about five-foot-seven and weighed about two hundred pounds. She had brown hair with grey streaks. She seemed uncomfortable in her body, and she seemed very nervous when she and

Dale sat down together. Dale reminded her that the purpose of his visit was to start to understand the family and the business and help them to plan a future that would protect the family and its assets.

She asked, “Which family? I have never felt accepted or comfortable with Richard’s family. They seem to feel like they are better than everyone else and that my son and I are not good enough.”

Dale said he was sorry to hear about the lack of acceptance she felt. He said they were here to talk about both the Thompson and Symington families. As a member of the family and an owner of the business, she had a very important role in the process.

Cynthia settled down a bit. “When I met Richard, I was a beautiful girl, and he was the handsomest guy I had ever seen. He had just spent a couple years in Viet Nam, and he was ready to start a normal life. I thought he would get a job with the government, the way my parents did, and we would have a regular schedule and time for ourselves. But his father was an entrepreneur, and that is what Richard wanted to do. He saw an opportunity to be a supplier for planes at the Air Force base nearby and partnered with his brother-in-law. I was always afraid we would go broke. I begged him to get a secure job, but he’d never listen. He worked himself to death. He was never there for our son or me. He was always at work or wanting to do things with his family. Somehow, my folks were not as important.”

She clearly felt trapped by the Symingtons because she depended on the company for her income. Further, she felt her son had never had a fair chance at the company because of his learning problems. If only they had known about them sooner, they might have been able to help him. But he turned to drugs to cope and had trouble holding down jobs. She felt she needed to protect him from the harsh world.

She dreamed she could somehow get away from this family and the business and take her son back to Iowa where her family lived and start over. She saw no hope for the family here to get along. One of Cynthia’s friends told her that she should be able to tell the family what to do because she was an owner. She just didn’t know what to tell them. She thought about getting a lawyer, but they were so expensive. At this point, she was going to wait to see what happened with Dale’s work and then consider her options.

Dale asked her to talk about her husband, Richard. “He was such a sweet man, but the family drained him so he had very little left for us. He was always at meetings, taking out clients, or going to association meetings.” When Dale asked about Richard’s health, she stiffened up and sat upright in her chair. “I knew something was wrong with him. He started losing weight and looking pale. But he wouldn’t go to the doctor. I thought Marc was discounting the problem because he didn’t want Richard to take time off. I begged Margaret to talk to him. I don’t know if she ever did, but, by the time he went to the doctor, the cancer was all over. There was no hope. And he didn’t have much life insurance.” He had died three years before at age fifty-nine. “We feel so lost. He always took care of everything.”

Now Dale began to understand why she was bitter. She felt trapped in the situation. But she did have a dream: to leave this town, this business, and this family and go back to her roots. While Dale was thinking about this, Steve knocked on the door. He was supposed to meet with Dale the next day, but he said that something had come up. He wondered if they could meet now.

Steve Thompson

Steve had the appearance of a man much younger than his thirty years. He was about five-foot-six and very thin. He was almost wiry. He talked fast and laughed uncomfortably throughout the discussion.

“Well, you may have heard an earful from my mom about how we feel about the rest of the family. She really has a thing about them.”

Dale asked, “How do you see them?”

“Well, I really don’t know Sharon that well, and we haven’t done much with Aunt Margaret or Tricia. So I can’t say much about them. They seem okay. Tony, he’s cool, but he’s hard to get to know. Doesn’t say much. He sure loves tinkering with stuff. I could never get into that. I’m more like my dad. I like the sales end of things, making things happen and hanging out with people.”

Dale asked, “Did you find sales satisfying?”

“You know, I tried it, but, everywhere I went, they would talk about my dad. It was hard for me to talk business or get them to pay attention to me! It’s hard to find your place in the sun in the shade of the family tree.”

Steve lit up a cigarette without asking how Dale might feel about it, ignoring the “No Smoking” signs in the conference room. Steve seemed focused on how much the cards were stacked against him and his failures were someone else’s fault.

“I have been trying to make some new contacts now and sell some other products, but there are so many crooks out there who don’t pay on time. I just lost a lot of money. Uncle Marc is tight with the distributions so my mom and I don’t have a lot of extra cash to spend on these deals.”

Dale asked, “Would you and your mother like to see greater distributions?”

“Yeah, that would be great. But I think I could do better if I could just sell our stock and go into my own business. I want to be an entrepreneur like my dad.”

Dale wondered if his mother would feel comfortable with the risk of placing her only assets in her son’s hands.

“Do you think your uncle and his family are doing a good job running the business?”

“I think they do okay. They drive around in nice cars and go on vacations together.”

Steve had a hard time knowing how to measure whether the company was doing well and how it was being managed. He had never learned how to be an owner and how to evaluate the business he owned. Dale also wondered if Steven understood what it would take to be an entrepreneur.

Tony and Tricia Symington

Dale was surprised that Tony and Patricia Symington came in together. Tricia, as she was known, said she had a babysitter, so she thought it would be okay for her to have her interview at the same time as Tony while the three kids (ten, eight, and six) were looked after. Tony just shrugged. Tricia, a talkative, engaging woman, was taller and more slender than her husband was. She had strawberry blonde hair and freckles and spoke with lots of animation.

Tony, a husky guy, looked like he must have played football in school, but he’d acquired a beer belly in the last four or five years. His wife was

always on him about it, especially since Uncle Richard died. She didn't want to lose her husband at a young age.

Dale asked Tony about his job at Thompson's. He modestly said it wasn't that important and described his role as overseeing the small parts department and precision machine area where they created parts for jet engines. When asked what he liked doing best, Tony said tooling was his favorite area. He liked working with the tools, and he was learning how other companies were doing more with robotics.

"I love creating the process for the guys on the team to follow so they can make the parts to the exact specifications our customers demand," he explained.

Tricia piped up, "He doesn't understand how important he is to the company. He thinks what he does is nothing compared to what his dad did."

Tony looked embarrassed.

"How do you like managing the other guys?"

"It's okay. I really don't like having to correct them or doing reports about our area."

Tony was an introvert. Working with people drained him. He became animated when he spoke about the actual products and how they were made.

"What do you want to do in the future?"

He said he wanted to do what he was doing, but he would like to get more sophisticated equipment so the company could be more competitive and make a larger range of parts.

"If we had the right equipment, we could diversify our customers. I agree with what Sam said that we are too dependent on the Air Force. If they cut their budget, we could be in real trouble."

"Would you like to be the leader of the company some day, as Tricia had said at the seminar?"

After hemming and hawing, he said, "Actually, I really don't want to do that. I'm not cut out for that kind of job. I don't like having to manage other people or other functions. I'm just not good at dealing with human resource issues or financial stuff."

Surprised, Tricia sat back. She had thought he shared her dream of him being the leader some day.

"Well, who should follow your dad then?" Tricia asked.

“I don’t know,” Tony answered. “But I wouldn’t be good for the company. Maybe Sam. Or maybe Julio, the CFO.”

Tricia then talked about her dream that maybe her kids would be able to work at the business one day. She loved the fact that the family business was a significant employer that impacted a lot of families in their small town. She enjoyed working with her sister-in-law on donations in the community. Whenever people asked the company for a contribution, Sharon and Tricia would decide how much of the company’s budget for charitable causes to give and to whom.

Tricia spoke about her husband’s grandfather, Richard Senior, a mechanic who had launched several businesses. He was active in Kiwanis and Rotary and helped at the local hospital when he couldn’t work anymore. She respected this family’s commitment to working hard and helping others. She hoped her husband would follow in those footsteps and be a leader, too.

Dale spoke about the importance of understanding one’s individual gifts and talents. People who are the happiest are the ones who understand what roles work best for them and aim to perform those roles well. Tony might not be inclined to lead the company, but he could contribute a lot by helping implement the best practices in his area. If Tony loved what he was doing, he would be happier and have more to share with his family than if he were in a position he didn’t like. Tony reached over, took Tricia’s hand, and nodded at her. She smiled with a new understanding of her husband and his true opportunities in the family business.

Tricia added, “I don’t know if this is the place to talk about this, but Sharon and Sam have had trouble having kids. They have little Suzi, who is just four, and that was after a lot of miscarriages and infertility treatments. I’m worried about her health and what would happen to Suzi if something happened to Sharon. We don’t know if they would want us to take care of her. We’d be happy to, but we have never spoken about what would happen even if Marc died. Talking about death is hard.”

Dale let them know that this is common that the family would be learning how to talk more easily by developing structure, safety, and communication skills.

Margaret Thompson Symington

Margaret had many areas she wanted to cover in her discussion with Dale. She started describing her father. “While he was great at the mechanical, he was also Mr. Social. He was trained in the army to be a mechanic and read everything he could get his hands on. He reached out to many organizations after the war, and he was an inspiration to us all because he was always busy and made things happen. He involved us kids in all of his activities. We never felt left out, even though he was so busy.”

“My mom was more quiet. She liked to stay home and sew and cook. She made all my clothes and grew our vegetables and canned them. She was always decorating our house with the crafts she would make.” She then choked up a bit. “I lost my parents when they were in their sixties. Then I lost my brother, Richard, when he was fifty-nine. We seem to have short lives in my family.” Margaret cried. “We all hoped Steve would follow in his father’s footsteps and provide an ongoing partnership and continuation of the Thompson name in leadership. Marc tried hard to help him find a place to fit in. He just about sacrificed the company to make it work for Steve. But we eventually realized we had to stop trying to force a square peg in a round hole. I don’t think my sister-in-law will ever stop blaming us for Steve not working out at the company. I think she even blames his DUI on Marc!”

“Who do you think will be Marc’s successor?”

“I believe Sam and Tony are good boys and have great talents, but I don’t know that either of them could be a Richard or a Marc. Frankly, that worries me,” she confided. “You know, we wouldn’t have been as successful as we were with either my brother or my husband by himself. It took the combination of two very different people to make this company work. I think we need even more talent to take us forward.”

Margaret said Marc planned to retire someday, but had no specific plan. He loved work and had no real hobbies. She wasn’t sure they could afford to retire. “If I bring up these topics, Marc chews on his pipe and mumbles that we’ll talk about it later. Truthfully, I’m worried more about something happening to Marc than I am about his retirement. He is now the age my brother was when he died.”

Sharon Symington Fellows

Sharon told Dale that she graduated from college with a double major in communication and early childhood education. Part of her wanted to be in the business world; the other part wanted to work with kids. She had loved being part of the family business, but neither her father nor uncle encouraged her to pursue her career there. She had the impression that they didn't feel it was a good place for a young lady. So Sharon went on to teach for a few years and write the church newsletter on the side. That gave her the sense that she was using both parts of her education.

After she met and married Sam, they wanted kids, but, when she had trouble keeping her pregnancies, they decided she should stop working full time and just substitute while trying to get pregnant. When she became pregnant with Suzi, she was on bed rest for three months.

"I thought I'd go crazy!" she said. "Thanks to my sister-in-law, Tricia, I had company every day. If she or Momma didn't come over, she'd make sure one of my friends was there. She was so good at organizing things."

Steve went to treatment a year before Suzi was born. Uncle Richard got sick and died. That put a lot more pressure on Sam. They had less of a buffer with clients without Uncle Richard.

"Sam was worried about me and the baby, and he had all the worries about the plant. It was a tough time. But once Suzi was born, things got much brighter. She was such a healthy, sweet baby, and we felt blessed."

Sharon admitted she hadn't been close to Steve growing up. "We were six years apart, and his mother didn't let us spend much time together. Our town is so small that I would hear about the things he would do from my friends. I knew he was selling drugs at one point, but I never told my family. He also got involved with gambling and lost a lot of money. That's why he was always trying to get more money from the family."

Sharon said she hoped that, in the future, the two families would be able to get along and talk. "I don't know what it would take to get Aunt Cynthia to let us into her life. The business meant a lot to Uncle Richard, and I would hate to see them not be connected to it." As for future succession, Sharon said, "I think my husband and brother could work together just like my dad and uncle did. They would have to figure out who would do what

and how to make decisions together. But they both love the business and are committed to the family, so they should be able to make it work."

Julio Sanchez

The nonfamily chief financial officer (CFO), Julio Sanchez, was a CPA who had worked for the accounting firm that Thompson Manufacturing had used for many years. As the company got larger and needed more help, Richard and Marc hired Julio from the firm. Julio had grown up in a family business in Texas and knew the kinds of problems that could exist. He hoped he could help prevent them in this family. He respected the two partners and the business they had built. They were always good to their employees and valued his perspective.

When Richard died, Julio felt he lost an older brother. Because Richard was the more outgoing of the two partners, he had felt closer to Richard than to Marc. But after Richard's death, Marc and he had to work more closely together and got to know each other better.

"I respected the brothers for doing the right thing. But there were a few years when Richard's son worked here and they let him get involved with purchasing. It was a real mess. He was involved with a lot of questionable dealings, and his father just turned a blind eye to it. Now I worry about what Steve and his mother would do with their shares of the business. The family does not have a good shareholder agreement. I tried to get Richard and Marc to put restrictions on who could own stock, and they never got around to it. So when Richard died, his 46 percent of the shares went to his wife and son. They could sell it to anyone they wanted. There are no rules about how decisions are made, who can buy stock, or what governs distributions. If the company wanted to buy the stock back from them," Julio said, "we would have to borrow money or get other investors in order to buy it all back. I'm sure we could figure out something, but I don't sleep well worrying about what could happen if that stock got into the wrong hands."

Julio was also concerned about what would happen to the company if something happened to Marc. "We do not have a contingency plan or keyman insurance, so we might not have the financial wherewithal to handle his death. We don't have a long-term succession plan either. The

only other strategic thinker in the company is Sam. But he isn't prepared to be the leader because he doesn't know that much about the financial side of the business. He's working at learning it, but Marc isn't that open about it."

In an emergency, Julio said he would be comfortable working with Sam, but he doubted that the rest of the family would support that. "I don't know what Tony thinks or his mom or sister. I also don't know what Cynthia and Steve would do in that case."

Sam would need some development to take a leadership role.

"And that could take some time," Julio said. "I have mentioned the idea of a board of directors to Marc to help the family with a transition and to take the company to the next level of growth. Marc says he wants to learn more about a board, but he's hesitant to share the kind of information he would have to with people in this town."

"If I could play a key role in helping to professionalize this business and be a strong influence in the future, I would love to stay here. However, it is important to me that I not just be a bean counter. I want to be part of a leadership team that makes strategic decisions together. I don't have to be the CEO, just an important player."

Sam Fellows

Sam told Dale, "My role has been evolving over the past three years. I came in to help with designing parts and processes within the plant. I then got involved in fixing up the estimating department after Steve caused problems there. When Richard started getting sick, I picked up some slack meeting with customers, making sure they saw a family member attending to their needs. After Richard passed and we hired a marketing and sales guy, I helped him understand the technical side and went on sales calls with him. When we have a key hire to make, Marc will usually have me interview the top candidates. When we have a customer problem, he will have me attend the meeting to help figure out the solution. I sometimes feel like a jack-of-all-trades and a master of none."

As for Tony, Sam admitted, "Tony says we are okay together, but, once in a while, I sense he might be jealous of the way Marc involves me and not him."

One apparent issue for Sam was that he was working as hard as if he were an owner, but was not recognized with titles, stock, or much compensation for this work. “I don’t own any stock directly. My wife owns a bit, and she will probably inherit some of her dad’s stock. Tony owns a small percentage, but Marc, Steve, and Cynthia are the main owners. I worry about what will ultimately happen to ownership. I’m almost forty, and I don’t have much assurance from my father-in-law that the company will continue to the next generation with me in a key role. If that isn’t the plan, I should be looking to work somewhere else before it’s too late. There aren’t a lot of opportunities in this community, so my family would have to move. I would prefer to stay here.”

Sam agreed with Tony and Julio about the need to expand the company’s niche to include making parts for recreational vehicles, golf carts, and/or motorcycles. “I do get frustrated when Marc balks at considering new directions. He just seems stuck doing things the way we always have. He doesn’t understand that other companies take on debt in order to modernize their plants and it pays off.”

Marc Symington

Marc and Dale met on a Saturday so he wouldn’t feel so rushed. Sitting on the porch overlooking a patch of land that had belonged to his in-laws, Marc recalled how much he’d loved helping his mother-in-law plant her vegetables. It reminded him of his own childhood. He said he would love to have enough free time to work on that patch again. While most of the family saw Marc focused solely on work, another side of Marc emerged as he discussed his childhood.

“My family came from Scotland when my grandfather’s family could no longer support so many kids on their farm. The farm had been divided up over previous generations so there wasn’t enough land for any of the kids in my grandfather’s generation. They came to the United States in the late 1890s and started farming in the Midwest. Then they moved further west to Nebraska, where my father and I were born. My father pushed my siblings and me to get educated so we would have choices other than farming. He was very frugal and saved to help us go to college.”

Marc's father worked until he was seventy-two and died in the fields. "That's the way he would have wanted to go," says Marc. "He left the farm to my mom and my brother, Bobby, who had not chosen to go to college. I had the education and didn't need the farm. My sister's husband was taking care of her, so she didn't need it. My brother and his wife take care of Mom. She lives with them now."

Marc said the family rarely visited each other. "We just send Christmas cards to each other. The last time we saw each other was when Mom fell and broke her hip. It was close to her seventieth birthday, so we all made an effort to be there at the same time."

Dale observed that Marc didn't display much emotion as he talked. "It seems you have carried on the tradition of your quiet family into this family."

Marc agreed. He puffed on his pipe and rocked. "I suppose the person I talked to the most was Richard. Since he passed on, I've had to figure things out on my own, and it hasn't left me much time for anything else."

As for the business, Marc said he was beginning to trust his son-in-law, Sam, to give him good advice. "That's why he started this process with me. He knew we'd have to make some changes in the family and the business to continue the business into the future. This is a tough business, and I don't want my kids to feel burdened with it, but it is also an opportunity."

When Marc turned fifty-nine a few months ago, he said it hit him that he was the same age as Richard when he died. While he felt healthy and believed he would live a lot longer, he realized he could go sooner than he hoped. "I need to make sure the family is taken care of. Both of my kids and my wife depend on this business. So does Richard's family. If the kids want to continue this business, then I'd like to see them have it. I'd like them to have it without a lot of debt. I always felt the pressure my father had with the mortgage on the farm, and we had to take on some debt to get the equipment we needed when we started. That is just about paid off now, and we own the real estate under the building as well as the building free and clear."

He mentioned he also wanted to take care of nonfamily employees who had helped build the business, such as Beverly. "I'd like her to have something more than the little bit of retirement she'll get. And I think Julio could really help the kids if he stays around. I'd like to see that happen." He

noted he wasn’t sure how to take care of them and not bankrupt the company.

“Then there’s the matter of my nephew, Steve, and his mother, Cynthia. That nephew is a wild card. The fact I can’t even guess what he might do worries me. He owns some stock outright and has a lot of influence on his momma. They could make a lot of trouble for us.”

Dale asked about the split in the stock, why his family had 54 percent and Richard’s family owned 46 percent.

Marc answered, “When Steve got into all that trouble, Richard needed a lot of money to pay for lawyers and the treatment he had to get. I offered to buy some stock at that time to give him some quick cash. It turned out to be a good decision because we own more than half now, and that gives us a little protection. I actually gave money to my kids to buy the stock, so Sharon and Tony each own 2 percent.”

Marc had thought about buying out Cynthia and Steve, but he didn’t know how to put a value on the stock, how to pay it, or what might happen to Cynthia if Steve did something foolish with the money.

When asked about future succession, Marc’s face looked strained as he prepared to answer. “I know Steve feels he should somehow be in leadership, but there’s no way he could come in the business and do anything positive. My son is dedicated and hardworking, but he isn’t a leader. Julio’s probably the smartest and best all-around businessman, but he isn’t kin. I’d like to have a family member in this seat. I think Sam is probably the best of the lot, but I worry about whether Tony and Tricia will get upset. I worry about having another situation like Cynthia.”

Marc added, “I love this business and feel like it is part of me. Richard and I gave birth to this company almost thirty-five years ago. I can’t imagine not coming to work. But I also know that, without Richard, I’m not as good a leader. I’d like to find a way to let the young people really run this business, and I offer my help guiding it. I still love the engineering part and seeing parts come out of the plant. I don’t get to do those things that much any more. I need to worry about the bank, the customers, and employee issues. With three hundred employees, that’s a lot of headaches! It was much simpler in the earlier days when I got to do the work I loved!”

Marc pointed with the end of his pipe at the patch of land in front of the porch. “I’d plow that and start my own little farm here. I’d buy some old

farm equipment and use my engineering talent to fix it up and then be my own maintenance man. And when it wasn't time to work on the land, I'd take Margaret, and we'd travel to some of the places she's wanted to go. But I don't have a handle on the financial security that Margaret and I need to live out our lives comfortably. We don't need a lot, but I won't be able to retire until I know I don't have to worry about that."

Now that Dale's interviews were complete, it was time to review his notes, figure out some recommendations, and plan the retreat. Back in his office, Dale received a call from Cynthia, who wanted to spend a few more minutes talking. They planned to get together later that afternoon.

Surprise Visit

Cynthia said she had been doing a lot of thinking since the seminar and the interview, and she wanted some advice. Thinking about her son's lack of success in any venture he undertook, she realized how she had protected him. She remembered what she had learned at the treatment center about how families could enable alcoholics and addicts by protecting them from consequences.

"I see I may have to do something different, or I will be in a world of hurt." She was waking up to the reality that there was no one to take care of her and she couldn't really depend on her son. Dale suggested she talk to the family attorney and her accountant.

Dale added, "When you change your reaction to someone like that, he will typically put more pressure on you. As Steve is your only family here, it may be difficult to deal with him."

They discussed the possible sources of support, including counselors, her minister, and even her in-laws. I assured her that her sister-in-law would be happy to reconnect with her. Cynthia's awakening was an important step toward allowing the families to come up with solutions much more easily.

Exhibit 2.1 Common Family Business Problems

Which of the Symington family's problems listed below are issues you think your family or business may be facing?

- Lack separation of family roles and responsibilities from business roles and responsibilities
- Low morale
- Jealousies between family members who are close with other family members
- In-laws resentful of time that spouse spends at work
- Inability to speak openly about difficult issues
- Substance abuse by a family member
- Learning disabilities
- Gambling addiction
- Lack of leadership skills in next generation
- Denial about health issues
- Family members in the wrong job for their experience, skills, or temperaments
- Lack of shared information about the company's performance
- Lack of understanding about the company metrics
- Lack of a shareholders' agreement
- Lack of a contingency plan
- Lack of a keyman insurance
- Lack of long-term succession plan
- Lack of a board of directors

Chapter Three

Working through the Issues

Dale studied the information and perspectives he gained through the interviews and identified the key issues that needed to be addressed and the possible steps the family could take to move forward. These were:

- The family did have a shared vision for the future. By and large, they wanted to see the business continue for another generation of the family. They just needed to formalize that vision so it would become a touchstone for decisions going forward.
- It may be time to "prune the family tree" and buy out the Thompson branch so they would be free to pursue their individual interests and allow the Symingtons to take the business in their own direction without as many distractions from conflicting interests and needs. Dale believed there would be a way to finance the buyout over time, which would help secure Cynthia's future and not put Steve at risk for having too much money in his hands at one time.
- One of the challenges would be identifying the critical success factors for the business going into the future. The family and business leaders had never done a good strategic analysis or plan, so they were not as focused as they needed to be. They would need to explore their place in the market and come to a shared understanding about what it would take for the business to thrive in the next generation.
- The family would need to have a source of independent thinking and wisdom to help them navigate through the planning and transition. Putting a board of directors in place with Marc as chairman would provide the objectivity, new ideas, and role that Marc could play in

assuring that the business benefited from his wisdom without being involved on a day-to-day basis.

- The board could also help with succession planning. It was not clear that the leader needed by the business in the future was, in fact, employed there already. While it would be nice if Sam were able to lead the family business, Dale was not sure he had the skills. Once the company defined its direction, the board could begin to develop a picture of what leadership would be needed to take the business to that point. It would conduct a leadership assessment for the key people at the company and determine whether a development plan could help prepare one of the current members of the team for that role. The board could provide independence in evaluating this issue because the family had so many concerns about how to do this right.
- The family lacked the ability and comfort to speak openly about these important issues, so Dale's task would be to help them develop the skills and to create a safe harbor for them to begin to practice those skills and be more open with each other. They also needed to establish an effective leadership team that had a charter to run the company collaboratively and ensure the left hand knew what the right hand was doing in the company. Similarly, the family would benefit from family meetings, perhaps as part of a family council, so everyone would be in the loop and could be supportive of family members working in the business.
- Dale believed that, with enhanced communication skills and a safe environment, some of the lack of mutual understanding that has plagued this family could be cleared up. He was optimistic they might even be able to build some bridges that were broken many years ago.
- The family could finally create a partnership agreement once it determined who would own the business in the future. The purchase of stock from Cynthia and Steve might be done by the younger generation so they would reduce the estate tax that might otherwise be due if their father bought the stock. Their advisor, David Smith, and Julio would be great people to help them figure out these issues. They might need to consult with some other ownership succession

specialists and insurance professionals to explore all of the ways to do this.

The following week, Dale met with the family at a local church retreat center. He wanted to be somewhere neutral, where family or business interruptions wouldn't distract them. Dale opened the session by reviewing the objectives, setting ground rules, and asking them to share their best anticipated outcomes for this meeting.

The family was very surprised when Cynthia said, "I have harbored ill will toward many of you in the past, and that was just unfair. One of my desired outcomes would be for you to forgive me and to allow me to participate in a more constructive manner." There was a shocked silence in the room. Dale was proud of Cynthia, as he knew how hard that was for her.

Dale then engaged the group in a skill-building session to learn how to listen effectively. He taught them the skill of paraphrasing, the core of great listening. They practiced with each other in pairs by discussing their hopes for the future. He then had each person paraphrase what his or her partner's hopes were for the future to demonstrate how well they listened and to help the group come together.

Margaret was paired with Steve. "Steve's hope is that he can find a way to use some of the resources his father created to develop his own business and be successful on his own." Steve smiled, as he felt really heard and understood.

Cynthia paraphrased Tricia. "Tricia wants to find a way that all of the family members can get behind those who are working at the plant and support them in being successful individually and together."

Marc paraphrased Tony, who wanted to honor his dad and uncle by finding a way to use his abilities to build on the successful foundation they created and continue the business for his own children. Marc beamed as he paraphrased his son.

Dale could see that the family had warmed up through the seminar and interviews and were ready to do the hard work ahead. Dale then offered his recommendations. The group worked at creating a family vision statement (what they wanted to accomplish seven years out), and they came to agreements that they would find a fair way to buy out Cynthia and Steve without bankrupting the company. Marc agreed to put a leadership team and

a board in place. He could see them implement the leadership team right away, but he'd have to learn more about boards before he would be ready for that. It could take nine months to a year to make that happen. Tricia and Sharon agreed to form a family council and to use that organization to do their shared charity work, to make sure they were communicating, and to learn more about family businesses.

The family was much more relaxed than they were at the start of this process. They committed to protect the family and the business with a partnership agreement and open, honest communication. After the weekend of hard work, the family made many agreements and plans, committed to action steps, and developed assignments for follow up. The family went out for a celebratory feast. On the way, they stopped at Richard's grave. Together, they expressed their love for him and appreciation for his contributions in bringing the family to where they were today. That stop seemed to help solidify the healing that the family had begun.

Marc turned to Dale as they headed for dinner and said, "I think we have turned the corner. We still have a lot of work to do to secure this business and the family, but we have everyone on board so I think we can do it. Thanks."

Dale met with the family periodically after that to help them develop the tools they needed to complete their agenda. They created the board, the strategic plan, and the succession transition. Several years later, they did a follow-up, and Dale found that the business had diversified and had new tools. Marc was overseeing the quarterly board meetings as well as his garden. They had some major struggles when the 2008 economic downturn hit and demand for parts declined. However, the leadership team was solid, and they were able to cut costs, keep focused, and gain their own sense of accomplishment for surviving that storm.

Now, as you read the following chapters, you can gain a better understanding of family businesses, their challenges, and the solutions to them that helped the Thompson and Symington family.

Part Two

Family Business Dynamics and Challenges

As we have seen in part one, the problems that plagued the Symington family business have played out in some dangerous and destructive ways. To the extent that you have identified some of these problems in your own family or business, you may feel a bit nervous or overwhelmed.

However, chapter 4 provides insights into the predominant theories about the dynamics underlying many family businesses that will provide a solid context for you to understand the characteristics of robust family businesses that we describe in chapter 5.

Chapter Four

Understanding the Family Business

There are natural pitfalls that families encounter just by being in a family-owned business. It's not anyone's fault. They are simply natural and predictable areas of friction and complexity that often happen when families make decisions about the family or the business. The decision-makers often have no idea how these decisions will create problems in the future, especially when the family tries to solve problems on their own with no experience to guide them. This book will help your family learn from the successes and failures of other families, as well as the combined experience of the authors. For instance, three pitfalls—succession, organizational transitions, and undiscussables (issues that are risky to discuss)—are very common in many family businesses.

Anticipating Pitfalls

By anticipating these pitfalls, you can learn how to manage them, if not avoid them altogether.[2] It's no secret that the combined pressures of time constraints, difficulty confronting one's mortality, and tough choices over which children are best prepared for leadership roles can result in decision paralysis. Remember that hope is not a plan. By taking time to understand and anticipate potential pitfalls, your family and your business are more likely to be prepared to leap over them with fewer bruised knees and broken bones.

Family business members, whether they are active (working in the company) or inactive (not working in the family business), can learn to navigate around and through these pitfalls more easily when they

understand the most important dynamics underlying many family businesses:

- Overlapping systems (family, business, and individuals)
- Boundaries between family and business roles and responsibilities
- Stages of development of the family, the business, and individuals
- Separating the running of the business from the running of the family

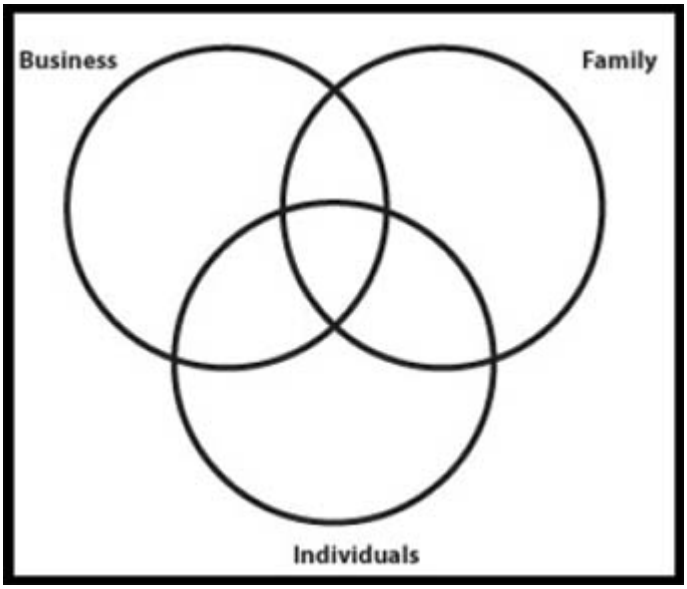
Overlapping Family Business Systems

Most entrepreneurs do not start off intending to create a family business. At the entrepreneurial stage, an individual begins with a great idea to start a company. As it grows, he or she often brings in other family members to help out financially or by working in the business. Parents, siblings, spouses, or children may be asked to get involved simply because they're available, not necessarily because they have the skills and experience the new business needs. Later on, loyalty to the family, especially to those who helped in the early stages, may make it difficult to let them go when the company grows into the next stage.

Family businesses differ from other kinds of families and other kinds of businesses in some rather complicated ways. Think of a three-ring circus with different acts going on at the same time, with some of the performers crossing back and forth between circles and getting involved with the other acts.

In **Exhibit 4.1**, the three rings represent the family, the business, and the individuals. Each ring has its own rules, roles, and expectations, as well as its own needs, goals, and developmental stages. Where the systems overlap, confusion and conflict often result. By synchronizing all three rings, a family business can keep conflict at a minimum. However, rarely do these rings work in sync.

Exhibit 4.1 Overlapping Family Business Systems



Let’s look at an example. The Smiths own a plumbing supply house. When he was first married, Mr. Smith was a plumber working for someone else. When he later started his own business, Mrs. Smith helped by doing the books and answering the telephone. After their son Andy was born, Mrs. Smith stayed home. Mr. Smith, who now had another plumber and an apprentice working for him, hired an office manager. In the next five years, Mr. Smith added a plumbing supply division, and the couple had another child, Angela. The business grew, and Mrs. Smith occasionally pinch-hit in the office or assisted with inventory. By the time the children were seven or eight years old, they would regularly come to the store and help. During summer vacations, as the children grew older, Andy would help the plumbers, and Angela helped at the supply counter by filling orders.

Andy knew he wanted to follow his father’s example, so he learned the plumbing trade by joining his father after high school. Angela had little interest in the business and went on to college. She helped at the business to make extra money. When the children left home, Mrs. Smith began wondering what she could do next and looked to the business for activity.

Stages of Family, Business, and Individual Development

In addition to conflicting roles, family business members also experience conflicting needs and go through different stages at different times, which can challenge family businesses. They must resolve conflicts to maintain healthy businesses and families.

Family Development Stages

The Smith family has evolved through being at the couple stage, then the young family stage, and then the teen children stage. They have now entered the empty nest stage.

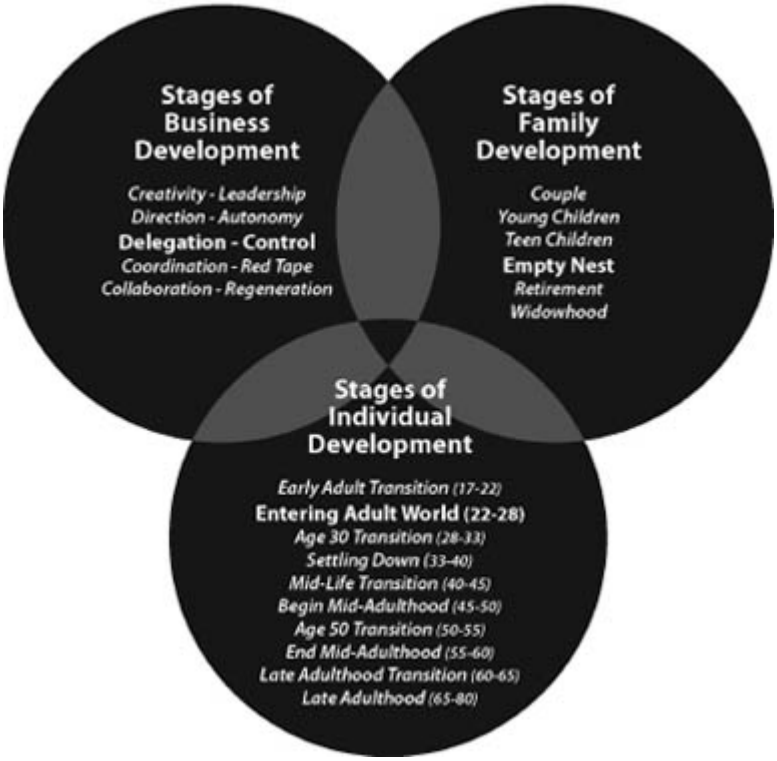
Individual Development Stages

Mrs. Smith, forty-four, has found herself in the midlife transition and feels a void after having completed her full-time job as mother. She looks to the business to fill that void, but there is presently no clear role for her in the company. Andy, twenty-three, wants to do things his own way to establish himself as an autonomous adult as he approaches the entering-adult-world stage of life. He seeks Dad’s acceptance and wants more power to run the business. Dad, forty-eight, has entered middle adulthood and doesn’t quite trust his son’s judgment yet. He is afraid to leave his baby (the business) in his son’s hands. Like many entrepreneurs, Mr. Smith has a tremendous need to control his business and finds it difficult to trust others with it. He works long hours and rarely takes vacations.

Business Development Stages

As the business moves toward delegation from central control, it is becoming too big to be controlled solely at the top. The company requires delegation and controls to allow delegation to be handled responsibly, which will help the entrepreneur become more comfortable delegating. Unfortunately, entrepreneurs are not always good at letting go or establishing systems. In this case, the complexity of the company was outgrowing the management skills of the founder.

Exhibit 4.2 | **Stages of Development**



As you can see, there are several points of conflict between the individual, family, and business stages that create the conflicts:

- The business needs systems and controls at its stage of development; none of the family or nonfamily employees appears to be prepared to establish them.
- Mr. Smith needs to delegate more, but finds it difficult to do so as he lacks confidence in his son.
- The business requires outside assistance to continue to grow and thrive.
- Andy feels stymied and frustrated by his father's retention of control and lack of confidence.
- Andy and Dad bicker frequently. Dad feels his son is disrespectful and unappreciative; Andy feels like his father has lost his competitive edge.
- Mrs. Smith's limited professional development and the business's evolution are not in sync either. The business doesn't need an extra clerical person, and her skills are not appropriate elsewhere in the

business. Mr. Smith feels pulled to put his wife on the payroll, but knows he's doing that as a husband, not as a good manager. This creates morale problems in the office.

How does this all apply to your family and business?

Exhibit 4.3 provides a form to help you identify the stages of development in which your family, the business, and the individuals within each system have currently reached and possible conflicts that any out-of-sync stages may be causing.

Exhibit 4.3 Your Family and Business Development Stages

Circle	Stage	Conflicts
Business		•
Family		•

Separating the Running of the Business from the Running of the Family

The Smiths help us to understand how families in business together must keep their personal, family, and business agendas clear and separate. When family business owners feel the business must address all the family needs and the family must address all the business needs, none of the systems is very successful. To avoid this problem, the Smiths would be wise to run the business as a business and the family as a family, coordinated with the personal development of individual stakeholders. This can be a huge challenge.

One key to running the business as a business and the family as a family is to make sure that the many different business and family roles that individuals wear remain differentiated. Differentiation is an important concept for family business members to understand and encourage. In the context of family businesses, the term (first used to describe a person's level

of maturity and ability to stay calm in the midst of other people's anxiety) describes how well individuals perform in the various roles they play. The term explains the degree to which each role has been defined and assigned to an individual with responsibility and accountability for achieving the tasks and goals that come with that role.

In chapter 6, we will further discuss how families that work together can perform their many roles in constructive and healthy ways.

[2] We discuss each of these pitfalls later in this book. Succession and other organizational transitions are in chapter 12; "undiscussables" are in chapter 7.

Chapter Five

Characteristics of Robust Families in Business

Highly functioning families that are in business together generally display some traits in common. For instance, they run the family as a family, run the business as a business and skillfully communicate, and maintain a reservoir of trust. These traits strengthen the relationships in the family and the business. Let’s look at them more closely.

Running the Business like a Business

A business-first business operates in a professional manner, and the family is an asset to the company. Business-first families support what is best for the company, its customers, employees, and shareholders. They select sound business principles to govern hiring, compensation, and titles. They reason that such principles are fair and constitute excellent criteria by which to make tough decisions that will affect the entire family. They are willing to abide by these principles even if they lead to unequal treatment of family members or selling the business.

A business-first business promotes good planning, clarity about what your business is, understanding your core competencies, effective accounting and financial controls, role clarity in the company and the family, well-defined individual responsibilities, the definition and distribution of authority, personal accountability, and performance reviews of family members who work in the company.

Family business members can learn a lot by asking themselves, “What do we do that we would not do if it we were not a family business? Would we allow someone who doesn’t work for us drive one of the business’

vehicles for personal uses? Would we write off a personal vacation for someone who doesn't work for the business? Would we keep Cousin George in charge of sales even though he does such a poor job that we've had to hire a pistol to do George's work for him? Or would we hire the pistol and fire George? Do we hold our family employees accountable for performance?"

If your company permits many activities that a nonfamily business would not consider rational or defensible, the business is probably being run like a family.

A $400-million company keeps its own corporate plane. Should it? Does the geographic distribution of sites justify this expense? In fact, the company doesn't come close to needing a plane. It has a corporate plane because the family likes it. Although it is used for business, it doesn't make good business sense. It fills an ego need.

A business that is run like one will survive to serve the family. A strong family that understands its boundaries will be an asset to the business. Running the business like a business involves governance structures such as a board of directors and a family council (chapter 8) and policies, procedures, and plans (chapter 9).

Letting the Family Be a Family

Family-first families believe the family's happiness and sense of togetherness should come before everything else. Their decisions will favor family equality and unity even at the expense of the business. Differences in the quality and degree of family members' contributions to the business will not be recognized. Everyone will be allowed to enter the business and will be compensated equally. This may lead to resentment by those who feel they work harder than other family members or have more responsibility and yet are being compensated the same.

Many times, families in business feel the business can be a liability to the family and its individual members when the business takes up too much space and time in the life of the family. Consultants often hear complaints that all anyone in the family ever talks about is the business. Family members who aren't active in the business often feel left out. Sometimes, they even feel like they're not important to the family. Families in business

need to keep the family strong and loyal. It is important to create a sense of community among shareholders, especially when the family is large and dispersed. The family leaders need to place a priority on making time to have fun, to help each other, and to talk about their lives outside the business. In other words, let the family have family time without the intrusion of the business.

One technique for doing this is to create a context where family members can explore their values as a family and to look at how they can express those values in their different roles. This will strengthen the family. For example, family members who want to give back to the community can do that together as a family. Activities such as family vacations, reunions, philanthropic projects, family traditions, writing a family history, and honoring individual achievements are all ways that the family leaders can develop the human capital[3] of the family. The memories of these events create ties that bind, a sense of community that holds family members and their assets together for generations.

When the family fails to pay attention to its developmental needs, parents can become consumed with the business, neglect their children, and create negative memories in the children about their parents' business. That's why it is not unusual for children to think that their father feels his business is more important than they are. Ask yourself and talk to your family about:

- What is the purpose of family?
- Why do we have family?
- What does family mean to us, and how will that continue when our parents are gone?
- What family traditions do we want to preserve?
- How do we want the rest of the world to think about our family?

A third approach seeks a balance between business-first and family-first. This philosophy holds that any decision must provide for both the satisfaction of the family and the economic health of the business and that only a good compromise will win the enthusiasm of the family and support for the business. This implies a long-term commitment to the future of the

business and the family and requires the family to creatively resolve conflicts between the two interests. Balancing family and business goals requires compromise, extra effort, planning, and communication. But it may preserve the integrity of the business and serve the individual needs and interests of the family's members.

Exhibit 5.1 will help you identify possible areas that can cause conflict within the family or the business, when the business is run like a family, or when the family is run like a business.

Exhibit 5.1 Is Your Business Run Like a Business and Family Run Like a Family?

MY BUSINESS …	YES	NO
Has formal structures with well-defined roles and responsibilities		
Has clear lines of authority and accountability		
Has written policies about family employment and compensation		
Has effective accounting and financial controls		
Has regular performance reviews of family members who work in the company		
MY FAMILY …	**YES**	**NO**
Has family members who work in the company constantly talk about the business during family get-togethers		
Has a sense of community among active and inactive shareholders		
Makes time to have fun together (vacations, reunions, and volunteering together)		
Has traditions and rituals we engage in together		
Encourages members to pursue their passions and respects those who decide to work in professions and organizations outside the family business		
Is able to discuss sensitive issues without erupting into angry arguments		

Another indication of whether a family tends to run like a business or a business tends to run like a family is its decisions. When the systems

overlap, the decisions the family makes may undermine the business; the decisions the business makes may negatively impact the family. The decision tracking worksheet in **Exhibit 5.2** can help you and your family identify such tendencies. This can help you initiate discussions with family members and/or your family business advisors to help you move forward.

Exhibit 5.2 Decision Tracking Worksheet

Decisions we've made or we are facing as a family that have or could negatively impact the business	
DECISION	POTENTIAL IMPACT
Decisions we've made as a business that have negatively impacted the family	
DECISION	POTENTIAL IMPACT
Decisions we could have done or done differently to better balance these two perspectives	
DECISION	POTENTIAL IMPACT

As a company grows and welcomes in more and more family members in the next generation, the need to achieve high levels of differentiation (or definition) becomes critical to the company's success. This requires

clarifying roles, authority, and boundaries and enhancing communication and trust.

Communication and Trust

Communication and trust go hand in hand. The level of trust in a family profoundly influences the flow of knowledge and information. In high-trust situations, knowledge flows freely. In low-trust families and companies, “knowledge is power,” and it is often used to control others. People in low-trust situations may feel left out, like they don’t know what’s going on.

Between people with equal power (for example, siblings or spouses), an equal give-and-take leads to trust and a sense of fairness. In relationships between individuals with unequal power (for example, parents and children or bosses and employees), a greater responsibility for the quality of the relationship lies with the more powerful person. For example, if a father and daughter are working together, the father typically has more power. He is in a better position to influence the relationship. If he makes time to communicate with his daughter, then the relationship can improve. If he does not, the daughter may feel she can do little because her dad has the power.

Trust makes any family or businesses work. In fact, trust is much more important than love to the success of a family business. Imagine a relationship with someone you love but do not trust. It is almost always emotionally draining, and any little issue can become a big problem. Now consider a purely business relationship with a nonfamily member whom you don’t love but you trust completely. Such a relationship will weather many storms.

A family in business needs open communication to function and flourish. In chapter 7, we will explore how to encourage this kind of communication: how to create a structure to contain the free flow of information, how to create an environment that fosters a sense of safety, and how members can develop the skills and courage to share their thoughts and handle conflict when it arises.

[3] Many family business experts describe several types of capital, or assets, that family businesses possess. In addition to the more common concept of financial capital, there is intellectual capital (skills, education, and experience of family members), emotional capital (trust and affection that

family members may share), and spiritual capital (common values, ethical code, and/or religious affiliations and rituals that unite the family), as well as human capital, which comprises the family's intellectual, emotional, and spiritual capital.

Part Three

Keys to Success

The following chapters each begin with descriptions of common problems relating to the focus of that chapter. You may identify some of these problems in your own family business. If so, you will find plenty of techniques in the rest of each chapter that will help you resolve these issues. If you are lucky enough to have avoided some or all of these problems, the chapter will suggest how you can avoid encountering those problems later.

No matter how dysfunctional you think your family members may be or how diverse your needs and goals, the following chapters can bring immense relief to you and your loved ones.

Chapter Six

Creating Boundaries and Differentiation

Common Problems

Role Conflict

Parents often find it difficult to treat adult children in the business as they would a nonfamily member in the same position. Siblings who never resolved childhood rivalries may also act on those old patterns of behavior in the business. It's often difficult for family managers who are also owners to make sure they are wearing the right hat when making decisions. For instance, voting for large dividends may serve the owners' short-term personal interests, but, as managers, they may recognize that it would restrict their ability to meet the company's capital needs, such as buying new equipment or putting a new roof on the office building.

Role conflict can cause frustration between two or more people attempting to resolve an issue when they don't clarify (or even understand) which hat they are wearing or should wear in different situations.

As an example, the CFO of a family business says the company needs to buy out a competitor. To do this, the family will have to cut back on dividends this year. One shareholder cousin may argue that the plan is irresponsible and goes against the family business' goal to share cash with shareholders. The CFO, acting in the role of business leader, is trying to enhance the strategic position of the company and its long-term health, while the cousin is responding as a family member who feels he deserves the financial benefits of being a shareholder of the company.

Roles can also become confused between owners, family members, and employees. For instance:

- A family member who does not work in the business visits the office (which is fine and, in fact, desirable) may not have a sense of what he can do and say and what he should not do and say.
- An inactive family member comes in and thinks the new furniture in the office is too expensive. Does she understand that it is inappropriate for her to voice that opinion at that time? (A family council meeting is the place for such a discussion, as we will see in chapter 8.)
- It would also be inappropriate for a family member to come in and suggest the family company do business with a buddy's company.

When family business members talk about the business at family gatherings, they may make inactive family members feel like outsiders. Similarly, consider the situation when a company executive committee is comprised of three family members and three nonfamily members. If the three family members discuss an upcoming business initiative while the nonfamily executives are not present and they reach a consensus without the others, they will make the nonfamily members feel left out and unimportant. In these examples, family members who don't work for the business feel like second-class citizens in the family, and nonfamily members in the business can feel like second-class citizens in the business.

Confusion and friction are bound to erupt without clear lines of communication and clearly understood and respected times and places for family and business discussions. As we indicated in chapter 4, there is a place to wear our business hat and a place to wear our family hat.

Too Many People in the Boat

There may be too many family members working for the business if a growing percentage of them are not making a significant contribution to the company and if there are lower expectations for family members than for nonfamily employees. That situation tends to lower the accountability of everyone. For example, in the Symington case at the beginning of the book, the first-generation partners wanted their sons to work in the business. However, son Steve was not adding value to the company in any position that he held. In fact, he was causing problems in purchasing and estimating.

His lack of responsibility was beginning to negatively impact the morale of other employees. If an owner's son didn't have to work hard and be accountable for the profitability of the company, why should others work so hard?

Most fifth-, sixth-, and seventh-generation family businesses have had fewer and fewer family members working in the business because they crossed the threshold to being professionally centered rather than emotionally centered, in other words, of doing what's best for the business. It is important for families in the second or third generation to have family employment policies (chapter 9) to prevent too many or the wrong family members from joining the business and "sinking the boat." If Generation One (G1) is still around, G2 is running the company, some of G3 has already joined the company, and an increase in the number of family members is coming down the road, it can be hard to make everyone feel treated fairly. This is particularly true if a generation that had no criteria for their initial employment instituted the new rules.

For example, with one family business, the founder wanted any and all of his four kids to join the business because he needed help. He didn't specify what skills he needed. It was "all hands on deck!" However, as the third generation started getting to employment age, there wasn't the same desperate need for help. Instead, they needed more skilled and experienced talent. G3 looked at their parents' generation and had a sense of entitlement to a job because their parents got jobs. It was tougher for the second generation to say no and implement a family employment policy because they didn't have to live by those rules in the past. However, in order to be fair to all the owners and all the cousins in the third generation, a set of policies was necessary and helped everyone to feel he or she had the same chance to benefit from the company.

In this situation, G3 may have grown up expecting to have a job in the company just as their parents and aunts and uncles did when they were ready to enter the job market. But in spite of the younger generation's possible anger and resentment at the new employment rules, it's important to push through that resistance. The long-term prospects for the business and the long-term wealth of the family depend on G1 or G2 taking this important step from the entrepreneurial stage to the professional management stage of family business development.

Even though a company may have professionalized by installing an employment policy, clear job descriptions, and criteria for compensation and promotion, it may be time for them to prune the family business tree. One way may be to split off non-operating assets, such as real estate, and exchange common stock of the operating company for shares of the real estate for inactive family shareholders. This can go a long way to maintaining their connection to the family business legacy, while allowing them to develop distribution policies to meet their liquidity needs without burdening the operating business.

Feelings of Unfairness or Injustice

There is an emotional ledger in relationships. If you take too much from a relationship, the other party will likely be left with a sense of loss, incompleteness, or deficit, especially with asymmetrical relationships, which are breeding grounds for feelings of unfairness. In contrast, symmetrical relationships foster give-and-take and feel like fair relationships over time.

At their best, sibling and spousal relationships are symmetrical (even or balanced). However, relationships between parent and child or between boss and employee tend to be asymmetrical (uneven). As noted earlier, in asymmetrical relationships, one person possesses more power in the interchange, so he or she should have more responsibility for trying to create a fair relationship.

Individuals in symmetrical relationships in the family may be thrust into asymmetrical relationships in the business. For instance, a brother and sister, who more or less have equal power in the family, may assume unequal roles and ownership stakes within the business. The older brother has worked in the business for ten years and moved up to an executive position with higher compensation. His sister came into the business later and is in position with less authority and less pay. She may feel entitled to be treated equally to her brother, but, in fact, they have different roles, responsibilities, experience, and thus different compensation. In the business, fair is not equal. Confusion or feelings of unfairness can grow out of the multiple roles they play in the family business.

When overlapping symmetrical and asymmetrical relationships exist, the first priority is to keep the channels of communication open. Create a context that is safe enough to open up conversations that are long overdue. The family in the previous example needs to discuss their assumptions. Are we running the business like a family (treat all kids equally) or like a business (compensate all according to the fair market value of the position)? Sometimes, just by working hard, perhaps with some consultation on communicating, families can remedy their own situations.

Inadequate Preparation of Shareholders

Poorly prepared shareholders typically focus on entitlement. When will I get mine? Why remodel the office instead of giving bigger distributions? At times, they reflect a lack of interest in the company's well-being, a sense that, "As long as I get my check, who cares what happens to the business?" Such shareholders are unable to differentiate their role as responsible owner from family member. If they continue to view the company exclusively as a personal piggy bank, the business' odds of survival will dramatically decrease. Such a family tends to view the business as a means of meeting family needs and as a source of perks, for example, when family members who don't work for the business drive company cars and take vacations at the expense of the business. The family invests less in the business, and the business tends to have a smaller return on investment because the family is taking too much out of it.

Some shareholders do not think of themselves as owners of the family business. Instead, they see the company as belonging to their parents, even if they know they hold shares in it. At some point, those shareholders who take the developmental step of becoming psychological owners come to understand the importance of their role and are more likely to exercise the responsibilities and rights of owners. Those who don't see themselves as owners will lack a sense of personal stewardship. Such shareholders are generally apathetic about the company or have a strong sense of entitlement toward it. Either way bodes ill for the future of the business and the family.

It is critical that the next generation of shareholders gains a strong sense of stewardship grounded in the legacy and values of those who have gone before. It is not just about money and owning things. It is about preserving

and enhancing a family legacy and sustaining it for a period of time. Then it is about handing it to the next generation when their time comes. Ownership should be earned, not taken for granted. A family council is the place where owners can learn about their role as responsible stewards. Ownership development is a process that occurs over time, as opposed to a one-time event.

Gender Issues

Gender issues can be complicated in family businesses, even in North America where great progress has been made in the employment of women. Family businesses offer better opportunities for women than other companies if the father recognizes the skills of his daughter. In some instances, daughters interact more effectively with fathers because the element of macho competition that may exist between fathers and sons is absent.

More tension in a family is likely to erupt when an oldest son is passed over to manage the company in favor of a daughter than in the case of the more common scenario of a daughter being passed over by her younger brother. In many cases, male members of the younger generation may expect to assume leadership even when they may have less experience than an older sister has.

Interestingly, women in family businesses are more likely to have worked at outside jobs before coming to the family business than their brothers, who tend to go directly into the family business. Though the impetus for this may be a young woman’s sense that she is not really wanted in the family’s business or is not entitled to employment there, the overall result of her outside experience can provide the family company many useful perspectives and skills.

One woman worked in the family hotel business even though her father believed that girls should be groomed to be wives, not business professionals. She went to finishing school and, while there, secretly enrolled in a university program to learn about finance. She returned to her hometown and went to work for a competing hotel chain. Her father asked why she didn’t come to work for the family business, and she explained her understanding of his expectations. His distaste for a family member

working for a competitor, coupled with his daughter's training (which was valuable to the family business), was enough to make him rethink his beliefs about women in the family business. The young woman came to have a key role in the financial management and later in the general management of the family hotel business.

Another young woman never thought about working in the family clothing manufacturing business as a viable option. Her brothers were encouraged to join and to take on leadership roles in the business. She went to work in sales and marketing in a different industry. Her family eventually realized the talents she had and encouraged her to put them to work for the family. As she worked in the family business, succession plans were made. Her eldest brother was designated as the person to take the lead. However, her brothers saw she had the combination of people skills and business knowledge, which neither of them possessed. They encouraged her to take the lead.

The more rationally such leadership decisions are made, the more likely participants are to be at peace with them. As with many other problems, the key to preventing gender issues is to foster good communication among family members and to implement systems such as a family employment policy based on objective criteria such as education, skill, and experience.

Chemical Dependency

A person who compulsively drinks, uses drugs, gambles, or overeats (to the point that it jeopardizes relationships, the company, and his or her own physical health) is likely an addict. A web of codependency around the addict typically enables him or her to stay addicted. Codependency is the tendency of family members and friends to enable an addict to continue destructive behaviors by denying the problem, covering up for him or her, and/or accepting the impact of the abuse on themselves. Because compulsive disorders are found in a huge percentage of families in business (perhaps because it is easy to cover up), it is important to discuss addictions here.

Imagine addiction as a parasite that is attached to the addict, has control over him or her, and is draining him or her dry. The parasite sends its tentacles out to the people around the addict and affects them as well.

One highly functioning alcoholic owned several funeral homes. When he died of cirrhosis of the liver, the oldest of his three children harbored so much resentment against his father that he would not come to his deathbed to say good-bye. Within a couple years, this son also became a raging alcoholic and drug addict. The family kept him employed so they could keep an eye on him, but his behavior became so disruptive to the business that the alcoholic's brother went to their mother and said, "Either he goes or I go. He's destroying the business." The mother fired her addicted son. Two years later, the second son also became an alcoholic, nearly killed himself, sobered up, and then relapsed after two years. The third sibling, a daughter, married a man addicted to marijuana. While this family may be extreme, we see compulsive spending, gambling, alcoholism, and other destructive behavior in most families!

In the above case, their problems with addiction caused the family to hold on to their business for too long instead of selling it. They knew they lacked the skills to repeat the early success of the business so they were afraid to do anything else. They are now down to one funeral home, which they can only sell for the value of the property. While the industry was consolidating ten years ago, they could have sold the business for millions of dollars.

Intervention and treatment for addiction and the family patterns that feed the addiction have to be arranged to address these issues. Alcoholic families live by three rules: don't think, don't talk, and don't feel. The same dynamic exists for other compulsive behaviors such as gambling, sex, and spending addictions. As in the family described above, addiction often runs in families. It is rare to have just one addict. The first son was angry about the way his alcoholic father had treated him, but went on to repeat some of his father's behavior. This family could have gone into treatment together with a therapist specializing in addiction issues.

When the nonaddict parent attempts to protect family members from erratic behavior that tends to accompany addiction, he or she introduces some predictability to a family's daily life. The addicted parent's behavior wounds the children less. A simple thing like having dinners at a predictable time can make a crucial difference in children's lives because unpredictability and lack of reliability cause children to mistrust adults. However, this can also enable the children to remain in denial about what is

happening in their families, or they may become overly vigilant about other people's feelings and out of touch with their own. They grow to be very attentive to the emotional state of the addict. They recognize their family is not an emotionally safe environment.

The same principles and practices can apply to mental illnesses in the family. Depression, bipolar disorder, and a host of other mental illnesses can seriously damage the family and the family business, if not dealt with properly.

Practical Solutions

Respecting Boundaries

Robert Frost said, "Good fences make good neighbors." In a family business, the same family members may be involved in ownership and/or management. To effectively navigate these multiple roles, it's necessary to create clear boundaries between them. A boundary is defined as "the point where something ends and something else begins."

Think of a family—two parents and their adult son—having a meal together. Their relationship is informal and playful and includes many aspects of life. Consider them as each owning one-third of a business. As business owners, they have to work together to oversee the health of the business and instill effective management. They are not father, mother, and son, but three equals with a shared interest. What if the son is the CEO of the business and the parents, although part-owners, are not involved? Can the parents tell their son what to do?

When one such family talked, they were not sure which role they were playing. The parents tried to be parents while the son was trying to be a CEO and please his parents. As owners, the parents felt free to come to the business and tell employees what to do and make suggestions. The employees weren't sure how to respond to them.

This is a classic example of how participants in a family business can become confused, even paralyzed, by role confusion. This family business —the shareholders, leaders, and employees—needed to develop clear boundaries around each of those roles. They needed to learn how to

recognize when they were acting as owners, as parents and adult children, or as managers. For each role, they had to define clearly what they could and could not do. The son, the only one who was a manager, had to have full authority to act as CEO. The owner group could ask the CEO to leave or hold him accountable for results. The parents had to see their son not as a child needing guidance, but as an adult manager and peer owner of their business. Of course, as parents, they could decide to leave their two-thirds interest to their son or someone else.

People in a family business would be wise to ask themselves if what they want to do or are about to do is appropriate for the relationship they have. Should a mother come to her CEO son and ask or tell him that he should hire his cousin who needs a job? We get into trouble when we confuse our roles if:

- As a family member, I feel entitled to make a decision about the business
- As an owner, I think I should be able to go around the president and talk to any employee
- As a director, I try to bring up family issues in front of other nonfamily board members
- As a manager in the business, I feel I can tell adult children what to do in their personal lives

One of the most misunderstood roles is that of a shareholder. Conscientious family business shareholders need to learn to be good stewards of their assets, whether or not they are active in managing the company.

Shareholders elect board members who have fiduciary (or legal) responsibility to represent the interests of the business. The board elects the officers of the company (for example, the president or CEO), approves plans and budgets, and typically approves major actions such as acquisitions, the sale of the business, or change of direction in the nature of the business. Type of ownership (voting shares versus non-voting shares or shares held in trust versus outright) also defines the manner in which an owner can influence the business.

Effective shareholders understand the boundary between their role as owners and that of someone leading or employed by the business. An owner knows his or her authority is limited to the ability to select or influence the board or CEO, vote shares, and/or keep or sell those shares. Owners should not attempt to step over the line and give direction to employees, take direct action within the business, or otherwise go around the leaders hired to operate the business. In this role, a family member can voice an opinion, but needs to understand the limitations of that role in making the opinion count.

Successful family owners have a special compass that keeps them headed in the right direction and pulls them back on course when things get off track. They can reinforce the elements that help them stay on track by carving out formal times and places when they can meet specifically as owners. A family council (chapter 8) comprised of family owners and future owners of the family business can convene regularly to address the issues concerning their unique concerns as owners.

To keep one's role as a shareholder clear and distinct, it helps to focus attention on shares as an investment, whether purchased or inherited. It is good business to evaluate how one's investment in the company is doing, compared to other alternatives for placing capital using various criteria such as risk, return, liquidity, and so forth. **Exhibit 6.1** provides some commonly used variables to measure how an investment is performing. A family business (through the board of directors or family council, if they exist) can help educate family shareholders about these and other basics about the company, its history, and the industry and provide information about the company's performance on a quarterly basis.

Exhibit 6.1 Basic Company Performance Measures[4]

Risk	The most common measure of risk is beta, which tracks volatility or systemic risk compared to a market benchmark index such as the S&P 500.
Return on Equity (ROE)	This is a company's net income divided by shareholder equity. It measures how much profit a company generates with the money shareholders invested.
Return on Investment (ROI)	This is gains from an investment minus the cost of that investment, divided by the cost of investment. It measures the efficiency of an investment.
Return on Assets (ROA)	This is a company's net income divided by total assets. It measures how efficiently management uses assets to produce earnings.
Liquidity	This is the degree to which an asset or security can be bought or sold in the market without affecting the asset's price. A high level of trading activity characterizes liquidity. (Shares of private companies are usually not easily bought or sold in the market and are therefore considered illiquid.

It's important for shareholders to understand how their family business shares fit in with the rest of their personal financial portfolio. They also have the right (and, it can be argued, the responsibility) to know how the business operates, what opportunities and challenges it faces, what their options are for liquidity and selling their shares, and where the boundaries exist concerning control over the company's strategic direction and goals.

Sometimes, even posing these questions raises anxiety because it suggests someone is interested either in selling the company or divesting his or her ownership. This can help explain why the topic doesn't come up often.

Family members are often allowed to join or remain in the business because of their importance in the family, not because of their value to the business. These roles often collide. Mothers and fathers find themselves in a bind when they see that having their child in the business is a mistake. As a parent, they find it difficult, if not impossible, to fire their child. As a boss, they realize it is a poor business practice to keep an incompetent employee on the job.

Stew Leonard of Connecticut supermarket fame relates such a story. He invited one problem employee son to his house for a swim and said, "Son,

being in a family business can be very tough. I have to wear so many hats. I'm putting on my boss' hat now. 'You're fired!' Now I'm putting on my father's hat. 'Son, I heard you lost your job. I'm sorry. What can I do to help?'"

By Barbara Roth

It may be a good idea to hold a family meeting to discuss roles and boundaries. At the meeting, you may want to give family members hats with the word *manager*, *shareholder*, *family member*, or *board member*. Some family members who hold multiple roles will receive one hat for each role. You can discuss recent situations in which they felt confused about which hat to wear or when they gave in to temptation to wear the wrong hat and acted in an inappropriate way.

Good boundaries are needed in other dimensions of the family. Certain things that the parents feel and do are private and should not be shared. A family faces boundary confusion if:

- A parent talks about issues in his or her marriage to a son or daughter
- A sibling goes to her mother whenever she disagrees with something her sister/business partner does

In a family business, people spend more time together than a family in which members do not work with people with whom they live or are related. It's easy to forget that, when you're at the office, you need to relate

to family members in a businesslike way. When you're at home, you would be wise to focus on the family, not the business.

There is such a thing as knowing too much about each other's lives. A young adult in a family business often feels pressure to socialize all the time with the whole family. A daughter may have married a man who respects and likes the family, but who wants to create his own family with her. The young nuclear family wishes to create a boundary of privacy so they do not feel obligated to do everything with the family. For example, they may want to take a cruise for the holidays rather than go to the family retreat to ski. The parents may, in turn, take the efforts to create a boundary as an affront to the family. Tension ensues.

Part of growing up and becoming independent requires creating one's own identity and not feeling like a junior part of one's original family. This is more difficult in a family business in which different generations work as business partners. In the words of the Native American Osage, "If you want a place in the sun, you must leave the shade of the family tree." This is not to imply that you must leave your family or family business to succeed. But you may need time in other environments (away at college or getting some work experience outside the family business) to gain fresh perspectives and see other ways of behaving, working, and thinking so you can take the best of both worlds as you develop into a well-rounded, uniquely you person.

Another kind of boundary is between family owners, their employees, and the community. Information about the family finances is not to be discussed with people outside the family. As a young person grows up in the family business, he or she must learn the boundary between the affairs of the family, the business, and finances and what can be shared with employees and friends. Knowing how to maintain confidentiality is an important criterion for including young people in discussions of sensitive business or financial issues.

The irony of Robert Frost's statement is that boundaries seem to separate things rather than link them together. But clear boundaries are a paradox. They separate things, and, in so doing, they allow individuals to grow and thrive; decisions to be made clearly and appropriately; people to know more clearly who they are and where they stand; and family members to know what's expected of them and what is not.

As we've mentioned, most entrepreneurs start a business with just a few others and have to do almost everything themselves (wearing all the hats). As the company grows and family members join, everyone is expected to pitch in and do everything. This is where boundary problems and role confusion usually begin. As the company grows, the separation or specialization of roles requires that boundaries become established so each person knows "who is on first base, pitching, and catching." Growth requires specialization and clarity. Creating principles that guide the definition of roles and boundaries paves a road to success.

Understanding Who Owns What

The traditional family business had a paternalistic family leader who decided how much to distribute to family shareholders. He would often say that he was both looking after the needs of family members and sustaining the business. Family members may accept this from their dad because the business was his and they trusted him. But they may resent the same kind of paternalism from their sibling and even interpret it as a sibling's self-interest.

The family has to sort business from family issues. The brothers and sisters in a family may all have rights to inherit part of the business as family members. However, the inherited asset may not feel like an asset to a minority owner if he or she can't enjoy it. Many family heirs feel frustrated because they own shares in huge and valuable businesses, but they cannot afford to buy a home or set themselves up in their own businesses. The way to resolve these issues is to create a family marketplace for the business.

The family marketplace is based on the principle that family members who inherit shares of a business maintain their ownership voluntarily. If they feel like they are captives of the business or do not feel that their interests are represented, their frustration will build into anger. The family should find a way to offer to buy the shares of family members who want to sell shares and to avoid captive shareholders. Family exit strategies, such as full or partial redemptions, allow a family heir to invest in some other direction, possibly sacrificing sharing in family business ownership to gain

personal financial flexibility and freedom. These strategies and agreements are typically part of a buy-sell agreement.[5]

What is the business worth? The value of the business is probably best determined by using formulas commonly used in the particular industry. However, a business appraiser will typically discount the value of a minority ownership stake for lack of marketability, lack of control, or other factors. This may dismay an owner who feels a share is really worth *x* when the appraisal comes back 40 percent lower. On the other hand, for a minority shareholder to receive full value for his share of the business, the entire business must be sold. Families must face these issues when they address questions of partial or whole redemptions and buy-sell agreements.

The return on equity (ROE) or return on investment (ROI) calculations, described earlier in **Exhibit 6.1**, allow for easy comparisons with other investments. Evaluating the acceptability of a return should be based on its comparative risk/reward. Some people confuse dividends with returns. Dividends, usually in the form of cash, are distributions to shareholders, usually based on the company's profit in a given period. Other business health indicators of the company should be considered as well, such as balance sheet ratios, free cash flow, revenue, margins, earnings trends, and capital requirements.

A second case occurs when the family has a portfolio of assets. In this case, one important question is, "What is the total return of the portfolio?" How does this total return compare to a similar investment in a variety of different asset classes? In this case, risk is typically addressed through asset allocation. It is important to educate shareholders and give them the tools they need to evaluate the value and performance of their ownership and to make informed decisions.

Differentiation of Roles

We briefly introduced the concept of differentiation in chapter 4 to explain how well the different roles in a family and business have been defined and assigned to individuals. Differentiation can also be used to describe how well a family, an organization, and subgroups function. Poorly

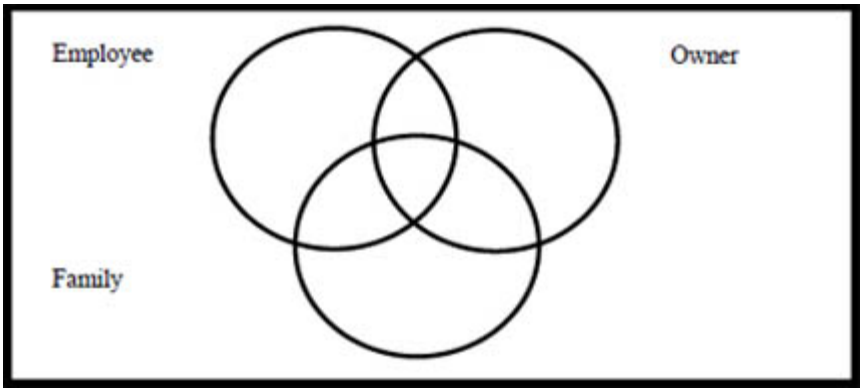
differentiated families are more likely to behave aggressively and selfishly, avoid dealing with conflict, and lack strong bonds.

When crisis hits a well-differentiated family business, everyone keeps his or her head so he or she could manage the crisis. When differentiation is low in a family business, panic and anxiety spread fast, and organizational systems break down.

For instance, while children are young, they are naturally dependent upon their parents. As they grow, they should shift into a role as equal adults. If that does not occur, then if the daughter becomes CFO of the family business, she will be unable to disagree with her parents when issues arise because her parents still see her as their daughter, not as a professional with financial expertise. She has not differentiated herself or developed strong boundaries between her roles as daughter and business manager.

In family businesses, the roles can get complicated because there are three types of roles people can play: family member, owner, and employee of the business. This sometimes is referred to as the hats people are wearing. So the daughter above needs to be clear if she is wearing her working-in-the-business hat or family hat. If she becomes an owner someday, she will have to put that the owner hat on at times and think about the entire enterprise and how it is serving her as an owner. At that point, she will be thinking like an investor.

Exhibit 6.2 Family Business Roles or Hats



One of the most important responsibilities of a family business leader is to create subsystems such as a board of directors, family council, and

management or leadership team to help the family, the business, and the individuals remain differentiated with healthy boundaries.

In our work, we see four developmental stages of differentiation in family businesses:

- **Undifferentiated** is when no role differentiation or boundaries exist. When the company has outgrown the management of the founder and there is no board of directors, the business completely depends on the founder's control. Important documents (shareholder agreement, family employment policy, code of conduct, family mission statement, and so forth) are nonexistent in family businesses at this stage. (We describe these documents in chapter 9.)
- **Nominally differentiated** is when roles are defined in name only. In this stage, the company has selected directors, but they consist of all or mostly family members who work in the company. Directors in a nominally differentiated company serve as an audience to the CEO and do not hold the CEO accountable. Boundaries are blurred between the functions of shareholders, directors, and the executive team. Nonfamily executives consider owners as a possible liability to the company. They try to navigate around the emotional dynamics of the owner-family.
- **Partially differentiated** is when subsystems are defined and empowered. As the business moves from the entrepreneurial stage toward a culture of professional management, directors begin to function as real fiduciaries.[6] The company has defined systems of accountability, and it begins to use those systems. The CEO has time to work on the business instead of just in it. In other words, the CEO focuses not just on putting out immediate fires, but on strategic plans, future succession, and contingency plans.
- **Fully differentiated** is clarity of boundaries, roles, and functions in stakeholder groups. Systems of accountability are in place. Organizational development and innovation become part of the company culture. Knowledge and information is shared efficiently. Business functions are insulated from any disruptive family dynamics, and the family leaders encourage a sense of stewardship in the

emerging generation. Independence of board members is highly valued.

To what extent is your family business differentiated?

Maintaining Role Differentiation

As mentioned earlier, as a company grows and welcomes more and more family members, such as the next generation, the need to achieve higher and higher levels of differentiation become critical to the company's success. Take your business to the next stage with these steps:

- As early as possible, have job descriptions that specify the role, accountability, and required skills of each position and to whom this position reports (chapter 9). This will help prevent a situation in which people step on each other's toes, everyone does everything, and people feel entitled to make decisions outside their role because they did so in the past.
- Establish financial controls and boundaries between the business pocket and family pocket. Early on, if the business needs money, the entrepreneur and perhaps other family members just put it in the till. Later, they may feel that, if they need money, they can just take it out. But this practice can get you into trouble with the IRS. It also encourages family members to think they can use the assets of the business in an informal manner. Professionalizing the business means creating budgets and financial controls such as tracking expenditures, having clear boundaries between business and personal bank accounts, and keeping the use of assets separate. Family businesses can dig themselves into a hole when one member uses the business tractor at home. Then all members feel entitled to do the same. Or members take a family trip that the business pays for. If the trip is geared toward educating the family for future stewardship, having the business pay for it might be legitimate. If it's just for fun, it is not.
- Business plans are crucial for creating your business' future. In the beginning, you may have an idea, try something out, and see what works. When your business begins to have some success and you hire

more staff, everyone will need to know the direction of the company and his or her role in reaching its goals. Accomplish this with a business plan that outlines goals for the next few years, details strategies to reach these goals, and clearly describes the role each department will have in accomplishing them. That way, the manufacturing department knows it needs to produce *x* amount of a product and the sales department knows it will be trying to sell that amount.

- Use organizational charts to create structure and avoid control issues and confusion by defining employees' roles and who reports to whom. The informality of a family, in which everyone does everything, often makes people averse to having an organizational chart. Family members may fear that, if a job is defined on a chart, employees will not feel responsible for anything outside their job description. This concern can be offset by ending each job description with the words "and all other duties as assigned."
- Finally, when compulsive disorders like addiction arise, the family needs to maintain clear boundaries about what behavior is encouraged versus behavior that will not be tolerated. Families often create codes of conduct (chapter 9). Typically, these codes describe the expected behavior of members of business-owning families. Abuse of alcohol, drugs, or other behaviors that are disruptive to the family and its business are typically outlawed. By describing the detrimental impact of such behaviors in a code and clearly indicating the lack of tolerance for them, families put its members on notice. When the line gets blurry (for example, "Well, it was only his second DUI" or "But we can't fire him for stealing from the company! How will he support himself? He'll starve!"), the problems get worse. Families with clear and shared vision statements are able to hold the line. They can point to the dreams of the future for the entire family and note how one person's destructive behavior may prevent everyone else's dreams from happening. This is often tough love, but helps the individual, the family, and the business.

[4] Source: Investopedia.com (A Forbes Digital Company)

[5] A buy-sell agreement specifies the terms under which shareholders may choose to buy or sell shares of the family business. We describe such agreements in chapter 11.

[6] A fiduciary is a person with legal and ethical responsibilities in the management of assets (in this case, the family business).

Chapter Seven

Building Communication and Trust

Common Problems

Poor Communication

Sometimes, family members share either too much or too little information. In the case of too little, a trust issue may be preventing people from communicating. They don't trust the intentions of the other person or don't feel safe in the relationship. Too much communication usually involves venting emotional content based on anger or fear.

In one high tech company, the daughter wanted to withhold information from her father because she didn't trust his capacity to understand or agree with it. He was more conservative about the company's growth, and she was afraid he would veto opportunities she uncovered. In such cases, it is often useful to ask the question, "If this issue didn't involve a relative, would you know what to do?" The answer is usually yes, which suggests it is not a matter of not knowing what to do. It is a matter of having the will to do it. Part of enhancing communication is simply setting aside time to attend to relationships and personal agendas within the company.

The Absence of Civility

An absence of civility is often characterized by repetitive, emotionally charged interactions between family members, along with expressions of anger, defensiveness, and a lack of trust. It can be hard to alter an uncivil atmosphere definitively without professional assistance.

Some families and certain ethnic groups have more intense, emotional ways of communicating. For example, communication among Middle

Eastern and Eastern European families may seem aggressive to outsiders, but, to them, it may be a normal way of talking. However, ethnic and family variations in communicating can turn dysfunctional when individuals become self-absorbed with their own patterns of behavior, such as when there are jealously issues between two or more people. If people don't feel fairly treated by each other, they will spend their time looking over their shoulders instead of looking ahead. This type of internal competition weakens the viability of the company. People lose their focus on the marketplace because of internal preoccupations.

You know you're crossing the line into this dangerous territory when communication breaks down and ceases to flow. When members talk to each other through third parties, employees, or memos, basically refusing to talk face to face, you should know you are in trouble. Involving a third person in the emotional politics of two people's relationship is called triangulation, and it will only make the problem worse and cause the conflict to spread. As an example, knowing her two sons are at odds and not talking to each other, a mother may act as go-between and try to correct the imbalance in their relationship. In fact, she inadvertently just feeds into it.

Many times, an absence of civility is based on misunderstandings of historical events. In one family, a brother, the president of the family business, deeply resented his parents for buying his sister her house while he had to purchase his home himself. His resentment ate at him and affected communication between him and his mother and sister. He hadn't understood that his parents had taken the money for his sister's house out of her future inheritance, and they had an internal accounting to make things equal between the children. Once those facts emerged, the family was able to communicate less emotionally and more often.

Families can develop codes of conduct regarding how they expect each other to behave in different kinds of meetings. We will share more about this in chapter 9. Covenants and contracts cannot control behavior, but, even when family members are having a hard time talking to each other civilly, working out a covenant with each other can give them helpful practice communicating.

Who Is Recognized for What or Gets More Status?

Parents involved in a family business can have trouble recognizing and taking joy in the contributions of their children. In many business families, it's not always clear what the parents'/founder's criteria are for success or succession. They provide no compass for their children to recognize when they are on or off track, performing well or not. Compensation and promotions don't always reflect family members' performance or natural abilities and thus may not be a true form of recognition either.

A defense contractor who had gone to a military academy and flew everything that branch of the military had to fly then retired and started his own contracting company. He had two sons. One followed his example, also attending the academy and flying every kind of aircraft. This son had good contacts, and he was a natural next leader. The other son always worked in his father's company. He devoted himself to the family business and didn't go into the military. The family felt like they owed him the leadership of the company because he had worked so hard to be president, but everyone knew the other brother was actually the best choice.

Working with this family, we achieved a breakthrough when we realized during a session that the son who'd worked in the company never felt like he really had his father's blessing. We had him ask his father, "How will I know when I have your blessing?" Everyone in the room started crying. The father took his son's face in both hands and said, "You've always had my blessing. I'm so sad you didn't know it." Two weeks later, the son wrote a letter of resignation to make room for his brother. He had actually been working at the family business just to try to gain his father's approval. Now that he had it, he felt free to leave the company, and he was excited about trying something new. He worked with an executive job search firm and found another high-level position in a related industry.

Lack of Transparency

A leader who does not wish to share control often causes a lack of transparency in a family business. A founder who keeps his successors and

other key players in the dark about the business is essentially a benevolent dictator. “I know what’s best for my kids and what’s best for the business.” Further, keeping the business’ secrets to himself, a founder can avoid highly emotional, potentially conflicted discussions that may result from opening up a conversation about the business.

At the time a business transitions from first generation to second, with the concurrent transfer of wealth, authority, and voting stock, the need for transparency in the company intensifies.

One family business founder believed that “loose lips sink ships” and taught the next generation to keep quiet as well. The spouses of the second-generation family members were left totally in the dark and knew nothing about the business, its assets, or future prospects. The third generation was also kept in a state of ignorance. As this generation matured and became owners and employees of the business, they wanted more information. The lack of sharing information had created suspicion and distrust, not only between and within the generations, but among nonfamily employees as well. These employees watched the second generation’s age of retirement approach with apprehension and wondered about their own futures. Would the company be sold? Would it simply fold when the last of the second-generation members exited? The lack of transparency within the company left people to fear the worst, creating low morale and high attrition.

It’s so important to remove the veil. Experts in estate planning and insurance note that one of the best ways to get people to address these issues openly can be to argue the null hypothesis, “What if we don’t use chemotherapy? Here are the probabilities. The life expectancy of those who refuse treatment is one-third than of those who take aggressive action.” Play out the person’s existing thought pattern, “You’ve said your son and daughter are at war, but you manage to keep them under control. What will happen when you are gone and your son gets more money because he needs it to run the business and your daughter, inactive in the family business, thinks her smaller share isn’t fair? Will she hug her brother or hire a lawyer?”

Communication between the stakeholders can be very challenging and time-consuming, but the alternative is much worse. All constituencies need to understand what is happening and how it will affect them. Founders need to communicate to the next generation, “Here’s what the state of the

company looks like. Here are the options and plans your mother and I are looking at. Here is what our advisors have to say about the possibilities. This is what we're going to do to take care of the children who are not in the business." Founders also need to share operating information: how much money the company makes, the distributions for family members, and how much Cousin George is paid.

This kind of openness doesn't prevent conflict, but it does bring conflict into the present, where parents can mediate it openly. Further, often the conflict among parties in the family business arises from lack of information and knowledge about good business practices. With more complete communication about the rationale for parents' decisions, more understanding can occur. Without that transparency, conflict becomes part of the legacy that founders bequeath to the future. It will erupt later when siblings will partner up and lawyer up, and parents won't be there to help resolve the issues.

Mistrust

Trust makes family businesses work. When trust within the family is weakened, it seriously limits what is possible for the family and the business. When there is high trust, many things are possible. Trust issues may be at play when an individual hoards information, tries to minimize contact with another stakeholder, or is considered unreliable to treat everyone fairly.

Consider a brother and sister who inherited a business. They love each other but don't trust each other. In another relationship between two business partners who are not related to each other, they don't love each other, but they have a great trust in one another because of their years of working together. Which relationship is more prone to conflict, pain, and anxiety? Which two people are more likely to have a stable history? Which company would you be more likely to invest in?

Poorly Articulated Mission for the Family

If asked, would individual family members agree on the family's core values or the purpose of the business? What family members expect from

the business should be an outgrowth of their values as a family. For example, if your family makes a commitment to treat members with dignity and respect for each individual, does your business reflect that value?

If five family members get together and talk about what they want the business to be and all disagree, they would greatly benefit by creating a mission statement for the family. A mission statement can work like sheet music. As the family gets larger, individual roles change, and they need something to harmonize the players in one central piece of music. The family mission statement is a concert of shared purpose, though it utilizes the different contributions of individual players.

Absent a family mission, there may be strong differences of opinion about what to do within the business and no mechanisms to resolve those differences. The family might take a vote and have majority rule, causing dissension by challenging a matriarch or patriarch who is used to making unilateral decisions. Or siblings might gang up against their mom and dad. You can't govern a nation without a constitution. Conflict, disagreements, struggles for power, and subgrouping, these are all symptoms of a lack of shared family values, a sense of mission, and an agreed-upon system of decision-making. We describe how to create a family mission statement in chapter 9.

Where Can Good Ideas Come From and Who Can Make Them Happen?

In the military, you can see any officer and know that person's rank. In a family business, members have two ranks: their rank in the business and their rank as a family member. Sometimes, an individual will play on his family rank within the business. "Listen! I'm Dad's oldest son. Here's what I say!" This can result in confusion and make other employees shut down. In a family business, people have to navigate two different and potentially invisible hierarchies. The members of a family business need a high level of emotional intelligence to manage a dual set of spiderwebs, which are invisible until they are brushed against.

Problems and mistakes can often be avoided when people feel free to speak out. Employees in or out of the family often see a problem coming

but hesitate to speak up. Can ideas and alerts about problems flow freely from all levels of your business? Do family managers pull rank and suppress feedback? Are there checks and balances for objectively evaluating ideas, even from top leaders, to make sure they make solid business sense? The roles become even more complicated when ownership in the business is shared. Then, individual owners may feel they can share ideas and insist they be followed. There is a difference between sharing an idea and having the authority to make it happen.

One family business owner was passionate about golf. Although his business had nothing to do with the sport, he believed he had an idea for a better golf club than was available on the market. The $80-million business didn't have the kind of money to compete against multimillion-dollar giants and knew nothing about golf clubs. But the owner didn't want to hear challenges to his idea. He diverted company resources and tried to get his golf club off the ground for three or four years, never able to gain traction. Other managers had tentatively tried to tell him that his idea wouldn't work, but he wouldn't listen. The company survived, but the venture proved to be a tremendous waste of time and resources. This owner finally recognized that he needed to listen when smart people were talking. He realized he had damaged the culture of his firm. It was a multimillion-dollar lesson.

Good ideas for the business can come through inexpensive and unobtrusive measures, like surveys. Even if a company has only thirty employees, a few choice questions that measure the extent to which employees feel they have a voice in the company can provide valuable information: Does your immediate supervisor encourage you to speak your mind even when you disagree? Do your ideas count? Or does rank carry that privilege? Is there a free and open exchange of ideas in your department meetings?

In a survey, opinions can be passed to a manager anonymously. "Your people feel they can't disagree with you. Let's see what happens in meetings." Actively soliciting employees' opinions gives you the opportunity to create an open and safe environment, where people can express their ideas and feel they're welcome. Most leaders are surprised that they are intimidating to their employees. They don't realize that the power associated with their roles alone can be a deterrent to open communication.

Practical Solutions

Communication and trust go hand in hand. The level of trust in a family profoundly influences the flow of knowledge and information. In high-trust situations, knowledge flows freely. In low-trust families and companies, the channels are not that open. Trust requires openness, that is, openness in sharing one's point of view and openness to others' point of view. Thus, the more we communicate and listen, the greater the odds are that trust will exist.

A family in business together needs open communication to function and flourish. In order to encourage this kind of communication, they must create a structure to contain the free flow of information, an environment that fosters a sense of safety, and members must develop the skills and courage to share their thoughts and handle conflict when it arises. Let's look at how to enhance each of these elements of open communication.

Creating Communication Structure

Family business members often rely on informal communication channels. Because of their proximity in the business and at home, people often take communication for granted. "I'll talk to them later." However, as businesses grow, these informal approaches aren't enough. Information overload and busy schedules create gaps in communication. With increased numbers of employees and family members, it is easy for messages to fail to reach their destination, and people can easily be left out of the loop. So it is very important that the family business take these measures to ensure communication will occur:

- **Establish channels or containers of communication.** These channels can include regularly scheduled meetings, regular written communication (reports, newsletters, and so forth), and effective use of a designated place and time for the family, owners, and/or management team to get together to talk about the issues in their role. Having legitimate gatherings with focused agendas (rather than informal discussions at holiday meals) is critical to success in family businesses.

- **Designate a time and place for each stakeholder group— family, owners, and employees—to have a legitimate voice.** Employees typically rely on staff meetings with the management team to learn what is going on and to raise issues. An effective board of directors represents the interests of owners (legally) and can be a place for owners to indicate their wishes. Family members, however, often do not have a structured venue for dialogue. For this purpose, we recommend a family council (chapter 8).

There are several important principles for assuring that communication occurs in each of these venues:

- Be clear about the mission or purpose for the organization or meeting, such as education, collaboration as sibling partners, preserving a family connection and legacy, cultivating mutual support and fun, sharing of information, and establishing policies.
- Establish norms and roles, that is, the expectation of open communication and guidelines for communicating in a constructive way. This often requires outside facilitation to get it going by first creating a vision and a plan to realize it and defining roles, expectations, and operating guidelines.
- Seek or create opportunities to share in education, decision-making, and handling responsibilities. The more people who are involved and understand, the more opportunity there is to support decisions and actions.

Promoting Safety

The second strategy to assure communication in the family business is to create a safe environment for communication. One of the more prevalent barriers to open communication is fear of being hurt or hurting someone else, fear of anger, criticism or being laughed at, and fear of rejection. In families, people often fear that, if they say something another person doesn't like, they will never forgive them. We have heard people say, "They have the memory of an elephant and will never let me live it down."

Creation of a safe environment takes time, particularly if people have felt discouraged from communicating openly in the past. Openness depends upon trust; trust takes time to rebuild.

- Establish ground rules that foster safety, including:
    - Listen respectfully, and don't interrupt.
    - Use *I* statements rather than *you* statements. ("I would prefer if you wouldn't interrupt me" rather than "You always interrupt!")
    - Define what you consider confidential. For instance, does it means saying nothing to anyone outside the meeting or sharing a summary of the meeting but withholding details and quotes?
    - Make it a practice to paraphrase what each person says. If people feel their points of view have been ignored in the past, paraphrasing will help people see that others are now listening to them and understand their point of view. Another way to ensure people feel their ideas are considered is to record points of view on a flip chart during the meeting.

One way to think about what ground rules your group needs is to think about what keeps you from being open. See what ground rule would help address that concern. For example, if a family member was hurt when his or her private comments were shared in town after a gathering once before, a specific ground rule about not sharing content expressed by an individual can help. The entire group should commit to all ground rules and be willing to confront individuals who do not uphold the ground rules.

- **Legitimize everyone's perspective.** In a safe environment, everyone feels comfortable bringing up his or her points of view, even when others disagree with him or her. Thus, it is important to set a norm that everyone listens to each other, remains respectful, and expresses an appreciation of different viewpoints.

Some Native American cultures have a tradition of utilizing a talking stick in council meetings. Only the person holding the talking stick is allowed to speak. When that person has finished having his or her say,

someone else may request the stick and the floor. We have found that this is a useful tool in family meetings.

The following are some other tools for creating a safe environment:

- Paraphrasing (putting in your own words what you have heard the other person say) demonstrates that you understand another's point of view.
- Recognize that a trusting environment takes time. Don't discount others' hesitation or reservations, but identify and address them.
- Constructive confrontation is an important aspect of a safe environment. When engaged in confronting a difference, consider the following guidelines:
    - Stay focused on the issue (pros/cons, and so forth).
    - Stay out of triangles. Give feedback directly (for example, behavior feedback).
    - Create dialogue. Share assumptions rather than conclusions.
    - Check your understanding of the other persons' viewpoint. (Don't assume you understand it!)
- Keep the big picture in mind. Why do you have a family or a business? Think about the issue or challenge in the context of your mission. (Having articulated a mission statement is helpful for this reason; mission statements are covered in chapter 8.)
- Use outside resources to help break the ice. Sometimes, establishing a new forum is awkward, and someone skilled in establishing forums for communication, teaching skills, and defusing conflict is useful at the start.

Enhancing Communication Skills

Improving communication skills requires individual development, which includes finding the courage and confidence to overcome our own barriers to communication. Which of these real or perceived risks that create

barriers to communication in **Exhibit 7.1** do you feel apply to you or others in your family business?

Exhibit 7.1 Real and Perceived Risks of Communicating

Type of Communication	Real or Perceived Risk
Asking for information	Overstepping boundaries
Sharing information about the success of the business	Kids losing incentive to work
Sharing feelings	Hurting someone's feelings, displeasing them, or losing their approval or support
Sharing observations or beliefs	Stirring up conflict/rejection/loss of control/being cut off

Learning skills in effective communication, problem solving, and dialogue will help you avoid those obstacles. Many books and courses that focus on developing communication skills emphasize listening, particularly paraphrasing; evaluating your opinion, addressing options, and considering all points of view respectfully; behavior feedback; and recognizing your own psychological barriers. The following are some of the techniques you can begin practicing in your communication with family, friends, and co-workers:

- Practice keeping in your adult self in the presence of your family members. In other words, even if your parents tend to see and treat you as if you were still age twelve, in business settings, try to act in the same mature and professional way you would during discussions with vendors, clients, or co-workers.
- Pay attention to physical signals, such as a dry mouth or a racing heart, that you may get when you are uncomfortable. As you become more aware of these physical signals, you can remind yourself to stay calm. Some people find it helpful to concentrate on breathing slowly and observing what is going on without judging anyone.

- Be honest about your discomfort without blaming others. You, not they, are in charge of the way you show your emotions.
- Realize you will be much more successful in changing your own behavior than you will be at changing the behavior of one of your relatives. Focus on becoming who you want to be in a difficult relationship instead of being who you become when family members push your buttons.
- Try to imagine another person's history and what emotions he or she might be feeling. This will help you realize he or she is doing the best he or she knows how to do. For instance, your father may not feel comfortable expressing how proud he is of you. Perhaps he learned this from his own father and never learned how to show his emotions.
- Get help for this issue. The inability to be calm and mature in the presence of your parents is a classic adult challenge. If you feel stuck with this challenge, many counselors are very good at helping people with these issues.

Calling a Timeout

After clients have worked for a while on these issues, they recognize it's helpful to call a timeout if discussions become too emotional. Such families can pause and step outside the intensity of conversation to reflect on their state of mind and what's happening between family members. They may recognize when they are in a room with six family members trying to cope with an issue that really involves only two. The group can agree to set aside time later for these members to speak with each other to deal with those issues.

Confronting Undiscussables

Years of family history may have produced certain patterns of conflict and certain topics that are difficult to discuss. These represent enormous emotional black holes that prevent family members from communicating

effectively. When something can't be freely discussed, it takes on additional energy, increasing its ability to trouble the family.

Prior attempts to discuss undiscussables may have ignited arguments, making everyone nervous about the risk of repeating that unpleasant experience. The guidelines for fostering communication detailed previously will go a long way to opening dialogue about even the most difficult issues, but, if your family gets stuck, it might be wise to find a family business consultant to help lead a series of discussions to deal with these elephants in the room.

Promoting Trust

Families need very skillful communication whenever trust (or the lack of it) emerges as a family business issue. As an example, trust was a central issue plaguing the Symington family whom we discussed at the beginning of the book. Cynthia Thompson, the widow of one of the co-founders of the Thompson Manufacturing Company, harbored resentments that her troubled son, Steve, was not welcome to work in the company. She blamed her late husband's family for many of her family's problems, including financial problems stemming from their ownership of illiquid stock in the company over which they had no control. After several tense, angry meetings in which Cynthia finally felt the family heard her concerns, she, in turn, was able to hear other family members' perspectives. She finally trusted that her in-laws were, in fact, supportive of her and trusted them.

It can be very risky to raise issues of trust because others may feel you are questioning the honesty of a family member. But often, the trust issue is not just about honesty. There are six variables most commonly associated with trust, "the six Cs."

- **Character** (honesty). This variable is about integrity. When this is a problem, family members worry a relative will victimize them or illegal or unethical activities will put the business at risk.
- **Competence** (relevant abilities). Frequently, the business has been able to grow due to the unique executive skills of a founder. Those skills are hard to pass on. While siblings often trust in the honesty of their

brother or sister, they may not think he or she has the skills to be the boss.

- **Clarity** (the ability to think and communicate clearly). Very often, the successor is honest and competent in specific management skills, but lacks a vision of the future that stimulates excitement and loyalty. This weakness in vision (or the leader's failure to communicate it clearly) makes stakeholders worry about the future of the business and afraid to trust the successor.
- **Commitment to the group.** The ability to balance the pursuit of one's own self-interests with the duty to keep the best interests of the other stakeholders in mind is an important way for successors to earn the trust of their family members. When the founder's successor assumes leadership of the company, he or she may have a hard time gaining the trust of his or her siblings, nieces, and nephews about his or her ability to steward their interests without taking personal advantage of their unique position of power in the family.
- **Courage** (the ability to stand by values, make hard decisions, and so forth). A successor may have all of the personal virtues above and still not be trusted to make hard decisions that require the courage to take the heat from the family over a decision that causes pain, such as firing an incompetent family member or even selling the business itself when it threatens to become a liability. Or it may simply be about the courage to speak the truth.
- **Capacity** (time, mind-space, emotional energy, stamina, and so forth). A leader only has so much to offer, and those who have trouble allocating their capacities can become overwhelmed. A good example is a president who becomes so caught up working in the business that he or she has no time to work on the business.

Things to Consider about Trust and Family Assets

- When issues of trust exist in family business relationships, it is very important to decide which aspects of trust are at risk (courage, competence, character, and so forth). Remedies for trust issues will

vary depending on what type of trust issue is involved. First, be clear in your own mind about which aspect of trust is of concern to you. Then talk about this as skillfully as you can with those involved. Think about what they can do to regain your trust over time.

- If it feels risky to bring up these issues, you may need an impartial advisor to help.
- Sometimes, it is unwise or dangerous to trust someone. If you find yourself in such a situation, you must put a priority on the right thing to do. Typically in a family business, one knows what the right thing to do is. The challenge is having the will to do it.
- Sometimes, people are overly suspicious and don't trust others even when it is quite safe to trust them. It is important to find a way to manage around this person's fears because he or she is often unable to change.
- Trying to be the go-between between two family members who do not trust one another can be exhausting and rarely works over the long haul. It is typically best to stop taking responsibility for their relationship with one another and put them in a position where they have to work out their problems with one another directly.
- Trust is only rebuilt through successful and fair give-and-take in a relationship. Over time, these positive exchanges will create feelings of reliability and predictability. Individuals will then slowly regain the courage to trust. To lay the groundwork for this, it is often useful to write out agreements and place a priority on honoring these agreements.

In the Symington family, Sam was incorrectly worried that his brother-in-law, Tony, might resent him for his higher position in the company. In fact, Tony, an introvert, did not like overseeing people. He was happy creating parts and tooling for the company. However, Tony's wife, Tricia, felt that other family members in the company did not appreciate the importance of her husband's contribution to the business. These resentments had remained unspoken and unaddressed for so long that they grew and eroded their trust in each other.

In another case, two brothers, Lyle and Jay, worked in the business while their sister Cathy did not. At the death of the founder/father, the three siblings became equal one-third owners and board members. They found themselves at an impasse at a board meeting. In a heated moment, Cathy confessed she feared to trust either of her brothers to run the family company.

Cathy trusted Lyle's and Jay's honesty. However, she felt that Lyle, currently the CFO, wasn't the right person to be president. Despite his many technical skills, he was not an effective leader. He was simply not able to inspire others. She knew Jay agreed with her impressions, but he lacked the courage to say so or do anything about it. When Cathy clarified what she meant by being afraid to trust them with the business, they were able to have a productive series of conversations. Eventually, these discussions led to the consensus that they needed to hire a nonfamily member to run the company.

Exhibit 7.2 Exercise One to Address Issues of Trust

Take a blank sheet of paper and write the names of all the most important stakeholders in your family business. Include in-laws and family members who don't work in the business. You might also want to include key nonfamily employees or advisors.

Now think about an individual who doesn't trust another individual, and draw a line between those two people. Draw another line between every pair of stakeholders you think have trust problems. When all of the lines of mistrust have been drawn, you might pick the ones with the most serious trust issues.

- Specifically, how do these mistrustful relationships affect the family?
- How do they affect the business?
- What do you think the outcome will be five or ten years from now if the level of trust doesn't improve?

- What have you done in the past to try to fix these relationships with trust problems?
- What have you seen others do to try to fix the lack of trust?
- How much energy does it take for everyone else to cope with the mistrust between two people with serious trust issues?

Exhibit 7.3 Exercise Two to Address Issues of Trust

Imagine the details of a scene from a past family gathering at which you were uncomfortable. Think about where you were and who was nearby. Think about what was said or not said, how others behaved, and how you behaved.

Now notice what physical sensations you might feel are associated with this family-triggered anxiety. Where in your body do you most feel the tension? What words go with that feeling? What do you assume is going on in the minds of other family members during this scene?

The ability for you and your family members to identify and begin to deal with any of the family issues this chapter has discussed will greatly impact the ability of your family business to remain healthy and continue to provide for your economic, intellectual, and emotional needs. Perhaps the following poem by Sherry North captures this well:

The Goose and the Golden Eggs

There was an old farmer in Kalamazoo
Who was starving and didn't know what to do
Until a stranger arrived at the farm,
Carrying a goose under his arm.
"Take care of my goose," he said, "and friend
The goose will take care of you, in the end."
And before the next day was an hour old,
The goose laid an egg that was made of gold.
All that week and the next, I'm told
The goose laid eggs that were made of gold.

The farmer sold the eggs, made lots of dough.
He became rich, but then, you know …
He said, "I really think it's a crime
To have to make money one egg at a time.
That silly old goose, she makes me sore!
I'll bet in her belly, she has dozens more!"
So the farmer grabbed it by the legs
And killed the goose with the golden eggs.
There were none inside the goose, of course,
Which filled the farmer with remorse.
Soon his money was gone, and he was needy.
See what you get for being greedy?

In the next chapter, the elements of family business structures such as family councils, boards, and management teams, as well as governance mechanisms such as buy-sell agreements, wills and trusts, and insurance, will be explored. Also described are the many policies your family business should create or review and update to make sure they reflect the current realities of your family, business, and economic realities.

Chapter Eight

Developing Governance Structures

Common Problems

Too Much Emotion, Too Little Intellect

One of the most typical problems encountered in family businesses is when a family member reacts with too much emotion and doesn't use his or her head! For example, when one family business member is cut off from another and avoids contact with that person, this indicates that the balance of fairness is unbalanced. They avoid conversation with each other because conversation leads to anger, conflict, or threats. Circumstances may force them to deal with each other, but their highly charged emotions prevent them from interacting without spinning into conflicted familial roles.

Successors who assume leadership often become the lightning rod for unfinished business others have with their father or mother. A founder's children may have a great deal of anger and resentment, which they suppress because they're afraid of alienating their parent. When he or she dies, the sibling who replaces the founder as the authority figure in the family will withstand the worst of that lingering resentment. The other siblings may be far less inhibited about expressing their anger toward their sibling than they were with their parent.

Five siblings worked together in the family commercial real estate business. Their father had put two of the brothers in charge of all the voting shares. Another brother was president of the business but had less power than his elder brothers who controlled the voting shares and ran the board of directors. He was so incensed about his marginalized leadership that he constantly undermined the judgment of his elder brothers. He displaced his resentment of his father onto the siblings with the most power.

Resolutions of many of these issues require individual or family therapy, which can take a long time. Some of us in the Aspen Group use a resource called the Hoffman Institute. This eight-day program helps release people from patterns of behavior they've inherited from their family, which reduces their emotional reactivity. One member of our group has sent at least fifty people to the Institute. He has personally attended the Institute and experienced it as a life-changing event. Siblings do not attend the Institute at the same time. As each one goes through the program and his or her anxiety palpably decreases, the overall tension in the group drops another notch. It's like a positive emotional chain reaction. This is an example of the programs that are available when it feels like you can't solve problems on your own.

Poor Accountability

Poor accountability for family employees is an offshoot of running the business like a family, discussed previously. A typical question might be asked, "Why do we cut Sarah so much slack?" If the answer is, "She's Dad's favorite daughter," accountability is lacking. When employees don't do their jobs or don't do them well, they don't belong in their positions, regardless of their places in the family.

Ineffective or Nonexistent Formal Governance

Issues involving governance (decision-making) tend to crop up when a company's founder is faltering or about ready to retire. Until then, a business often tends toward governance by personality ("Because Dad likes it that way") or whimsy ("Dad doesn't like Aunt Inez's kids so they can't work here.") When the founder dies or retires, the family quickly recognizes that the power of personality can't be transferred. Suddenly, the family realizes it needs policies and governance systems that spell out the rights of owners and family employees, such as hiring, compensation, promotion, and access to sensitive information.

The original founder of a $20-million company, a scientist, developed an aggressive form of cancer and was gone within six months. His wife, a high school graduate, assumed the role of CEO, but knew nothing about the

family business. She was left to help her children develop the skills quickly to take over the business while a nonfamily president temporarily ran the company. The children worked frantically to develop principles of governance, an employment policy, a family constitution, and a mission statement, which never existed outside their parents' hearts and minds. In addition, the children were simultaneously jockeying for positions inside the business they inherited. Fortunately, their mother was still alive and healthy and could give this process her blessing and keep the group together emotionally while holding the moral umbrella. In cases when there is no one to do this, the burden can be too heavy for the family and business to bear.

Businesses would be wise to create these policies and structures before they are needed. The force of the founder's personality holds things together now, but, if disaster comes roaring around the corner, everything could fall apart. It's hard to work up a sense of urgency about formal structures when all is running smoothly. Yet it's impossible to overestimate the importance of putting them in place.

When Owners Are the Biggest Liability

Ask yourself, "Do you think your family is more an asset or a liability to your company?" The family is a liability when:

- A company spends an inordinate amount of time dealing with family conflicts.
- The family has lost sight of its shared values and harbors conflicting goals.
- The family is growing faster than the company is, creating a financial burden on the company as it tries to meet the growing family's financial and employment expectations.

One inherent competitive advantage of many healthy family businesses is patient capital. Family shareholders, unlike investors in publicly held companies, tend to focus on the long-term needs of the company over their personal short-term financial gains. They think in terms of generations rather than quarters of the year. When patient capital begins to erode, it can

cause the family to place unrealistic demands on the company, which will erode the company's long-term viability.

It may be more helpful here to describe a positive example of a remarkable 1,400-year-old family business, in which the 1,200 family owners have managed to remain an asset. During most of its history, the owners of this pharmaceutical distribution company based in Turkey had been feudal lords. The family traces its roots back to Mohammed and his daughter, Fatima. Fatima married her cousin, Ali, the founder of the Shiite sect. Their descendents are considered a holy family (actually, a tribe) that includes eleven clans.

One of the holy men, or *hodjas*, through a translator, explained the most important must in his family business. The translator didn't know the word that the *hodja* gave in his answer. We later learned that the word meant patronage, by which the *hodja* meant being a custodian, that is, putting the group ahead of one's personal needs. This sense of patronage has helped this ancient Turkish family business last for hundreds of generations, sustaining more than 1,200 family stakeholders in the current generations.

Without a sense of patronage, relationships among the leaders may easily become a liability to the company and, eventually, to family members' long-term financial and emotional security.

Closer to home, the Laird Norton family believes its shareholders as a group need to be nurtured the way any division of their company is. To accomplish this, it has a family university, that is, an annual gathering that shareholders are required to attend. They have a co-presidency, consisting of a nonfamily president of the business and a president of the family shareholder group who is a member of the family. At one point, they had a full-time position for overseeing family issues, which is now a part-time position. They have a venture capital fund just for family members. While this is for a large company, having a focus on the needs of the family separate from the needs of the business can be done on a smaller scale.

Practical Solutions

A governance structure defines the interface among the various groups of stakeholders (people with an interest in the family and in the business): owners who are family members, perhaps owners who are not family

members, family members who are not owners, and family employees. As we saw in chapter 4, each individual may play more than one role. It's difficult to know when it is appropriate to wear one hat or the other (owner, relative, or manager) where the boundaries begin and end between one role and another.

Governance structures define the roles, responsibilities, and expectations of the stakeholder groups so they can function effectively in the business and the family. As **Exhibit 8.1** illustrates, governance structures generally include three elements:

Exhibit 8.1 Governance Structure

All stakeholders in the family business system need a place to voice their questions, concerns, and problems. Shareholders can take their problems to the board of directors, whose fiduciary (legal) responsibility is to protect the interests of shareholders. Employees (and, in particular, management) can bring their concerns to the senior management team.

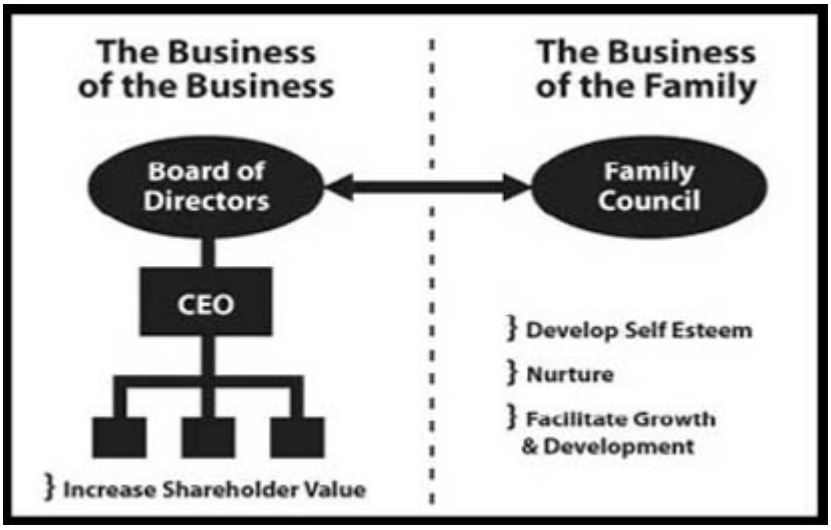
The business still impacts stakeholders who are neither employees nor owners of the family business (such as spouses), and they can impact the business in significant ways. These family members also need a formal place and process for voicing their concerns, that is, a family council.

The family council's primary role is to educate family members, discuss issues that affect the family and the business, create policies, foster communication, and provide a role for appropriate participation as well as develop the next generation of responsible owners. As we will discuss in more detail later in this chapter, spouses of family owners and children above the age of fourteen to sixteen often compose the family council.

Without these governance structures, some stakeholders may become frustrated. They may behave in ways that can damage the family and the business. In extreme cases, these frustrations can lead to lawsuits among family members and cause serious rifts within the family.

These governance structures also help separate the business of the business from the business of the family. After all, the purpose and goals of the family are not always the same as those of the business. In **Exhibit 8.2**, the dashed line between the two represents a hypothetical boundary signifying the relationship needs to be carefully defined and maintained.

Exhibit 8.2 Separating the Business of the Business from the Business of the Family



The governance structure may become more complicated and elaborate for a larger business, especially when multiple generations are involved in running it. But whatever its size, the purpose of the family is to nurture its members, that is, to help them grow into productive, independent, contributing adults with high self-esteem. The goal of the business is to increase shareholder value for the owners. When families merge the family and the business and try to accomplish family goals within the context of the business, the family members and employees in and out of the business will become confused. For example, if a business owner gives his or her irresponsible son a job, hoping that will help him grow up, the business is

likely to suffer. Governance structures create policies that define and implement the criteria for hiring family members.

As we will see, all the members of the family and the business can benefit when there is an open forum for discussion and learning. Let's explore the basic ways each of these entities can operate most effectively.

Family Leaders

Family business leaders need to provide sufficient direction to keep employees focused on guiding the company on the family owner's chosen path. Family leaders must develop the skills, cohesion, and agreements they need to provide responsible ownership of the company and prudently manage financial resources. **Exhibit 8.3** provides a checklist to identify whether or not the family needs help learning how to work together.

Exhibit 8.3 How Well the Family Works Together

	Usually	Rarely
Are there regular meeting to talk about business?		
When the family gets together to discuss the business, do they readily listen to each other?		
Do they often agree with each other's ideas?		
Is it easy to stay focused on business issues, or do family issues intrude into the business discussion?		
After a meeting, do family members follow up on what was discussed?		
Are there mechanisms to revisit agreed-to actions that don't occur?		

If your answers to questions in **Exhibit 8.3** indicate that the family meets regularly and can reach and follow through on agreements, that's great. If not, you'll have difficulty moving forward, and progress will be stymied. You may need to bring in outside help from competent family business advisors. (Chapter 11 details how to find and work effectively with outside advisors and consultants.)

Overseeing the Business with a Board of Directors

Think of the board of directors as a company's brain trust. It is the place where smart people work on the company, not in it. The board of directors represents owners in making sure that the business operates successfully and legally. The board can also help families gain the tools (structures, procedures, and skills) they need to achieve success in their family business. The board provides oversight of the business and good advice to those operating it.

A board is usually composed of some family members who own shares in the company. A retired founder, for example, may be the chairperson. Others on the board might include the company president and possibly a representative of minority stockholders who don't work for the family business. A nonfamily member who does not work for the business ("independent board member") is very useful on the board. This is particularly true if he or she receives carefully defined expectations, such as speaking up even if it means disagreeing with the founder. (It is often preferable to have two independent board members so they do feel more comfortable presenting points of view that are different from the family.) Someone from the same industry but who is not a competitor (for example, someone whose business operates in another geographical location) would be a good candidate to serve on the board, as would someone with expertise in an area in which the company wants to expand but lacks the internal capability. It is not a good idea to have advisors who already serve the business also serve on the board. It makes more sense to bring in new points of view.

People should serve on the family board because of what or who they know, not because of blood or friendship. Effective board members have a keen interest in the company and enthusiasm for and expertise relevant to its mission. They are honest and open-minded and can see several sides of an issue. They are skilled at working collaboratively and speaking and writing clearly and able to deal with complex issues. They must be willing to take tough-minded positions when necessary. Finally, they must be sensitive to conflicts of interest and know how to balance self-interest, the needs of the organization, and the laws of the land. With these competencies, they offer advice about difficult issues, contacts with

important resources, and objectivity. Most entrepreneurs and family business people we know say they wish they had put a board of directors with independent people in place sooner.

As the company matures, the board composition becomes more complex. Families need to consider including representation of different ownership groups and must try to pull together a large diverse group of shareholders under one umbrella.

Board members may have defined responsibilities based on the unique challenges of the company's market niche or as defined in the bylaws of the organization. **Exhibit 8.4** lists several typical responsibilities of the board in overseeing the business and representing the interests of family stakeholders.

Exhibit 8.4 Key Responsibilities of the Board of Directors

Oversee the Business
• Regularly attend board meetings and adequately prepare for issues on the agenda
• Determine the organization's mission and purpose
• Select, support, evaluate, and, when necessary, dismiss the CEO
• Oversee long-term strategic planning
• Oversee the management of the tangible and intangible assets
• Ensure compliance with governmental standards
• Oversee the company's management systems, products, and services
• Manage the company's image in the community
• Foster rational and objective decision-making
• Represent stable structure in times of crises
• Offer a foundation for going forward and putting the past in the past
• Provide structure for transition of the business to future generations
• Institutionalize the business' formula for success, and provide founders with an opportunity to share their dreams with all who come after them
• Provide a forum for input from knowledgeable people outside the family and business

Represent the Interests of Family Stakeholders
• Clarify role boundaries for family members who are both owners and employees of the business • Encourage the family to focus on business issues and what is required to maximize the business • Provide a structure for appropriate participation by all stakeholders • Manage the overlap between the family and the business • Balance power in the organization[7] • Cultivate open and constructive communication, problem solving, and team-building

Unlike most families, families in business must analyze, deliberate, and plan strategically in ways that most other families never need to do. In the early entrepreneurial stages of a family business, a normally functioning board often seems unnecessary because the most important intellectual assets of the company reside in the founder's brain. But to grow, the company must let go of its dependence on one leader and allow more sophisticated systems to manage more complicated operations. Boards of directors provide a useful resource in such organizational transformation.

The board develops and oversees implementation of plans and manages the company's resources. The board is responsible for the long-term viability of the company and making sure owners receive an adequate return on their investment in the company. Effective board members employ the following techniques to operate effectively:

- **Encourage the family to speak with one voice.** Family members must make sure never to air disagreements publicly. When family owners or leaders argue in the open, employees might perceive that as pulling the company in different directions. Employees are very sensitive to this and may become concerned that family issues could blow the company apart and destroy their careers. When a board is in place, the owners have a place to discuss their interests and provide a single voice to the operating leaders of the business.
- **Avoid confiding in nonfamily employees and venting frustrations about other family members.** This common pitfall is very destructive and can polarize employees into armed camps. An independent board

member can provide a listening post to a family business leader and not share family laundry inside the business.

- **Agree to strict ground rules about operating inside generally expected guidelines of employees.** There should be no special consideration for family members when it comes to the expected behavior. Family members must address each other at work in a civil way and not let disagreements spill into the office environment. (The board, which sets policy and direction for the company, is where family owners can hammer out their disagreements with the understanding that these differences don't leave the room. The family council is where family owners who may not work in the company or own shares can vent their concerns or pose questions.)
- **Make sure key employees are competent and capable of overseeing the business where it is today and they can take it to the next level.** Employees must grow with the business.
- **Ensure the company has sufficient resources to sustain itself and expand.** They are careful not to take money out of the business (in the form of perks or dividends) that the business needs to grow.

Family businesses have many varieties of boards. Some exist in name only to meet legal requirements; others have populated boards with yes-men and children who comply with the founder. Optimally, boards should be comprised of strong, gifted, and wise people. Boards of directors often change and grow as companies evolve. While a board may begin on paper, it may evolve to be a place where family members talk about the future.

Later, it may become a true governing body with independent board members and representation of owners who have differing interests in the business. Sometimes, boards start out as advisory, that is, having no voting power, but then become true fiduciary (legal) boards that truly govern the business. The quality of a board of directors reflects a lot about a company. What does the configuration of your board say about your company?

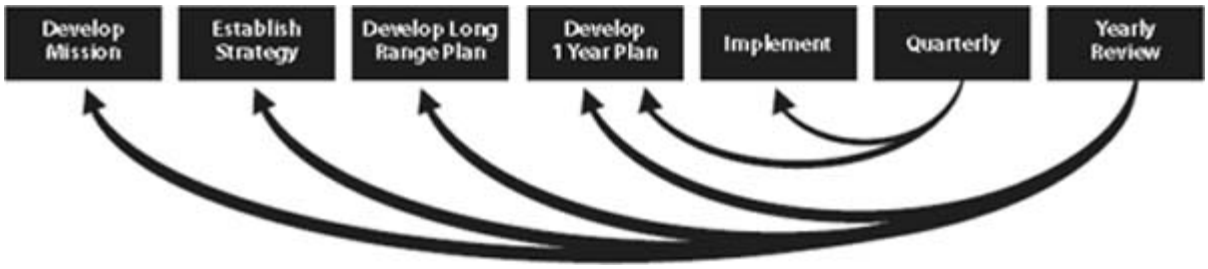
The Senior Management Team

The senior management team is all about implementing the strategic goals, long-range plans, and annual plans the board of directors develops and approves in accordance with the company's mission statement. You may think of the board of directors as the owner of a house being built, telling the architect (the president or CEO) what kind of house they want. The president and senior management team are the general contractors who, guided by the blueprints, figure out how to most efficiently and effectively deploy whatever resources and labor are available to produce the desired outcome.

Senior managers must also be effective communicators, making sure the people working for them understand the mission and strategic goals. They must report to the shareholders (through the board of directors) about progress as well as obstacles that crop up.

Exhibit 8.5 illustrates a feedback loop that enables senior managers to integrate the mission statement and strategic goals, transform them into intermediate and long-term goals, and monitor the company's progress and financial results.

Exhibit 8.5 Family Meetings



Simply initiating a process of family meetings can dramatically impact the family. These gatherings allow the family to share information, focus on areas of difference or disagreement, with the purpose of coming to a deeper agreement or resolving differences and the feelings that surround them, and/or begin planning for the future of the family and its business.

Decisions about whom to invite to the family business meeting depends on the goals of the meeting, the needs of the business, and the range of family involvement in the business. Your options include inviting all

family; family owners; family owners and spouses; family owners, spouses, and children of a predetermined age, and significant others.

In general, we advocate inviting family members older than thirteen to fifteen as well as in-laws and family members who have a stake in the business. Including in-laws and children has many benefits. Spouses can be more supportive if they know more about the business, its challenges, and requirements. Children are often curious about the business and may work there part time. Mid-teens (offspring between the ages of 14-17) are beginning to think about their careers and education, and some may be curious about the business and their future. In some families, inviting significant others is an emotionally charged topic. A general guideline is that the business meetings are for members of the family. Some families include significant others in the social events, but other families do not. It is important to clarify this rule so everyone understands who should attend before the meeting.

The first family meeting is sometimes awkward and can be clumsy. People are unsure of their roles and question what they are doing. Some family members feel hesitant and take a wait-and-see posture. It is helpful to start the first meeting by talking about expectations. This allows people to verbalize their thoughts. It is often comforting for family members to hear that they share the same feelings and thoughts. Developing ground rules (see below) helps people know what is appropriate to say and do in this new kind of setting. It is very important to be clear about the purpose of each meeting.

Families who routinely hold family meetings often include these business items on their agendas: an overview of the company’s financials, an update on industry trends, and a report on competitive awareness. We recommend that families talk about how they are living the family mission and values or if there are any discrepancies or conflicts. This is a great time for family dialogue and storytelling. Family meeting agendas can also include the following range of topics and decisions: family employment policy; issues surrounding succession and transition; family compensation and use of family business assets; how to mentor the next generation; prenuptial agreements for family members; financing the founder’s retirement; and paying for college.

Because of the potential for conflict surrounding issues such as inheritance or sale of assets, some family members limit or even avoid such meetings. The fear of managing conflict or disagreement makes it hard to convene the meeting without professional help. Outside family experts can stimulate thought and suggest new directions. For example, some families have shared a trip to look at ancient cultures in the Southwest or have brought a noted poet to dialogue with the family as part of a family retreat. These shared experiences help strengthen the bonds among family members. This can diminish anger and resentments that arise during the formal meeting sessions.

Certain tools can keep family meetings moving in a constructive way:

- **A neutral place.** Families need privacy, freedom from interruptions, and safe places to talk. A meeting can be held in a resort or conference room, with agreements to take enough time and not be interrupted.
- **Code of conduct (ground rules).** At the start of a meeting or for all meetings, the family members should write out a list of agreements about how they will behave. Common items on this list include keeping confidence, not interrupting, listening to all opinions, and turning off cell phones. Consider empowering one family member to make sure everyone adheres to code.
- **Agenda.** If people know in advance what will be discussed and what is expected, they can prepare. For instance, you can send a list of topics that need decisions ahead of time. Before a meeting that will include discussions about financial information, send financial reports so attendees can study them.
- **Documentation and follow-up.** No matter how productive a meeting may be or how much people have a good experience and agree to accomplish tasks, they often forget about what occurred after they return to their hectic lives. Someone, usually the facilitator or the steering committee, must keep track of what people agree to do (action steps) and set up the next meeting. Generally, it’s a good idea to have some between meeting communication to keep family members focused on following through. It is best to set the time for the next meeting at the end of each meeting.

John Ward, a pioneer of family business research, has said that the best indicator of success at a family meeting is that they agree to hold another meeting. Unlike a bureaucracy, a family is a living entity, and the ability to get together is a sign of their connection. If you decide to have more than an occasional meeting, you may want to develop an ongoing organization, the family council. You will have a clearer idea of whom to include after the family council drafts a family mission statement and a statement of values.

Educating and Involving the Family through a Family Council

The gray area where the family system and business system overlap is like no man's land where people don't know which rules operate: family or business. They must have a forum discussing these issues, not just ownership issues (which could be discussed at the board of directors) nor simply management issues (which could be discussed at management team meetings). Many family business stakeholders neither work for the company nor own any stock in it, yet the business impacts them, and they can impact the business in significant ways.

If no other place exists, the discussion often ends up in a courtroom. We strongly advise families to establish a family council as a forum for holding discussions about the interests of the family in business together. Family members inactive in the company may only get bits and pieces of information about the business. They may not get an overall view of how the firm is performing as an asset or where it is going in the future. Sometimes, family members may be tired of hearing about the business. "That's all they ever talk about," many complain. But they may feel left out of the action other times. The family council gives all members of the family a place to discuss the business of the business as well as the business of the family and to deal with the interface where the two overlap.

The family council can be an asset to family businesses that have grown beyond the first stage of development, when start-up struggles totally consume the entrepreneur. It is useful in large or young businesses, especially when there are family members both in the business and out; those in which ownership is distributed across multiple family branches;

and businesses that have reached the dynasty stage when grandchildren of the founders are in ownership roles. A family council can help families think consciously about ownership/family/business issues and the future of each of the systems.

The family council should include family members who do not own stock or work in the business, most often, spouses and children of family member owners. The family council should educate all family members about the business, its assets and investments, and the industry in which the business operates. It is a place to develop communication skills and learn about teamwork and philanthropy. Some families also use the family council to support career education and teach members about wealth management and how to cope with a range of issues related to wealth. It is a place to oversee the development of the next generation of ownership and managers. Because it can set important policies for the business, the council must ensure that all family members feel they are treated fairly, the overall well-being of the family is considered, and family concerns are balanced with business concerns.

We recommend that any family member who has reached the age of sixteen be considered for inclusion in the family council so they can learn about the business and obtain a solid foundation of knowledge about the company. The age at which a kid participates depends on the maturity of the child, his or her ability to sit and absorb information and ideas with adults, and, in some situations, the ability to maintain confidentiality. For social and educational functions, the younger kids are often very constructive participants (ages thirteen or fourteen and up). Older youngsters (sixteen to eighteen) can often participate constructively even in discussion of policy or business issues. Each family needs to create its own policy about which activities are open to kids and at what ages.

Involving teens will help when they later decide if they want to work there if the opportunity arises. Teens often have good questions and suggestions. However, the family council must impart the importance of confidentiality in children of this age.

Including spouses prevents conflict between in-laws and the core family. We’ve found that the more family stakeholders are informed and involved, the less likely they are to take uninformed potshots from outside the circle. When sensitive financial issues (for example, about the estate) arise that an

older generation member is hesitant to discuss in front of spouses, a separate meeting for this topic can be held. One family organization we know even has a formal orientation for new members of the family council as they marry into the family or after they turn fourteen.

Exhibit 8.6 Key Family Council Functions

- Provide a vehicle for family members not employed in the business to stay aware of what is going on and feel included
- Help the family look at what it wants to accomplish as a family
- Establish a forum for looking at assets and considering the possibility of diversifying family assets into other investments
- Create a private place to resolve business/family issues and concerns
- Serve as a policy-making board for such issues as family employment and compensation, values to be manifested in the business, and so forth
- Establish a forum regarding the family business and business in general
- Represent inactive shareholders and provide a communication channel to management and/or the board of directors
- Formalize roles in the community through philanthropy, establishment of a foundation, and so forth
- Help strengthen the family no matter how their assets are invested

The family council should start with a mission statement explaining why the organization has been established and who should belong. For example:

> *"To raise the level of general business knowledge, understanding, and acumen of all family members so they will be prepared to act responsibly, should they be faced with important decisions. We are committed to managing the relationship between the family and business in a constructive manner by developing an effective board of directors and family council. The family council will provide a forum to further define our purpose and goals as a family for our continuous education in business, to foster harmony and resolve issues, to provide direction to the board of directors about the expectations of the family owners, and to*

establish policies on matters relating to the family and its assets. The board of directors will represent our interests, provide guidance to the business, and assure that healthy boundaries are maintained between the family and the business. The mission of the Smith family council is to support the development of knowledge and teamwork within the family to enable us to become effective owners and mutually supportive family members."

Ideally, the family council leader should not be the company leader. This is an ideal opportunity to share power and responsibilities. Accountability for administration of the council must be clear so it doesn't flounder. Different leadership roles can be assigned, including committee chairs (for example, philanthropy, policies, and events), a facilitator for meetings, and a logistics coordinator. In families with a family office manager, he or she can support the council with clerical and organizational help. However, that person preferably should not run the council.

Even the smallest family council should hold meetings in a businesslike manner. The whole purpose of the council is to differentiate between Sunday night dinner and an organized process. Often, a consultant facilitates initial meetings to establish a businesslike atmosphere and a protocol that the family can then follow. The council can invite speakers, such as financial advisors, legal counsel, and philanthropists, to address current issues and educate members. The family council leader should present an agenda for each meeting and stick to it. This will keep discussions focused rather than slipping into family informality.

Base the agenda on the mission and goals of the organization such as policies to be established. An important success factor: Follow up! Some family members who aren't educated in the ways of business may not take their roles or responsibilities seriously. If the council fails to hold them accountable for tasks they have taken on, the integrity of the council is lost. Establish ground rules for the council, including the importance of participation, paying respectful attention during the meeting, responsibility for each member's share of the work of the council, and confidentiality. Keep minutes of each meeting to ensure continuity and follow-up. **Exhibit 8.7** provides a simple, standard format for taking meetings.

Exhibit 8.7 Family Council Minutes Format

- Date
- Members in attendance
- Topics of discussion
- Decisions made
- Follow-up tasks or topics
- Date and agenda of next meeting

The frequency of meetings depends upon several factors:

- If the family is small and most are involved in the business or the board, the family council might meet once or twice a year, perhaps at a family retreat, to update the few uninvolved family members and give those involved an opportunity to think about family goals, long-term interests, and other big picture issues.
- A relatively new council should convene more often, perhaps four to eight times a year, to establish structure and process and begin what is probably an extensive educational agenda. It takes time to build the family team.
- Councils with members who are spread around the country may only be able to meet two or three times a year. However, to make sure they are effective and cover all the issues and items on the agenda, longer meetings, perhaps during a long weekend, might be advised. In between the in-person meetings, the council might hold telemeetings or Web-based meetings to strengthen the family's cohesiveness and implement some educational goals that are conducive to such formats.

Effectively run family councils provide a wonderful forum for discussing issues that could otherwise derail the family. Who is entitled to jobs in the business? What values should guide the activities of the business? Is the business the best basket for all of our eggs? Is it under good stewardship? The presence of a legitimate, organized, businesslike forum for discussion of issues at the intersection of family and business can lead to greater harmony in the family and greater prosperity for the business.

[7] Power is invested in the board, not in an individual.

Chapter Nine

Establishing Policies, Procedures, and Plans

Common Problems

Procrastination

Family business members may notice that things aren't getting done or are done at the last minute or completed late. The problem could be a time management issue, or there may be capacity issues. The company may have outgrown its management skills and have managers who lack confidence in their decision-making.

Thompson Manufacturing is a good example of this. Co-founder Marc has procrastinated planning for ownership and management succession because he lacks confidence in his son's and son-in-law's leadership abilities. Unresolved issues in the family concerning liquidity and nonexistent employment policies also prevent Marc from taking action. Should he become ill or die before the next generation develops the maturity and skills to take over, the family and the business are bound to suffer dramatically. A major source of procrastination is our distaste in thinking about our own mortality or that of someone we love. Thus, many people put off doing succession or estate planning because they do not want to think or talk about death.

An accountability system often resolves procrastination problems. Performance reviews for family members, policies concerning employment, compensation, and a code of conduct are described later in this chapter. A family council (chapter 8) would also help, as would ongoing leadership development. A board of directors is also an important tool in holding the business leadership accountable to achieve timely goals.

Poor Planning

We find that many family businesses suffer from a lack of planning or poor planning. Creating a budget is a form of planning. This discipline helps businesses plan how financial resources will be used, articulate assumptions about revenues to be generated and personnel to be employed, and so forth. Leaders without much business training often feel they don't have a crystal ball and can't anticipate what will happen. Thus, they keep all decisions close to themselves and react as things happen, rather than work with others to articulate goals, budgets, and strategies.

Family businesses governed by personality will engage in planning to the degree the founder likes to plan or doesn't. In the long run, this is a self-defeating strategy for the family and the business.

The business needs to thoughtfully examine options and possibilities against the template of the company's goals and a realistic assessment of its capabilities. The family must ask itself hard questions, "If this is what we want to do, are we capable of doing it?" A family that can ask and answer this question effectively is planning.

Poor planning is a symptom of governance by personality. Once again, the solution is to mobilize the family to produce a set of principles they all can live by. Planning will be a natural outgrowth of the process.

Allowing Any Family Member into the Business

One client had several family members in jobs they should not have been doing. The company had committed to delivering new products to a key customer by a certain date and missed the deadline because of incompetence in key positions. The products were not only late, but not up to specifications when they did arrive. If this had been a bigger part of its revenue, the company could have gone under.

The first step is to create a family employment policy and impose it immediately on new hires. Then you can begin to look at existing people in existing jobs and move people into jobs that better fit their skills or remove them altogether. It's best to phase this process in gradually. Doing it all at once could incite open rioting.

Who Gets What?

The cash distribution demand on a business is a clear indicator of how well it is run. A well-run business looks at its profits and distributes them in accordance with careful fiscal planning. In a year when most of the profits need to be plowed back into the business, there won't be much in the way of dividends. In a great year, after necessary investments have been made, profits can be distributed to owners.

Ironically, business-focused businesses do a better job of protecting the family fortune than a family-focused business. Families most concerned about short-term access to dividends will weaken the company's competitiveness and their long-term family wealth.

A study by Russ Prince in 2007 looked at family and other closely held businesses with revenue of $300 million and more. Individuals in the study had a personal net worth of $5 million outside the business. Of the businesses studied, 60 percent were family-focused, and 40 percent were business-focused. Family-focused businesses looked for ways to maximize perks, even for family members who didn't work in the business, such as company cars, vacations, and health plans for extended family members who made no contribution to the business. Business-focused companies didn't do this, but, over time, their enlightened self-interest helped them maximize family wealth without weakening the business' competitive edge. They also did a better job of succession planning.

To avoid finger-pointing at individual family members as greedy, a CPA can run an audit or a comparative business valuation based on objective market data to evaluate profit distributions. That will help family business owners answer the question, "Would a competitive, well-run nonfamily business do what we do?"

Many family businesses do not want to take their companies public, partly to avoid Wall Street's demands to increase quarterly profit. But families that consume today's seed because they think they are hungry do the same damage that Wall Street's short-term focus can impose.

Determining who gets what in a family business requires its leader to wear two hats for making two different decisions:

- **Make compensation decisions wearing the business leader hat.** Base salaries on objective market data and tie bonuses and raises to the performance and health of the business. Employees are unlikely to dissent if everyone is paid according to how the company performs based on objective market standards.
- **Make distribution decisions while wearing the owner hat.** Base dividends on a carefully constructed liquidity policy, which we explain later in this chapter.

Blurry Lines of Authority

There is often much confusion about who is supposed to do what in a family business. Many family business members are used to pitching in and doing whatever it takes to build the business. No one has a formal job description. When they try to institute clear roles, responsibilities, accountabilities, and lines of authority, many family members object because they feel it's too bureaucratic and artificial. Yet when confusion arises, as it eventually tends to over who should do what, things fall between the cracks.

Nonfamily employees also are sometimes unclear about what they should or shouldn't do. They may be afraid of stepping on someone's toes. Or they don't know who's in charge of what or who can make which decisions.

This kind of controlled chaos may work well in the early, entrepreneurial stage of a company's development, but, by the time the founder is ready to retire, chances are, it has become a losing strategy, leading management to spend more time putting out fires than building new things.

Many family businesses turn out to be a one-stage rocket because they can't figure out how to transition from the entrepreneurial to the administrative stage. They do it too late, or they overdo it with too many policies, procedures, rules, and exceptions. Nike stayed in the entrepreneurial stage so long, living according to a philosophy that might be described as "still just do it" that it turned into a $500-million company with three people responsible for some things and no one responsible for others. Its supply system nearly imploded.

In another example, family members with a few employees founded a very successful manufacturing company in a one-room building. When a problem came up, someone would shout, “Meeting!” Everyone turned around to join the impromptu meeting. This instant communication and alignment helped the company respond quickly to problems and opportunities. Now the $250-million company has outgrown the one room and found itself in need of everything from business memos, formal communication mechanisms, and business structures. The very informality that made it vital and nimble when it was young could destroy it now.

Practical Solutions

Creating business policies can resolve conflicts before they happen. The family council and the board create policies that will serve as the glue that holds the business’s governance structure together. These policies/tools also help shape expectations that will minimize conflict because everyone will know the boundaries are between the various entities.

A common issue faced by families in business is how to ensure fairness of employment to family members and appropriate employees working in the business. This section describes criteria families should consider in developing their own family employment policies.

“Dad always wanted me to join the business and spoke as if there were no other choices for me,” reflects one young man. “I sometimes wonder if this is the best thing for me, but I’ve been here since high school. I don’t know if I could get hired anywhere else.”

Compare this experience with that of young woman in her thirties.

“My grandfather founded our business and never considered the possibility that his girls would join the firm. But when my father and uncles began looking at our generation of six to eight kids who could be employed there, they decided we should all have the chance. At first, I wasn’t at all interested in joining the business. However, after I finished graduate school, it seemed almost disloyal not to use my skills within the family. Now I feel like I got the job because of my ability, not just my family ties.”

“Well, I’m really frustrated!” offers a third family business member. “I worked my way up to a management position in our business after six years here. Now they’ve brought in my cousin who has no experience, and he’s

getting the same salary I’m getting. They said they feel that all of us in the family should earn the same amount. But he’s not contributing his share to the bottom line!”

All of these family employees are coping with problems that arise when family members join a business. A set of guidelines for entry into the family business provide structure and objectivity to decisions that can be emotionally laden and create resentment and confusion. Employment guidelines must be tailored to the nature and size of your family and your business and your family and business missions. It is important that everyone be clear about the employment guidelines and the family business apply them consistently.

Most advisors believe that family members should not be hired solely because of their kinship, but for their ability or potential to contribute to the business. Yet some 64 percent of family-owned businesses don’t require members entering the business to have qualifications or experience necessary for success.

Some family businesses go to the opposite extreme, limiting employment to nonfamily members, in an effort to eliminate employment conflicts while maintaining ownership of the business as an asset to benefit family members. However, with clear criteria for employment, the problem of nepotism (that is, advancing a relative on the basis of family ties rather than merit) can be avoided.

Exhibit 9.1 shows a portion of one family employment policy we helped a client formulate.

Exhibit 9.1 Family Employment Policy

We are a family committed to our members and descendants being responsible, productive, well-educated citizens who practice the work ethic and make constructive contributions in the local community and the world at large. Each member is encouraged to develop and use self-supporting, marketable skills that contribute to the enhancement of his or her own self-esteem and independence. We believe that, for a family member to be employed in the company, there must be a legitimate job and the skills to match. It is the policy of this company to search out and employ at all levels individuals who have the ability to manage vertical and horizontal

relationships, show evidence of ability and willingness to take initiative, evidence self-confidence and high self-esteem, and are both independent and responsible in managing life and their jobs. We subscribe to the philosophy that the opportunity to be employed in our company must be earned. It is not a birthright. Our family business succeeds best when professional competence is the criteria for entrance to employment. Further, a sustained performance record must support high-level competence. We believe that family members who cannot meet these high standards will be happiest when employed elsewhere.

General Conditions

1. *Family members must meet the same criteria for hire/fire as nonfamily applicants.*
2. *Family members are subject to the same performance review as nonfamily members.*
3. *As a general principle, nonfamily members will supervise family members.*
4. *Family members under age thirty are eligible for temporary employment. This temporary employment can be pre- or post-college graduation. Under no circumstances will the length of one unit of temporary employment exceed one calendar year. (See #7 for conditions of permanent employment.)*
5. *No family member may be employed in a permanent, entry-level position (defined as a position that requires no previous experience or training).*
6. *Compensation will be at fair market value for the position held.*
7. *Family members seeking permanent employment must have at least five years of work experience outside the company. One of those jobs must have been at least three years with the same employer. During which time, there would have been at least two promotions or similar evidence of rising levels of competence, increased responsibility, and trust. It is our view that, if a family member is not a valued employee elsewhere, then it is likely the family member will be neither happy nor useful to our company.*

Rules of Entry

Family employment policies should base hiring on several criteria:

- **Age.** Most experts encourage exposing youngsters to the business through summer jobs during high school, but discourage immediate entry after high school or college. Age limits encourage long-term commitment and discourage young adult family members from viewing the business as a security blanket if all else fails.
- **Experience.** Experience is generally more accepted as a criterion for family business entry than any specific educational base. Sybil Ferguson, the founder of the Diet Center, involved many family members in her business. She appreciates the value of working elsewhere for a minimum of two years before joining the family business. John Ward, John Davis, and David Bork, along with many other prominent family business experts, recommend three to five years of experience outside the family business. Bork further recommends requiring family members to work outside the family business for three to five years in one or more jobs requiring competence, skill, and sustained performance, with at least one job lasting two years or more. The family candidate also must have earned at least one promotion in his or her outside job.
- These criteria help individuals develop competence and confidence, which benefits the family business through the enhanced contribution the new family employee can make. This contribution is even greater if the family member worked for a business larger than the family business and learned more sophisticated strategies to share with the family.
- **Education.** The education required by the family business should be based on the needs of the business. Although many experts recommend a college education, many others suggest that this may be a family value rather than a business need. If the business requires a well-trained professional such as an accountant, attorney, or engineer, obviously, a family member will need the appropriate degrees, certificates, and licensing to fill such positions. On the other hand, an

overtrained employee can create morale problems. For instance, an attorney is unlikely to find gratifying opportunities in a $2-million plumbing equipment company. Appropriate training or educational experience may be found in areas other than college: the military, technical schools, and/or a structured professional training program in another company.

- **Commitment.** Again, the size, values of the family, and the marketplace should dictate how the employment policy should address this criterion. For instance, part-time employment can address family needs (for example, a parent who wants to be at home with children), but, at some point in the development of the business, professionalism and full-time commitment may be necessary to reach new levels of profitability and competitiveness.

Some companies develop a multiple-track family employment model. One track might allow youngsters or new in-laws to sample the family business to determine long-range career interests. A leadership track would spell out specific criteria for membership (for example, education requirements, apprenticeships, and experience within and outside the business) and include a clear plan of development and progression within the firm. Obviously, mutual commitment in this track should exist.

A third track would be for family employees who have skills that the company could use, but who may be neither interested in nor capable of leadership. In the hypothetical example described in section one, Tony Symington, the son of co-founder Marc Symington, loved his work in the tooling department of the family manufacturing company. His wife, Tricia, kept pushing him to fight for a promotion into a management track. His brother-in-law, Sam Fellows, worried that Tony might resent that his position was lower than Sam’s was until Tony revealed he hated managing other people. An advisor helped Tricia appreciate that Tony’s job allowed him to spend more time with the family, and the relatively low stress of his current position helped that be quality time.

A policy about commitment can also address whether family members who leave the business are eligible for rehire and under what conditions, such as leaving for pregnancy or education versus quitting over a family conflict.

The issue of commitment is connected to the question of what position the company chooses for a family member. Most family business advisors warn that creating unnecessary positions just to employ a family member can create resentment among other employees. It also undermines the family employee's self-esteem. The conventional wisdom is to only offer a position that meets a need in the organization to a candidate who is clearly qualified. A partial exception to that rule is the apprenticeship of a successor who may move from position to position to learn many aspects of the business. Even then, the family employee's credibility and acceptance will be enhanced if he or she makes an obvious contribution to the firm. Another exception may be customizing a custom position for a family member who has worked as a specialist elsewhere and whose experience can advance the firm's interests.

A human resources (HR) manager can offer important perspective and help place family members in the business. HR professionals have many tools for assessing potential employees' strengths and skills and matching these with appropriate employment. In recent years, assessment tools have improved greatly. In chapter 10, we describe how such tools can help identify a person's core traits, which then predict the mix of competencies the person will naturally have or be able to develop given the right opportunities. Effective assessments can heighten the accuracy of placing the person in the right position. They also identify the at-risk patterns that might derail a person's success and offer coping methods for prevention. Assessments can identify which family members are at the core, helping point them in career directions full of meaning and joy, not hollow success at the price of happiness.

Supervision and Training

Family businesses often handle supervision and training informally. A structured, objective approach can make these important tasks more effective. One strategy is to have employees report to nonfamily supervisors, decreasing the subjectivity of evaluations and feedback. Training for family members, particularly those aiming for leadership roles, is often more intense than for nonfamily employees. Once again, the consensus favors structure. Look at the intended roles of family employees,

and design learning opportunities that will best prepare them. This approach typically includes increasing levels of responsibility and autonomy to allow family employees to gain confidence and better judgment. We also recommend, particularly for employees on a leaderships track, that a designated mentor or coach (outside of the immediate family) provide them with industry-specific guidance as well as candid feedback.

Conditions of Employment

As noted throughout this book, the need for members to wear two hats (the family hat and the business hat) bedevil family businesses. The family hat requires that family members be unconditionally accepted based on membership in the family. The business hat requires that family members be conditionally accepted based on job performance.

Family members often get an extra chance not afforded other employees. But if this practice is pervasive, it sends destructive messages. “We really don’t hold everyone accountable.” That undermines productivity and morale. On the other hand, children in family businesses often complain that they are expected to work harder for less immediate compensation than other employees are. For instance, one family employee complains, “My brother told me that I must always get to work at least fifteen minutes before all the other employees and stay at least fifteen minutes after the last one leaves.”

By and large, family business advisors suggest that a family member who does not maintain minimum standards of performance should not be kept on payroll. It is very hard to expect other employees to buy into tight budget constraints when they see family members wasting time and company resources.

The advice from management consultants and business schools up until ten or fifteen years ago was, “If you want a successful family business, bring in professional managers and keep the family out!” Now families and consultants recognize that, when objective, formal policies exist, families can work productively together.

Family Compensation Policy

Some family businesses pay family members below what they would pay nonfamily members in the same position and below what the family member could earn in a comparable nonfamily company. One reason is often that family employees are building the value of the company they will inherit one day, and their ownership stake provides dividends that make up for what they don't see in their paycheck. Another, often unstated, reason is that families expect members to sacrifice today to make the company more successful in the future.

Other family businesses pay family members extravagant salaries and offer them all sorts of perks that nonfamily employees don't receive. They justify this by pointing out that the family deserves to be compensated for taking on all the risk the business imposes.

Both extremes are bound to create problems in the business and the family. In the first case, family employees are bound to resent not being rewarded fairly for their contribution to the company. Their spouses are also bound to grumble and make the family employee feel torn between loyalty to their family of origin and their own family unit. On the other hand, overpaying family members will inevitably cause employees who are paid less generously to resent the family. Even though salaries are usually not divulged, employees who see young family members drive to work in a Maserati and flash expensive jewelry will have no doubt they could not afford such a lifestyle unless they were earning cushy salaries.

The best policy is to compensate each employee, family or not, based on market rates for comparable jobs at companies of similar size in the same industry and in geographic areas with a similar cost of living.

The term "compensation" refers to all the rewards an individual receives: a base salary, bonuses, a long-term incentive plan, benefits, and any perks. The policy needs to be flexible enough to cover all potential employment situations and general enough to be adapted to cover unforeseen situations.

Each family needs to develop its own guiding principles. The sample in **Exhibit 9.2** is a suggested starting point.

Exhibit 9.2 Sample Guiding Principles

- A family employee will be paid fair market value for the position he or she holds. A good rule of thumb is to ask, "What would we pay this person if he or she were not a family member?" If

necessary, we can research compensation levels for similar positions.

- Gifts, dividends, net worth, or other sources of income don't influence a compensation decision.
- Independence, objectivity, and participation are keys to the decision being perceived as fair and preserving harmony.
- A family employee compensation policy, performance appraisal system, and bonus plan should be decided upon by the family and adhered to. Compensation should be based on the position a family member occupies and on his or her performances. Family members should be encouraged to adopt lifestyles commensurate with their income level. Other monies and benefits they may receive from the company should be based on ownership and distributed pro rata, with large sums only taken out of the company in good years and only after the needs of the company have been met. Of course, all money from the company should be taken in the most tax-advantageous way possible.

Distribution Policy

The goal of a distribution policy is to establish a system so the family doesn't starve the company of capital it needs to maintain facilities and take advantage of expansion opportunities. Distributions should only be paid if there is cash available after the cash needs of the business have been satisfied. Company dividends should be prorated, based on the percentage of shares each family shareholder owns.

The sample cash flow statement in **Exhibit 9.3** starts with net profit from operations; takes out taxes, debt service, any capital expenditures and revenues; and comes down to a line titled, "Cash Available for Shareholders." This amount of money is distributed to shareholders according to a pre-negotiated percentage, in the example, 60 percent. Each year, the business plan would include this cash flow projection and add another year's projection as part of the planning process.

Exhibit 9.3 The Wonderful Company Three-Year Financial Projection

	2010	2011	2012
Income from Operations	$400,000	$550,000	$625,000
Depreciation	$200,000	$250,000	$300,000
Cash from Operations	**$600,000**	**$800,000**	**$925,000**
Federal Income Tax	($120,000)	($220,000)	($270,000)
Debt Service	($205,000)	($205,000)	($205,000)
Cash Available for Business	**$230,000**	**$330,000**	**$405,000**
Capital Expenditures	($80,000)	($250,000)	($150,000)
Reserves	$25,000	$25,000	$25,000
Cash Available for Shareholders	$125,000	$55,000	$230,000
Distribution (at 60%)	$75,000	$33,000	$138,000
Increase (Decrease) in Cash	$50,000	$22,000	$92,000
Cash Balance-Beginning of Year	$120,000	$170,000	$192,000
Cash Balance-End of Year	$170,000	$192,000	$284,000

This approach has a number of important advantages. It establishes that the family will take care of the company first by making sure the cash needs of the company are met. It also communicates clearly what everyone can expect if the business plan for that year is achieved. The family shareholders and board of directors agree to these distribution guidelines ahead of time to prevent surprises at year-end. Shareholders can easily calculate how failing to achieve the profit plan will impact the money they receive. Finally, it promotes a healthy focus on debt service and capital expenditures and ensures people understand how piecemeal decisions made during the year will affect their dividend at the end of the year.

This approach to distributions helps reduce confusion and conflict. It is fair and promotes constructive boundaries between the various constituencies in the family-owned business.

Shareholders Position Paper

In the governance structure of a publicly held company with a large and diverse group of shareholders, the board of directors is responsible for representing the shareholders of the company. Shareholders are the board's constituency. The difficult task of organizing a large group of shareholders requires directors to know or guess what shareholders want them to do.

In a closely held family company, the group of shareholders may also be diverse, but their number tends to be much smaller, and blood often ties them together. In this kind of company, the board also represents the shareholders, but they can more easily discover and organize shareholder expectations. The board can better define its boundary with shareholders, so that each group knows what to expect of the other.

If shareholders are unsure what they want the board to do on their behalf, directors will be cautious and feel that their power and authority are constrained. They will be less likely to offer independent input, especially if they fear that shareholders will disagree with them. This is bound to limit the effectiveness of an outside director in a closely held company.

The governance structure of a closely held company functions best when the board feels free to ask, "What do the shareholders want, and what is their charge to the board?" The primary purpose of a shareholder position paper is to respond to this fundamental question. The process of creating this position paper creates a side benefit. It promotes unity, responsible ownership, and good stewardship. **Exhibit 9.4** presents an example of a shareholder position paper.

Exhibit 9.4 The Smith Family Position Paper

It is the purpose of this position paper to express the family shareholder expectations and goals for the future of Smith Widgets, Inc. The family recognizes the past success of the company has been built upon the fundamental principles of quality and service, and we do not want to lose sight of these principles in the future. Another important aspect to the success of Smith Widgets has been the family image and heritage that is expressed in our advertising and has gained consumer acceptance for family commitment to quality products. This acceptance has built a brand

loyalty that must be maintained and improved in some markets. It is the family's desire for the company to grow shareholder value by prospering as a competitive force in the wholesale widget industry. This goal can be attained by generating operating cash flow sufficient to invest in the current business, new business initiatives, and acquisitions while maintaining a dividend payment policy. To generate this level of cash flow from operations, the company's earnings before interest and taxes should exceed 6 percent of sales, and the company should seek to earn a total return on capital employed of at least 16 percent. In addition, the company should ensure its continued financial flexibility by maintaining a debt-to-equity ratio of no more than 50 percent. The company is to provide to shareholders, within a reasonable period of time, a means for liquidity at an evaluated true market value. The company was built as a family enterprise, and it is the expectation that the company will be run in the future more as a conventional corporation with a family heritage. It is also the desire of the family that qualified family members still have an opportunity for employment with the company. No special treatment is to be extended, but family members are to have equal consideration for employment or advancement as any other applicant or employee. The office of the chairman (OTC) is established to interface with the family council and shareholder interest in appropriate participation of company activities. The OTC is to facilitate the career development of family shareholders and competent successors for positions of leadership in the company. The Smith Family Foundation is established to coordinate statewide philanthropic endeavors on behalf of the company. It is the desire of the shareholders for this 110-year-old company to preserve and enhance their investment in this company and continue the growth of the company for the long-term benefit of the shareholders.

The Smith family shareholders have done themselves a huge favor by so clearly outlining their expectations and goals for their company.

Family Mission Statement

Mission statements (or statements of purpose) help any group or organization to clearly state why the group or organization exists. Why is

this important? People often get together informally and are not clear why they are there. This causes unnecessary confusion and conflict. When a business is created, people say, “Well, we are here to make money!” But in what way does your business make money that is different than the business down the street? What products or services make you special? What is it about the way you do your business that gives you a competitive advantage? What are the values that distinguish you from all other similar businesses?

There are several types of mission statements a family may find useful to consider: A family mission statement (why does the family exist and what role does the business play in it), a business mission statement (described previously), and, later, the purpose of a family council or board of directors. A family mission statement describes in detail the family’s commitment to the family and the business. It explains why the family is committed to perpetuating the business and outlines the family’s central values. It might include a summary of family priorities, a list of strengths the family can contribute to the business, and an outline of what the business needs from the family. It is a unified expression of the family’s common purpose and should be as clear and useful as a guide in decision-making as is possible. It should be able to serve as the family’s credo and answer four basic questions. Who we are? What do we stand for? What do we want to do? How will we accomplish those things?

The family mission statement will reflect a basic philosophy about what comes first: the family or the business (which we discussed in detail in chapter 5). The following exhibit provides a sample family mission statement.

Exhibit 9.5 Carlson Family Mission Statement

We seek to achieve growth and prosperity, extending beyond the present generation, through our business. We are committed to providing opportunities for descendants of Richard C. and Iris Carlson and their families to:

- *Obtain a firsthand understanding of the risks and rewards of American business ownership*

- *Gain insight into the value of Christian principles in business*
- *Experience the sacrifices and rewards of family members closely working together toward common objectives*
- *Maximize the quality of life for their families and future generations*
- *Encourage all descendants of the founders and their family members to develop and apply their specialized talents to the business and to compensate them according to their contribution*
- *Provide an ownership opportunity to all direct descendants of the founders while they are full-time participants in the business*
- *Foster a spirit of belonging as extended family to nonfamily employees as well by sharing appreciation, rewards, and benefits that will maximize a mutually prosperous and enriching long-term relationship*

Can you tell whether the family that wrote this family mission statement is business- or family-first? Or is it a hybrid of the two?

Exhibit 9.6 Sample Family Mission Statement

We are a family committed to our members and descendants being responsible, productive, well-educated citizens who practice the work ethic and make constructive contributions in the local community and the world at large. Each member is encouraged to develop and use self-supporting, marketable skills that contribute to the enhancement of their own self-esteem and independence. We urge family members to adopt lifestyles that are healthy, personally satisfying, and productive. We urge the continuation of the orientation of prudent, careful investigating with a long-term view of outcomes so all descendants may enjoy the benefits of the foundation they built. We believe clear, constructive communications are at the core of our long-term success as a family. We encourage all efforts to further harmony, develop humor and perspective on life, balance long-term concerns while enjoying the present, enhance communications, and improve caring and amicable relationships among family members.

Family mission statements can be developed at a series of family meetings or by a family council (which we describe earlier in the previous

chapter). Many families have a family business advisor lead this process; other families have experienced family business managers or a family member, perhaps one who has experience in management consulting or industrial psychology, in or out of the family business, to oversee development of the family mission statement.

Once you have done that work, don't fall into the trap of filing it away and forgetting it. It can be extremely useful to guide the family through difficult decisions, dilemmas, and conflicts. When facing such critical times, the family may find it helpful to ask, "Which choices before us support the family's mission statement?" In many cases, the family mission statement can help unify individuals and clarify which options align with the family's agreed-on mission.

Business Mission Statement

Family businesses that have evolved over generations may have a separate mission statement for the business and for the family. Often, businesses that are in the cousin's or dynasty generation develop a unique mission statement for the family to help keep extended family together as a group of owners and as family members. A business mission statement focuses on the broad goals for the business and how the business will achieve those goals.

Organizations of all types—churches, schools, civic groups, foundations, and businesses—have a mission, a purpose, and a reason for being. Developing a business mission statement and values for the family business are the first steps to being more systematic about ensuring that the future direction of the business is consistent with the family's interests. Your mission statement differentiates your family and business from others, that is, what your company stands for and why you do it!

A business mission statement is meant to be a living document. If your family business has one, when was the last time the family reviewed it? Are your goals the same today as they were twenty years ago? Business mission statements are most meaningful when the family business revisits it every couple of years and refines it.

We sometimes hear clients comment, "That sounds good, but we don't have time to go through all that." Or they say, "We are going to skip that

part and just develop a business plan because we have to get product out the door." Others insist, "We all know what our mission is. It is to stay in business another year." Our response is that you can omit it, but, if you do not have a business mission statement, it will be more difficult to resolve future conflict, make decisions confidently, and generally manage your family business' future successfully.

For the family, a business mission statement and guiding values are a like a lighthouse beacon to help align the family and its decision-making. It is also a means to communicate to employees, customers, investors, and the community what the family stands for and what they are trying to achieve.

A business mission statement is based on the same four questions as the family mission statement, but from the perspective of the business. Who are we, and why do we exist? What do we stand for? What do we want to do (goals)? How will we accomplish those things?

Unlike the family mission statement process described previously, the process of creating a business mission statement involves family business leaders and perhaps the board of directors. The goals set forth in the business mission statement should guide the company's strategic plan. And as challenges, problems, and ethical dilemmas confront the business, the business mission statement can guide its leaders and help narrow down the choices.

A family business mission statement can take many different forms. The statement captures the essence and energy of the group. The sample statements in **Exhibit 9.7** are meant to be inspirational, informative, and a stimulus to generate ideas for your statement. Business mission statements are as individual as each family and each business is and cannot be copied. In general, mission statements are about one hundred words long. They often cause the person reading it to shed a tear or to get a shiver because of the passion and commitment it evokes.

We coach our clients to develop their mission statements in a family business meeting off-site and away from distraction. It is important for the family to meet, listen to each other, and genuinely exchange ideas about what is truly important to them as individuals and as members of the family. This dialogue will help the family create its mission statement, including why the family is in the business, the relationship of the family to the business, what the family and the business should stand for, the philosophy

of management the family wants the business to have, and the relationship of the family and the business to the community and society.

Making the business mission statement and values available to your vendors, customers, and the community is good for the family and the business because it lets others know what you stand for and how you work. Some companies post their business mission statement and values on the home page or About Us page of their Web sites.

Research shows that, when employees understand the ownership's mission and concern about the employees' jobs, they typically become more engaged in their work, feel a greater sense of pride and loyalty, and are more productive.

A business mission statement can also influence the governance structure of a family business, including the criteria for the board of directors or members of an advisory board, a description of their roles and responsibilities, and how they will make decisions. A family business mission statement is not an objective with a timeline, but is rather the overall goal that is accomplished over the years as objectives are achieved that are aligned with the mission.

Exhibit 9.7 Sample Business Mission Statement

Seychelle Family Winery's purpose is to produce and distribute award-winning wines that are made from the grapes grown in our Napa Valley vineyards while contributing to the sustainability of the land and our family.

Code of Conduct

Our lives are shaped by the commitments we make: marriage, parenthood, ownership, military service, and employment. Some commitments are legally binding in the form of contracts; others are morally binding in the form of covenants.

Three siblings who own a third-generation family business reached the sample code of conduct in **Exhibit 9.8**. In the course of a weekend retreat, they worked very hard to put these ideas and feelings into words in an effort to prevent them from making assumptions about what one another thought. They realized the long-term stability of their family and their business was,

and would increasingly be, based on the quality of their relationships. Here are the promises they made.

Exhibit 9.8 Code of Conduct Covenants

In recognition of the challenges of leading a family in business across generations and out of our desire to enrich and pass on the legacy of our parents, we promise:

- *To deal with one another with honesty, trust, integrity, love, respect, and maturity.*
- *To treat one another as we want to be treated.*
- *To share power and authority responsibly by listening to each other, respecting our respective opinions, showing humility, looking at all sides of an issue before making a decision, being open-minded, supporting one another in public once decisions have been made, and welcoming constructive disagreement among us but be united in public.*
- *To disagree skillfully with civility and without hostility or anger.*
- *To develop the skills necessary to diffuse hostile misunderstandings or disagreements.*
- *To recognize the unique nature of our relationships with one another and place a priority on clear and skillful communication.*
- *To stay positively connected by meeting regularly as a family, as owners, and as managers so each of these parts of our lives gets the attention it needs.*
- *To encourage the development of the next generation as stewards of their shared assets and possibly as leaders of the company.*

Moral commitments are often made without being spoken or written. Sometimes, they are made verbally and sealed with a handshake. However, there are points in relationships when it’s necessary to commit these commitments into writing to make them even more powerful and binding. There is power in the thought and conversation that must happen to reach

agreement on complicated issues. The discussion required to put these ideas and feelings into words that everyone accepts brings greater clarity and minimizes the chances that they will make incorrect assumptions.

The following are a few ideas that may help if you think that your family needs it own covenants:

- Set aside an extended period of time, such as a weekend.
- Pick a relaxing setting where telephones will not distract you. (And require everyone to turn off mobile devices during sessions.)
- Schedule at least two breaks from discussions during the day to have time alone with your thoughts.
- Resolve to be open to outcomes without being overly attached to a specific outcome that you had thought of earlier.
- Create an environment that encourages mutual understanding and dialogue rather than debate.
- Document the ideas as you go on a flip chart so everyone can see the ideas as they evolve. If you are comfortable with technology, use a laptop computer connected to an LCD projector when the time comes to collectively draft the language of your covenants. You may find this a much more engaging media than flip charts.
- Expect to be frustrated at times during the process. When you feel stuck, probe to understand which of your underlying values that may not be aligned.
- Consider using a professional facilitator so no family member will have to lead the process at the expense of being an equal participant with others.

No document—neither a contract nor a covenant—can control the emotional dynamics or politics of some family businesses. But an early commitment to values and principles can prevent some conflicts from ever developing. The process of reaching these agreements as a group and committing them to writing will reduce your chances of misunderstandings, hostility, hurt feelings, or even litigation. Discussing these agreements with new and young members of the family becomes an important orientation to

expectations. If individuals deviate from the agreed code, it becomes a tool to use to help constructively confront that behavior. One family had a habit of being too polite and never addressing differences of opinion. Instead, they would dance around the issue. One of their rules in the code of conduct was “no BS.” They created flags with a cartoon indicating “no BS!” for each member of the family. If they saw someone dancing around an issue and not being direct, they would throw the flag into the air and in a humorous way confront the behavior.

Chapter Ten

Assessing and Developing Leadership

Common Problems

Incompetent Family Employees

It’s not unusual to find family businesses employees in positions for which they are not qualified and would not be hired if they were not members of the business-owning family. As we mentioned earlier, 64 percent of family-owned businesses don’t require a family member entering the business to have the qualifications or experience necessary for success!

A good litmus test when hiring a family member would be to ask the question, “Would another company hire this person to fill this position at this salary?” Yet few family business managers ask this question. When asked to rank the statement, “Family members in our business would be successful in comparable jobs with other companies,” a survey of forty-five family businesses with revenues of $100 million or less ranked it at ninety-nine out of the one hundred statements listed (indicating they soundly disagreed with the statement). This clearly indicates that family members themselves consider competence unimportant for entry into the family business.

If the answer to the question “Would another company hire this person to fill this position at this salary?” is a resounding no, it doesn’t mean the candidate is incompetent for all positions. It does mean that this is not an appropriate placement. This is an example of a family-first business in which the well-being of the business is sacrificed in order to take care of one family member. When decision-makers choose to hire inappropriate family members, they damage the morale of the employees and lose credibility in the eyes of the family and other business professionals. Yet,

confronting family members who are not performing well is difficult for most people.

Assessment tools show a person's core traits, which are remarkably stable over time and circumstance. Effective assessments can heighten the accuracy of employment placements by identifying key attributes of personality, cognitive ability, and emotional intelligence that will predict success in key family business roles.

Practical Solutions

Deciding how the family business will continue beyond the current generation is one of the major turning points for any family business. The older generation often has trouble trusting the younger generation with the care and feeding of the baby called the business. The younger generation questions if there is a role for them in the family business and if they want one.

The smoothest transitions happen when both generations can objectively discuss the needs of the business and the developmental needs of the successor. This process enables the older generation to talk about their expectations and concerns, while the younger generation can gain a perspective about what it takes to run the business effectively. To some degree, this takes the parent-child dynamics out of the transition and keeps the focus on business preservation. A timetable gives both generations a road map by which they can set appropriate expectations for the transition. Allocating time for this process pays off in reduced stress, conflict, and pain.

Many families consider the most important decision to be who will next lead the family business. However, they put off choosing a successor, almost always for emotional, not rational, business reasons. For instance, the current business leader may be unwilling to let go or reluctant to face his or her own mortality. Eventually, when this family finally chooses the successor, usually in haste because illness or death require urgency, the family will discover the truth of the axiom, "Act in haste; repent at leisure."

Failure to discuss succession and prepare the younger generation can lead to serious problems in the family business, including the lack of prepared, effective leadership. Incompetent leaders will likely experience

stress that can lead to serious depression. Further, parents who do not attempt to reign in a child's greed and entitlement or jealousy among siblings or cousins will find everyone spending more time and energy dealing with emotional issues that diminish the company's productivity.

The board, senior family members, junior family members, and advisors to the business can all act to persuade, pressure, plead, and goad the current leader to put the enterprise ahead of personal need and move forward with succession planning. Enduring the sometimes awkward, angry, hurtful, and difficult conversations will be well worth it. Buying peace by not having the tough conversations is never worth it.

Cast a Wide Net

A 2006 study[8] provides good support for careful succession planning. In the United States, primogeniture (the ancient, traditional practice of giving the whole farm to the eldest son) is the practice for about 30 percent of American family businesses. In European countries, it's much higher. Family businesses that choose this path tend to underperform other businesses. Considering all eligible and potential family members before making the choice results in family business performance that is equal to nonfamily businesses. Family businesses that chose outsiders to run the business fared significantly better than businesses in general. Fusing outside perspectives with the guidance and support of the family business seems to create a unique, beneficial chemistry. These cultures are often value-driven, stable, and long term in their focus. So it pays to cast a wide net when you search for successors.

There are two hurdles, though, when choosing an outsider. First, ensure the leader has and wants the family's acceptance. Second, make sure the leader shares the values that will fit the family business culture (as long as the culture does not warrant change).

One of the best ways to head off the need for an outsider to run the business is for the family to begin to assess and develop family members for leadership early in their lives.

Developing leaders in a family business isn't all that different from developing them in any other type of business. The difference is that, in

nonfamily businesses, there is just one pipeline to leadership, beginning when employees are hired. Family businesses can begin to develop future leaders long before the business hires the young people, in fact, when they are still children. Unfortunately, most business families don't take this wonderful opportunity. When the family needs successors, they look at the generation of young adults and find that many have careers outside the business and don't have an interest in it. Often, it's too late to kindle that interest. Even if young people are working for the business, if they are not being groomed for leadership from an early age, the family is missing an opportunity to implement a personal development plan for family members who work in the business, actively develop the skills necessary for individuals to be successful as they continue to develop the business, and emphasize personal goals and personal development to help the business be successful and further the growth of individuals.

The planning process clarifies the overall direction of the company and how individuals fit into it or don't.

How do you prepare family leaders? Begin at the beginning. Watch kids grow and informally assess who among them has planning and organizational skills and who has a hard time with those things. Do what families who have been successful for generations, such as the Rockefellers, do. Involve young people in projects, maybe outside the business or maybe in a family council or other family meeting, that involves leading a group or a team, and see how they do. Give them a chance to show off their leadership abilities and to develop them.

Preparing Successors to Be Successful: A Case Study

Don had a concern. His son, Steve, was about to graduate from college. Although Steve had never demonstrated any interest in joining the family printing business, he told his dad he would like to give it a shot. Don said he wanted to develop a training program so Steve would learn the business right.

It was suggested that Don have Steve work for another printer first to let him gain some experience and confidence working for someone else before

joining the family business. That way, he'd know that his accomplishments were his own and the criticism he received would be fair and objective and not because he was the boss' son. Further, Dad might seem smarter after Steve saw other printers' operations. And if Steve worked for a larger printer, he might bring back some good ideas. But Don worried that, if Steve went to work for another printer, he might not come back. Don didn't trust that future ownership, a direct line to management, and the joys of working with family would be enough to entice Steve if he got away.

So an apprenticeship program was designed to offer Steve the opportunity to learn the business from the inside. This included an opportunity for Steve to discuss his goals, career hopes, and plans, as well as his concerns about joining the business. He did have some reservations, especially concern about whether he would have to work sixty- or seventy-hour weeks all his life as his father had. However, Steve was interested in considering the opportunity to run the business eventually.

Next, the knowledge, skills, and work habits Steve would need to take over the reins were identified, and a curriculum was designed. What does one need to learn to run a successful multicolor printing operation? Dan developed a series of questions that Steve would research by asking other printers, professional associations, and books. They compared the results of his research with the work his father did. The final result was a series of lists: tasks it takes to run the business; skills and knowledge to complete the tasks successfully; and characteristics (work habits, disposition, and personality traits) that accomplished people in this field seem to manifest.

Don and Steve both became clear about each other's hopes and expectations, which helped them start off on the right foot. Steve's research gave him a deep appreciation for his father's accomplishments as well as a picture of the time and challenges involved in mastering the business. The explanation of tasks, knowledge, skills, and attitudes helped craft a training program for Steve that included carefully structured positions with milestones of progress, criteria for length of stay in each position, and appropriate supervisors who could provide training and objective feedback.

Steve became excited about the program because he was involved in its creation. A board member monitored Steve's progress and the usefulness of the program. The next step would be to develop a succession plan detailing the responsibilities Don would turn over to Steve with a timetable.

Identifying Leadership Characteristics

In both the company pipeline and the family pipeline, one way to ensure successful leadership continuity is to identify, foster, and mentor desirable leadership characteristics in nonfamily employees, family members who are already in the family business, and those who intend to be. The other way is to identify, prevent, reverse, or offset the characteristics that can stop or derail otherwise successful leaders. For example, one young potential leader had grown up excelling in singles tennis. He had learned that he should depend on himself for his success. He was a quiet, introverted young man who had great analytical skills and could figure out many problems. When he started to work with others in college, he began to have problems. He figured out solutions himself and then wanted everyone else to adopt them. They were often the right answer, but he alienated the others on his team who wanted to have input. This problem gave his folks the opportunity to discuss the importance of involving others in teamwork and engaging followers as a leader. It took him a while to understand this concept, but, with some supportive feedback and genuine exploration of the problem, the young man learned how to use both his intelligence and collaboration to work more effectively with others. His commitment to addressing this issue gave his parents confidence that he could be a potential candidate for leadership in the family business at some time in the future.

Good leaders create good teams. They inspire and motivate others to do their best. This increases output and profitability. Bad leaders do the opposite. And there are many bad leaders. A 2008 Internet survey by Curphy Consulting[9] found that only 38 percent of employed adults would be willing to work for their bosses again. This is a dismal indication of the pervasiveness of bad leadership.

Family businesses have a huge vested interest in identifying the characteristics that predict success or failure in family members as early as possible. By no means are personality characteristics the only predictors of success or failure. Business knowledge, connections, intelligence, and a number of other factors also affect success. But personality traits constitute such a large component of prediction that it is well worth identifying which family members possess the key characteristics of successful leaders.

Assessment tools are now available to allow HR professionals and families to identify and develop many predictors early in a career or even before the age of employment. Leaders also have different values and motives than nonleaders. Measures of values and motives can assess whether and to what degree an individual has the motives and values of successful leaders.

The effort to identify characteristics should precede training efforts because you can't impart a skill or ability that's incompatible with a person's core traits. Training based on trait assessments leads to significantly more behavior change than training not based on any trait assessment. Development plans based on trait assessment and 360-degree feedback (performance reviews by people above, below, and at an employee's position in the company) provides a foundation for success that most companies' training efforts ignore.

In addition to the drivers and derailers of leadership discussed subsequently, it's helpful for the family business facing leadership transition to begin by looking to the future. We often assume that a business should be led in the future the way it has been (successfully) in the past. Instead, we should consider where the business is heading and what type of leadership will be needed in the future. Consider:

- What is our business and competition likely to be like five to ten years from now?
- What different challenges will tomorrow's leader face than those faced today?
- What different competencies and skills will tomorrow's leader need to possess than today's?

For instance, if a small family firm realizes that, in the future, it will face more competition from larger competitors with whom it can't compete directly on buying power, research, and development, then tomorrow's successful leader will have to be much better than today's at alliances, joint ventures, and partnerships. Future business leaders will have to be better than today's at networking, getting intelligence early through many sources (wide-ranging curiosity), building relationships, negotiating and managing boundaries with partners, joint ventures, and alliances. This kind of information also helps prevent the business succession planners from

worrying about offending the current leader if they don’t simply try to clone him or her. The needs of the business should drive the process.

Personality Characteristics of Good Leaders

Successful leaders tend to be self-differentiated. Self-differentiated refers to people who can strike a healthy balance between their own individuality and family togetherness. They stay calm, aren’t quick to react emotionally to conflicts or crises, and are good at adapting to new circumstances. They step forward at critical times to set a direction for themselves and their families based on the principles that guide their lives. Self-differentiated leaders encourage independence and foster togetherness at the same time. They are skilled at helping their families and businesses through transitions, and they can skillfully defuse battles of wills among family members. These are important skills in family businesses!

You will soon find some of the most important character traits of successful leaders, along with some tips on how to foster them. Many successful leaders lack one or two of these ideal characteristics. But leaders who try to operate with several big gaps between their personalities and this model are likely to find it tough going.

What can we observe in our children, and what can we foster?

- **Commitment to the business.** Bring children up with a sense of the business as a natural extension of the family. Young people can tag along with Mom or Dad to the office on Saturdays and take summer internships at the business. They can take part in conversations around the dinner table about what’s happening in the business and why the business is important, not only for the family, but for nonfamily employees and the community.
- **Exceptional persistence.** Encourage kids to focus on, stick with, and finish things. Teach them delayed gratification versus instant gratification. Delayed gratification is a major, necessary precursor of the leadership characteristic of persistence and can be taught and shaped in childhood. One study found that the ability of a four year old to put off gratification predicted greater academic success, higher

SAT scores, and fewer relationship problems, more strongly than did IQ.[10]

- **Humility.** According to research, it's the humble leader rather than the self-assured charismatic leader who achieves the most. This leader does a good job and doesn't brag about it. Successful leaders are confident enough to include everyone in their success.
- **Coachability.** This is the ability to receive and act on feedback from others. Good leaders improve their skills by changing their behavior based on the coaching they get from peers, customers, managers, family members, or others. A global study of thousands of hiring managers found lack of coachability to be the number-one cause of hiring failures. In businesses, family or nonfamily, "The typical interview process fixates on ensuring that new hires are technically competent," explains Mark Murphy, CEO of Leadership IQ. "But coachability, emotional intelligence, motivation, and temperament are much more predictive of a new hire's success or failure. Do technical skills really matter if the employee isn't open to improving, alienates his or her co-workers, lacks drive, and has the wrong personality for the job?"[11]
- **Emotional intelligence.** This is the ability to perceive, understand, and manage your own emotions and those of others. Recently, when Stanford's Graduate Business Advisory Council members were asked to name the most important capability for leaders to develop, they answered self-knowledge and self-mastery. Emotionally mature people stay calm and avoid big mood swings and explosions. They are also able to calm themselves on those occasions when they do get upset.
- **Ambition and drive.** Ambition tends to be hardwired and to show up early. Ambition might be misdirected, as in a child who appears to be willful but is really expressing tenacity and persistence. A child who will work hard to earn the money to buy a bicycle but won't clean his room has drive and initiative that can be realigned as he matures. However, it is hard to instill drive if it isn't there. For family members who will only do what they are told and won't take initiative, non-

leadership roles in the business may be the best fit. In addition, as one of our clients put it, “Fat cats don’t hunt!” Parents who want to give their kids everything they didn’t have growing up often discourage initiative and drive.

- **Influence and persuasion.** Leadership is more than being able to work and play with others. It’s also the ability to align, coordinate, and direct the activity of others. You can see this in the child who can talk the other kids into stopping the game they’re playing and play another game.
- **Conscientiousness.** This trait may be evident in a child who is willing to play by the rules and displays a strong goal orientation. You can teach children to play by the rules by doling out rewards and consequences for how well they do so. Sometimes, kids can be successful yet violate rules. For example, when the parent tells a child to clean up his room so everyone can go to the movies and his solution is to bully his sister into cleaning the room, he shouldn’t get to go to the movies. You can reward kids for taking the right first steps, then add another step, and another. Eventually, don’t reward them for the first steps but only for later ones and finally only for achieving the entire goal. For example, consider the challenge of getting your six-year-old son to help keep the house straight. First, you might ask him to pick up his toys and put them away. You give him a treat. Next day, ask him to pick up his toys and his two-year-old sister’s toys. She’s too young to do this herself. If he only picks up his toys, no treat. Next, you ask him to pick up his and his sister’s toys, put them away, and make his bed. Grandmother is coming over for a visit. It takes all three completed actions to get a treat.
- **Curiosity and vision.** These qualities can be encouraged around the family dinner table. Engage children in conversation. I think this. What do you think? Why? What other options might there be?
- **Encourage a playfulness of mind.** For example, one of your children asks you a question at dinner. You don’t answer it, but say, “What do you think? Why do you think that? What other thoughts did you have?” This is the equivalent of teaching your children to fish

(encouraging them to think for themselves) instead of giving them a fish (handing them your answers).

- **Good critical thinking skills.** In our work doing assessments for selection, promotion, and development, we've increasingly realized that, if someone does not have good critical thinking skills, he or she can't be a leader. There is no such thing as a successful dumb leader.

You can identify the traits we have discussed through psychological assessment and develop the traits that are present to some degree at a person's core. Such assessment is the basis for targeted training and can be the foundation for business success. The key here is to understand each person as an individual rather than the person we think he or she should be.

Of course, some people are just not interested in business and commerce, and that kind of interest can't be developed. For those family members, there may be other ways to get involved in the family business. For example, parents can encourage a child who is interested in saving the world to work in the family foundation of a business large enough to have one. As parents, we want our children to be happy. We must recognize that not all children are meant to be in the family business and encourage those who aren't to follow their passion. Hopefully, these happy offspring will stay connected to the family and may contribute to other family activities.

Identifying the key characteristics of success is very important. But it is equally important to identify the characteristics of failure.

Personality Characteristics of Bad Leaders

What we call the derailers of success often cause leaders to fail even when they have many, if not all, of the positive qualities described previously. When derailing behavior is ignored, tolerated, enabled, or actually rewarded in young people, it can turn into adult leadership failure. But because most of these characteristics begin to show up early, family businesses have a huge advantage over nonfamily businesses. They can spot these traits early and take action to help them early to improve the business and the family leadership pipeline.

What are the most common causes of leadership failure? What can you do about them?

- **Inappropriate engagement with others (too hot or too cold).** There are two forms of this problem. The first is a combative, abrasive, bullying, overbearing manner (too hot) that creates defensive, compliant behavior in others. This leader will never consider other people's best ideas. The second kind of engagement derailer is an aloof, indifferent, or arrogant manner (too cold). This form of leadership sends the message loud and clear, "I don't care at all about you." Poet Robert Frost speculated whether the world would end in fire or ice. After examining both, he concluded, "Either will suffice." That goes for leadership behavior, too. Whether it is too hot or too cold, it can be destructive. You can teach children to avoid both these kinds of behavior. If a brother shouts at his younger sister, tell him it's not okay, and give him a timeout. If the behavior continues, the timeouts lengthen, and he eventually doesn't get his allowance. It is critical to minimize fighting between siblings who will eventually enter a family business. Learning constructive ways to express feelings and resolve differences is important to learn early. They may never completely overcome their resentments and rivalries, but, if the family can't learn to deal with them, the business will suffer. As they mature, siblings who join the family business can learn new, constructive ways to interact. On the other hand, if you are called into kindergarten five times because your child became angry and threw something at another child or if your child is constantly sent to the principal's office in the early grade school years, garden-variety parenting techniques to alter behavior probably won't work. In this case, you must realize that something bigger is going on and seek professional help.
- **Problems with trust.** Trust is a two-way street. The leader who can't trust others can't get others to trust him or her. When we don't trust our leader, we withhold our full commitment and productivity. This problem can show up quite early. It begins with the family. Are the parents trusting or mistrustful? Are they teaching their children to be guarded and standoffish? ("Life's like a poker game. Don't show your cards!") Does the young person trust authority figures or assume authority figures have their own agendas? Do they greet new

situations with the attitude, “I don’t know what it is, but I don’t trust it”? Trust and the ability to form healthy attachments to others are key ingredients in close adult relationships. Childhood is the first classroom. If you want to teach your children to trust, you must be trusting. If you want to teach them transparency and to trust authority, make sure you’re not irrational, moody, and inconsistent. When you raise your children with the strong conviction that their parents love them, they can trust in that, no matter what happens.

- **Problems making personal transitions**. Sometimes, people can’t let go of an older skill or method of coping to move on to a new one. Maybe they can’t take their hands off the controls and learn to delegate. Maybe they are perfectionists who can’t give up a project until it’s perfect. What makes a person successful may not keep him or her successful. Effective leaders have to manage personal transitions in their careers. One second-generation member, Joey, was successful in his first several jobs because his linear, concrete thinking helped him excel at tactics and implementation. Now the same pattern is dooming him as an executive, a position that requires him to form strategy and develop a vision for the business. Another young family business member, Sue, succeeded in several jobs in the finance department because of her hands-on perfectionism, hard work, and attention to detail. Now, as the CFO, she is a workaholic who nitpicks the work of others and can’t delegate, and this pattern makes her employees feel that whatever they do is not good enough. The demands of Joey’s and Sue’s jobs have changed, but they didn’t.
- **Self-serving ambition**. People want to follow someone with socialized ambition, someone who seeks the greater good for all. They don’t want to follow someone whose ambition is self-serving and aims to advance his or her own cause only. Again, you can see this clearly in childhood. Most children start out naturally wanting what they want and are not very interested in how it affects other people. But they learn to think of others as they mature. For instance, parents need to tell young children, “I know you want to do that, but this is what your sister wants to do. Remember how we helped you have a great birthday two months ago? We want to do that for your sister, and we

want you to help." You can also reward a child for thinking of others by telling him, "I want to thank you for working hard all afternoon. You played the games your sister likes to play even though you're not much interested in them. You helped prepare foods that she loves, and she had a wonderful birthday. Thank you so much." In this way, you plant the seed that it's good to work for the good of the group.

- **Failure to staff or build a team**. The leader who cannot assess competence in others or who prizes blind loyalty and yes-man behavior over competence will have team performance problems, and the business will suffer. Start to think about the building blocks of future leadership. Then create or use existing activities at family meetings to build those blocks. For example, tell a child, "I want you and your brother and cousins to lead the cleanup effort after the family picnic. Get together and figure out how you're doing to do it and what you'll need, and come back with a plan of who will do what. And I want you to thank everyone for their contributions." Afterward, you can see how well children did their assigned tasks. You can assess what happens and see if the child pouts or needs to be taught to manage his or her feelings and actions. Were they screaming and shouting at others? Did they try to get other kids involved? Note whether they got the job done, as well as whether they got other kids to do their parts. In this way, you're using a normal activity strategically to teach how to build and lead a team. You can do one-off mentoring. Ask Uncle George who has a special relationship with Joe, who is moody but respects and likes Uncle George, to mentor him. Uncle George can ask, "What made you so upset? Is there another way you could have handled that?" Mentoring should be future-focused. Observe whether the child receives feedback from others and changes his behavior accordingly or is brittle, argumentative, or defensive. Most people will change their behavior if they become aware that their impact on others is undesirable. Those who don't are unlikely to make good leaders in the future.
- **Inability to learn from one's own mistakes or failures.** The book *Mistakes Were Made (But Not by Me)* by Carol Tavris and Elliot Aronson (Houghton Mifflin Harcourt, 2007) explains that leaders who

always have to be right are perhaps the most dangerous of all. An inability to reflect on poor decisions and accept personal accountability means that the same mistakes will happen again and again. And, in the family business, every promotion means that the price tag of the individual's mistakes goes up. Parents can help a child who fails an algebra test by gently asking the child why she failed. If she says the questions were tricky and didn't cover what was discussed in class, ask if everyone flunked the test. What did she do to contribute to failing? Did she put off studying? If she says she did nothing wrong, tell her that doesn't make sense. Ask her what she did that she could do differently next time. The point is not to blame her, but to get her to look at what she did so she can understand that her actions have consequences. This type of conversation will teach her that, if she wants a different outcome, she has to change her actions in the future. Assessments can be done early in this area. *Locus of Control* by Julian Rotter (Social Learning and Clinical Psychology, 1954) describes a test he gives school kids that locates them on a continuum with external locus of control (for example, the teacher had it in for me, the questions were odd, and it was just bad luck) on one end and internal locus of control (I watched too much TV, and I need to do better next time) on the other. Reward children when they take responsibility for their actions. Teach them that it's not devastating when they make a mistake. Acknowledge that they seem to understand what they could have done differently. When the next test comes up, they can think about what got them into trouble the last time and plan to do things differently. Ask children if they want you to remind them or if they want to take control of the situation on their own. Every parent can do this, but, in a family business, it is a targeted effort to create successful future leaders and will help in just about all aspects of their lives as well. Effective leaders accept responsibility for their own actions; ineffective leaders often blame others, events, or circumstances. Both of these characteristics show up early in life and can be shaped for the better.

You can use **Exhibit 10.1** to assess each child's leadership strengths and trouble spots. For each child, put a check mark beside each positive and

negative trait you have clearly observed. For those traits you haven't had a chance to observe, the next section of this chapter will show you how to create situations in which you can observe leadership traits. Then return to the checklist for each child and reassess his or her strengths and weaknesses. After you have assessed your business's future leaders, you can develop a program to improve his or her leadership traits.

Exhibit 10.1 Leadership Checklist

Positive Traits	Demonstrates Strength	No Chance to Observe	Demonstrates Weakness
Persistent			
Humble/modest			
Relatively calm			
Healthy self-esteem			
Interacts easily with others			
Curious			
Visionary			
Conscientious, follows rules, focuses, follows through, and finishes			
Recognizes others' achievements			
Need for recognition (give and get)			
Strong affiliation/network			
Interest in business			
Altruistic			
Goal-oriented			
Rational risk taker			
Good critical thinking			
Derailers	**Strength/No Problem Area**	**No Chance to Observe**	**Demonstrated Problem Area**
Combative/abrasive			
Defensive			
Unable to trust others or inspire trust in others			
Problems making personal transitions			
Self-serving ambition			
Unable to build a good team			
Unable to learn from mistakes			
Cold, indifferent, and aloof			

Using Family Meetings and the Family Council to Develop Leadership Skills

Activities that would normally happen as part of any family meeting can be terrific learning laboratories. Someone has to contact participants and figure out dates, location, division of roles and responsibilities, caterers, how much the family will do themselves, facility setup, fun, and activities involving the kids. Figure out which tasks would involve leadership organization and planning skills that can be used to teach children. Expect more of young adults who are twenty-two than of children who are thirteen. But a thirteen year old can be involved in the cleanup crew and can work with siblings and cousins to do it (as we mentioned previously).

All kinds of opportunities can be turned into learning experiences. Real work experiences are the primary driver of leadership learning. You can actively create these experiences rather than passively hope that they come along. Structured, planned experiences are the main tool of leadership development. The learning experience should stretch the skills of a young person. It should be a real job that needs to be done for business reasons and should have its own business urgency. It should not be a flagpole painting assignment. In corporate settings, many studies show that the richest leadership opportunities involve learning through the work itself. By doing a six-month project in a part of the business she doesn’t know, a young family member will have to learn rapidly from others, make quick decisions, accomplish a timely turnaround, and build relationships in a hurry. She will have to come to work the day after making tough choices and work through any fallout from those choices. Any family event that provides these opportunities—preparing and serving food, organizing recreational activities and games, and cleaning up—can help you assess and teach coordinating and decision-making skills. When you consider such opportunities, don’t think about how to get these jobs done, but about how to get them done in way that can assess and develop the capabilities of your children.

Even a driving trip can be turned to assessment and development. One client told the story about driving with her daughter, who was then about ten years old. She gave her daughter the map and began a discussion. If this

is our destination and traffic holds as it is now, when will we arrive? Where should we stop for lunch, and what time will we get there? What would the fastest route be? Which would the most scenic route be? Where might we want to stop and walk around if we took the scenic route? What would you recommend if we were to blend part of the fastest route with part of a scenic route?

This exercise in a naturally occurring family event (a driving trip) assessed and developed critical thinking skills. If you look at common family events with the eyes of a developer of tomorrow's leaders, you will see all kinds of opportunities such as this.

The tools and processes are available to assess many traits and characteristics in young adults and children and to bridge gaps if they are not too big or too numerous. There is a lot you can do through targeted development. For example, one son, Johnny, may have an MBA but lacks experience in business leadership. His assessment indicates he has the right stuff in terms of traits and personality characteristics for effective leadership. An assessment of his brother Ray, on the other hand, indicates he is not particularly communicative and is not interested in training or influencing others. He would rather do a task himself than delegate and experience success from hands-on direct accomplishments. He has little interest in coaching, mentoring, or teaching others. He can be an asset to the business, but he is unlikely to succeed in a leadership position.

Professional vs. Parental Assessments

In addition to the kinds of qualities and characteristics you can observe and shape in childhood, you can assess traits, values, and critical thinking scientifically in young adulthood. The quality of personality and thinking assessment tools has increased greatly in the past ten to fifteen years. We can now assess people in the early college years and determine their traits and the kinds of competencies they'd be able to develop. We can assess their values and interests to determine the kinds of endeavors in life that will give them meaning and satisfaction. And we can assess how and how well their critical thinking works to determine the kind and level of best-fit job or career for their abilities. All of this helps younger family members determine true north for themselves in terms of career and job direction. It

also helps the family business determine where, how best, or even if the family member will fit in the business.

Fit is critical for satisfaction, success, and happiness for the young family member. It's also critical for the continuing competitiveness of the family business. The young woman who wants to make the world a better place and help the less fortunate, yet has no interest in profit or business, will be a poor and unhappy fit in the family business. But she might be a fine and happy fit in the family foundation. The young man who likes individual achievement, self-reliance, and figuring out tough problems may well make a fine professional or individual contributor in the family business. But in a leadership role, he would not build a team, delegate, or develop others. Getting the right traits in the right place is critical. Fit is everything.

Families whose children are already old enough to be working in the company would be wise to hire a professional to assess them and to base development of those members on solid information. It is possible to measure the characteristics of people in their twenties and thirties that they may be able to change with the proper training and targeted experience to bring out the best in them.

Our Three Case Studies

Let's consider three hypothetical case studies that illustrate the benefits of understanding and assessing leadership qualities and finding the right fit for family members in company positions.

ABC Distribution

Robert, the owner of this wholesale distribution company, was having trouble getting his three sons to focus on the business instead of fighting among themselves. The sons went through an assessment process and learned that the oldest, Dwayne, who had worked in the company the longest and was the assumed successor, possessed the fewest leadership traits and the most derailers. While he was bright and confident and had developed a large network, he was also combative and unable to build a team. Jimmy, the middle son, was also bright but lacked the self-esteem,

curiosity, and interest in business necessary to be an effective leader. He tended to be defensive and never seemed to learn from his mistakes. At the same time, he was a good person who was extremely interested in helping others. He was more likely to save the world than boost the business. Youngest son Arnie, who had joined the enterprise just three years before, was the true visionary with persistence, humility, calm, and interest in commerce. He also had tremendous charisma that inspired people around him to work their hardest. Perhaps because he assumed his older brother was the heir apparent, Arnie resented his brothers and sensed they were incompetent managers. He also resented his father and was jealous of his older brothers, feeling they had gotten much more of Dad's time, attention, and generosity than he ever did. When asked why he seemed so competitive about getting his share of money from the company, given that he lived a modest lifestyle, he sheepishly said, "I guess I'm not the first younger brother in history who didn't get the love, but by golly is going to get the money!"

In turn, Arnie's natural leadership qualities threatened the older boys, which seemed to highlight their own shortcomings. As a result, the brothers constantly argued and undermined each other. Robert feared none of them possessed the ability to take over the business and he would never be able to retire.

Once the brothers' underlying personality, leadership traits, and derailers were identified, the family and advisers were able to identify Dwayne as a natural salesperson who could shine as head of that department. During private meetings with Jimmy, they realized he actually had no interest in working in the company, but felt a strong obligation to do so. Having a child who had successfully battled cancer, he was more interested in philanthropy centered on research for childhood diseases. He was offered the opportunity to create and lead a family foundation that would enable him to do that, which triggered just the passion and commitment he had not been able to harness for the company.

Then they developed a five-year plan to put Arnie through a series of management and leadership courses, cross-functional experiences in the company, and coaching to prepare him to take the reigns and allow his father to retire. He even seemed to back off on his false greed. Asked why,

he smiled and said that one of his professors had told him that the best revenge of all was a life well lived.

XYZ Tools

The diverse owners at this fifth-generation industrial tool manufacturer have conflicting goals and financial needs. Carol is president, and her brother Andrew is CFO. Their cousin Dan is head of sales. Another cousin, Nancy, is in charge of HR and distribution. Nine other inactive family members from four branches of the family are minority owners.

Interviews with them revealed that they were all unnatural business partners. They did not explicitly choose to work with each other and had little bonding experience with one another as kids. Their parents had a competitive, even adversarial, relationship with each other. After going through a process of identifying their values for the business and themselves and an assessment that identified their traits and competencies, they began to develop the trust and a framework to move forward. They discovered that their goals for the company were surprisingly similar, but their individual differences, with little to no foundation of trust built among them, had exaggerated their differences.

Carol was very humble and self-effacing and rarely sought out opportunities to show the flag in representing the company. She saw Andrew as often upstaging her and felt he wanted her job. He said he didn't want her job, but did need much more recognition than he got as CFO. They mutually agreed that he could take some of the "show the flag" opportunities that she would just as soon pass up.

All of their discontent with Dan's performance, especially his neglect of long-term customers, came up, as did his sloppy or neglected paperwork. He freely admitted that he was a transaction kind of fellow. He liked the hunt and the kill of sales work, but the ongoing routine of managing customer relations and detested paper pushing bored him. He said that maybe he should leave the company. Someone mentioned the finder-minder-grinder (getting business, managing ongoing relationships, and backroom support) continuum of sales often used in financial services work. Could Dan's work be moved to more of the finder role, and could they find someone else to take over the parts of the sales cycle he resisted?

He was excited to try it and agreed to revisit the discussion in six months. If the new plan didn't work, he would leave amicably.

Nancy had thought of leaving the company, mainly because a divorce made her a new single parent and she had a troubled teenage daughter. Her role in the company meant long hours, and she was afraid of failing as a parent with so little home time. Others had sensed her resentment, but assumed she didn't like her job or the company, which was not the case at all. The group decided to move her to a part-time, almost job share in HR with her very capable assistant. The change in compensation was not a problem for her. All agreed to give this a two-year trial to give her enough time to deal with family issues.

Co-workers who have a foundation of trust and mutual knowledge of one another assume the best when one person does something that another doesn't understand. Those without that foundation and mutual knowledge may assume the worst in the same situation and pull back in blame and judgment.

HD Software Solutions

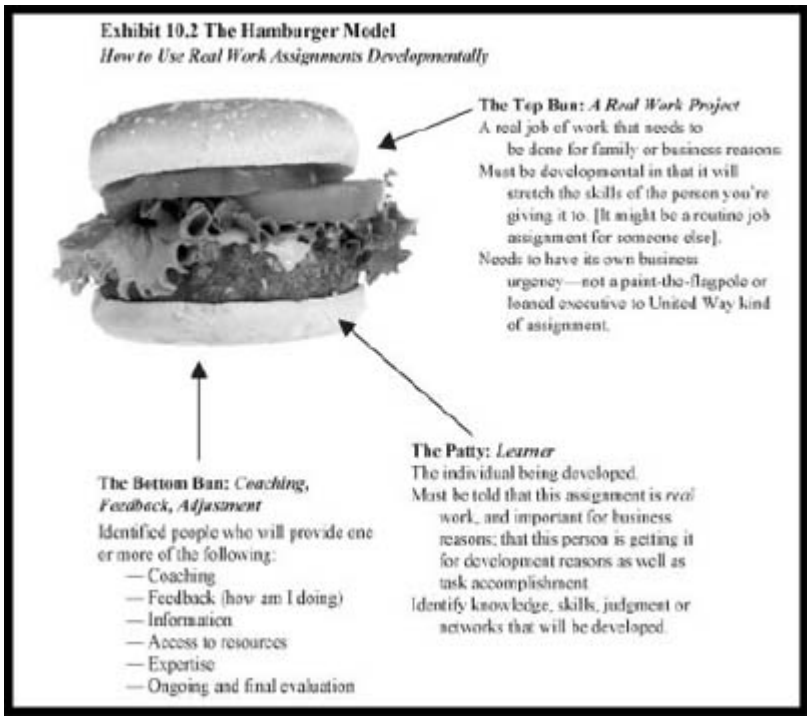
Howard, owner of HD Software Solutions, and his daughter, Diane, were in different stages of life. Dad's intent was to play it safe and preserve wealth while Diane wanted to take risks to produce aggressive growth and put her own stamp on the company.

Before Diane came to work with him, Harold appreciated his daughter's drive and competitiveness and referred to her as a "chip off the old block." As she matured, worked outside the family business for several years, and finally joined the business, it became apparent to him that she would be the capable heir he'd hoped for. Like many business owners, much of his investment was in the company. He had planned to have cash flow from the company support him in his retirement. But a recent, significant loss for the company had made him much more cautious about his retirement and the company. As a result, he increasingly reigned in Diane's more entrepreneurial approach to business.

After a blowup in a family meeting, they discussed their individual needs and developed a transition plan that honored the needs of both. They identified certain areas where Diane could exercise her entrepreneurial flair

and others where a more careful approach would reign. In one of the Greek writer Sophocles' plays, there is a line about the stages of life, "The truths of the morning are not the truths of the afternoon." So, too, it is with business leaders' life cycles.

The best way to help children become ready for the business or potential leaders in the business to be ready for something bigger and better is through providing real work or stretch or learning assignments that needs to be done in either the family or the business; assigning that work to someone with full disclosure that you intend for the assignment to help develop knowledge and skills for the future; and providing support, feedback, coaching, and evaluation before, during, and after. The following hamburger model explains this.



Projects that meet these needs abound in the family and in the business. Simply look creatively at work that needs to be done, ask yourself what knowledge, skills, and traits are required to do it, and then look for a match with someone either in the family or in the business who needs to develop these skills.

Routine work is never routine, except for those who have done it several times, learned how to do it, and can do it efficiently. For those who have

never done the project, it can be rich with learning. There are several positive aspects of this kind of development:

- In the business, research shows that successful leaders, looking back on their careers, cite real work assignments as the primary method by which they learned key lessons of leadership.
- These projects have an urgency of their own. The picnic area needs to be cleaned up after the family picnic, or we can't go home. The business needs someone to prepare the budget for the next business cycle.
- Real work projects are very low-cost ways to teach leadership skills. There is neither family nor business so strapped for cash that it cannot use these methods.

[8] Stephen J. Dorgan, John J. Dowdy, and Thomas M. Rippen, "Who Should—and Shouldn't—Run the Family Business," *The McKinsey Quarterly* (February 2006), Web exclusive.

[9] http://www.leadershipkeynote.net, accessed January 29, 2010.

[10] Yuichi Shoda, Walter Mischel, and Philip K. Peake, "Predicting Adolescent Cognitive and Self-regulatory Competencies from Preschool Delay Gratification," *Developmental Psychology* 26, no. 6 (1990): 978–986.

[11] http://www.leadershipiq.com/thought-leadership/research/why-new-hires-fail, accessed February 21, 2010.

Chapter Eleven

Working Effectively with Advisors

Common Problems

Outgrowing the Family's Intellectual Capital

As a family business grows, it may go beyond the initial vision of its founder and find itself competing in a bigger league than anyone had imagined when the company began. Perhaps no one in the family can develop far enough and fast enough without an infusion of fresh blood from outside the family. Current family owners may make mistakes because of their lack of experience and know-how.

A business-owning family is unlikely to notice that it has outgrown its abilities (or intellectual capital) unless it is in the habit of comparing itself to its most successful competitors or unless the leaders belong to trade associations or peer groups (such as the Young Presidents Organization or YPO). Or perhaps its board members will tell the family owners that the company needs to train employees or hire new ones with skills the company currently lacks. Sometimes, the company would benefit from an objective, outside perspective that an advisor can offer, concerning internal or external challenges that the family may not know how to resolve.

Advisors with Insufficient Experience

Good business advisors will let a family know when it has outgrown its intellectual capital, assuming the family hasn't outgrown its advisors as well. We often hear business families speak of their advisors, "He's always been our money guy," "George has been our lawyer since day one," or "Leon does my taxes and keeps me out of jail." But the $100-million

company may now need advisors who can keep pace with the growing complexity of the business' needs. Some long-term family advisors probably won't tell you they're not smart enough to play in today's and tomorrow's market. Sophisticated advisors will.

As a business grows, its advisors need to grow with it. If your advisors have grown up with your family business and you are facing succession for the first time, are your advisors up to the task of facing it with you? Does it make sense for you all to learn it together? Or should you bring in someone, even temporarily, with the background and experience to advise you? Someone who has gone through the learning process with other clients and has wisdom to share? It is unrealistic to expect a banker who has never helped a company through succession to do good job for your company. Do you want to be the first?

One of our clients started with a kitchen cabinet of advisors: a family lawyer, a family banker, and a CPA became the business lawyer, banker, and financial advisors. As the business got bigger and competitors cropped up from China, the company had to function on a bigger scale. After the founder became ill and died, the family needed to shift the business drastically. The family lawyer was the first to say that he was out of his depth, but had a colleague who could do the job the company now required. That served as a role model for the business' other advisors to opt out and to help the family find people who could fill the now bigger shoes. This was unusual because most advisors don't opt out. When advisors can't handle all of a growing company's needs, it doesn't mean they are bad people or the business can't use them as advisors for some things. We liken such an advisor to a family doctor who is fine until you need a heart surgeon.

There is a great benefit in founders and business leaders being involved in peer-to-peer leader groups such as Young Presidents' Organization (YPO). In this venue, participants get to sit around the table with leaders in other industries and share their concerns. "My tax advisor missed the ball last year, and I had to write a big check. Have you done this? Have you been through it?" This is an excellent, nondefensive way business leaders can learn from their peers.

Practical Solutions

Advisors can be valuable assets to families in business. They provide outside perspectives, act as sounding boards for the family, and serve as stabilizing influences in times of crisis. When a business moves beyond the initial start-up phase and into a later stage of growth, the family can often greatly benefit by accessing fresh ideas from advisors about how to navigate the increasing complexities.

Family businesses may have two kinds of advisors. One kind is an expert advisor, a lawyer, accountant, banker, or insurance person. The other kind provides general advice about the business or family business. This type of advisor is often one who will help the family learn skills or develop tools to work in the family business with greater ease. They often facilitate meetings, evaluate employees (including family) and organizational systems, and teach. It's good to keep those two kinds of advisors separate in your mind to ensure you don't get confused by advice about the different roles each can play.

How to Know You Need an Advisor and What Kind

Beyond the regular accountant or lawyer, there are times when an advisor with specialized knowledge and skills can be very helpful. For instance, some attorneys are specialists in estate planning, while others may concentrate on protecting your intellectual property (for example, trademarks). However, some families believe there is a stigma attached to seeking the services of an advisor, as if this means they are admitting they can't solve their problems themselves. Families can be private and feel reluctant to open up their businesses to someone outside the family.

Sometimes, the founder is a "John Wayne" type who insists on relying only on his own resources. In other cases, the founder may, in fact, know the business needs advisors but wants to avoid bringing them in. For example, a family that is thinking about selling the business, usually a once-in-a-lifetime endeavor, may not appreciate the complexity of the transaction and the need for special legal and financial advice. It's expensive advice. Their resistance to getting the best advice possible may cost them more in the long run by failing to get the best price and terms.

When the pain outweighs the resistance, usually after family members feel like they've tried everything they can and to no avail, the family will call in help. By then, the problem is often worse, and the help they need may be even more costly. The lesson? Ten thousand dollars worth of advisor fees is better than several hundred thousand dollars in legal fees.

Sometimes, a lack of change frustrates the younger generation in a business-owning family. They aggressively push for it and are willing to do anything to create change. They perceive that the older generation is resisting change. Such was the case initially with the Symington's dilemma introduced in chapter 1. In these circumstances, it becomes an accomplishment to get the older generation to bring in someone new from outside the company to help them address the struggle in the family.

Selecting the Right Advisors

Expert advisors should be selected based primarily on their technical expertise and competency. The main criteria for selecting general business or specialized advisors is that they offer advice at the right level for the company and have a good chemistry with the family and management team.

When shopping for an advisor, the best place to start is to talk to friends or members of your industry association who have been in similar situations and see what their experiences have been. You can work with a CEO peer organization such as Vistage or contact a university family business center if there is one in your vicinity. Most communities have a network of people who draw upon good advisors, and their experiences pretty well establish the reputations of the advisors in that community. If you are interested in selling your business, for example, talk to people who have sold theirs. Ask which advisors they called on and what their strengths and weaknesses were.

Do you need a consultant to choose a consultant? No. But you do need to check the references of advisors you are considering working with before you give them enough information about your situation. Ask what they will do if you decide to hire them. Get a feel for their thought processes and whether you like their approach. And, most importantly, get a sense of how comfortable everyone in the family is with them. Some typical considerations for selecting an advisor for a family business might include

knowledgeable, able to consistently learn about new strategies, experienced with family businesses, good listening skills, able to confront other advisors and the client when appropriate, good team player, and ability to earn trust.

Exhibit 11.1 will help you rate the importance of the many criteria you may want in an agent, general business, or specialized advisor. Try to get your family members who work in the business to agree on how important each criterion is by assigning a weight to each one (in column two). The weightings for all of your criteria should add up to 100. (With fourteen criteria, if they were each equally important, they would each receive a 14.14 or so weighting. Therefore, anything lower than that should reflect its relatively lower importance. Anything higher should reflect its relatively greater importance.) In column three, once you have met with each consultant candidate (C1, C2, C3, and so forth), assign each one a rating of one to ten. In column four, for each criteria, write down the product of the weighting for each criterion times the rating for each candidate. Last, in the bottom row, add up the weighted ratings for each candidate. This rating should help you clarify which candidate best meets your criteria and is best for your business.

Exhibit 11.1 Rating Advisor Candidates

Criteria	Importance Weight	Candidate Ratings			Weighted Ratings		
		C1	C2	C3	C1	C2	C3
Time frame for the consulting engagement							
Ability to provide data							
Professional credentials							
Authoritative demeanor							
Listening skill							
Candor							
Breadth of experience							
Years of experience							
Ability to lay out several options							
Friendly							
Good chemistry							
Ability to bond with all family members							
Fee							
References							
Other							
TOTAL							

When to Invite Advisors to Your Board of Directors

When founders first create a board of directors, they typically invite their lawyer, accountant, banker, or insurance person to serve as members. This is not recommended. The company is already getting advice from these experts, and the views they express in a board situation may be compromised by concern that they may lose a valuable client if they upset the founder. Another complication: your business may already have multiple relationships with an accounting firm, doing business with its professional who handles taxes, its audit team, and deferred compensation team. The board member from that firm may fear losing his firm's whole account if he or she antagonizes someone in the client's family or business. Instead, you may call upon your board to help you identify and/or select

new advisors to assist you. Further, if the board is considering an issue where the advisor has relevant perspectives, he or she can be invited to the board meeting to offer his or her ideas.

How to Work Effectively with Advisors

Once you sign on with an advisor, it's important to make sure that all managers—family and nonfamily—understand the dos and don'ts of working with him or her. Family business owners and managers need to assign a lead liaison or point person who will take responsibility for communicating with the advisor. You should avoid having several managers call or e-mail the consultant every time there's a question or problem. Individuals should contact the family business point person with such questions and problems as they arise.

Often, a business advisor, management consultant, or corporate psychologist will want to meet privately with each key active family business member one at a time to get each person's perspective about what's working and what's not. The consultant may also request a meeting with all key players together, once he or she has had a chance to assess the basic issues, conflicts, and problems, to report his or her findings and present options with specific goalposts and time frames for accomplishing them. At this meeting, the advisor should discuss with the family the pros and cons of each option and, if possible, choose the one the family feels will result in the best outcome. Chapters 2 and 3 illustrate how the consultant to the hypothetical Symington/Thompson family spoke with each family member and key employees and then shared his observations with the entire family.

Recognizing When You've Outgrown an Advisor

Technical or expert advisors have often been with the founder for a long time and develop a close relationship with the business owner. Successors will sometimes want to choose their own advisors and will refuse to accept advisors from the founder's generation. This is common and quite normal. Successors want their own people advising them. This is a good thing because the founder's advisors are loyal to the founder and may not push

back or be candid with the founder about certain situations they fear will upset him or her. The next generation realizes that the advisors may pander to the founder and their counsel may not represent the best interests of the business. This is by no means always the case, but it does happen. The next generation also may have different skill sets, work and communication styles, goals, and values than the founder, which may not match well with the skills and style of existing advisors. Or, as noted before, the needs of the company and family may have outgrown the advisors. You may have outgrown your advisors when questions come up and advisors are not forthcoming with the answers; advisors don't recognize the nuances or complexity of a question; or advisors don't have experience with the issues you are raising.

There are situations in which the skills and competency of internal managers need to be balanced carefully with the work of expert advisors. The accountant you bring in, for example, should fit well with your internal financial person. If you have a relatively weak, lower-level financial manager as controller in the company, you may want to utilize an outside accounting firm to mentor and coach that person. Or, if you have a strong inside person, you can use an outside accountant only for audits or taxes.

The important thing is to move beyond the business' financial function of keeping score to using financial information to improve the business. At one client company, they even renamed the CFO the "business improvement coach" to emphasize the person in this role should help individuals understand how day-to-day actions impact monthly profit and loss.

Getting Your Advisors to Work as a Team

A family business should encourage its various advisors to work together and meet as a team on a regular basis to discuss the status of the business and future growth ideas. With that in mind, it is important to choose advisors who function well in a team atmosphere and who don't try to dominate situations. Your team should meet two to four times a year, for instance, at the end of the year when financial results are in and midyear.

Even good advisors can give bad advice if they don't operate as part of a team. For instance, an insurance salesperson might come up with a brilliant

plan to finance premiums of the policy, but that may not be consistent with the capital outlays and expansion plans of the business. That can create a conflict if he isn't working in harmony with the senior management team and other financial and legal advisors. Lawyers will sometimes come up with ideas for estate plans that require people to do things that aren't feasible across broad periods of time.

This occurred in one situation in which eight children bought out their father's stock and received dividends on the stock, which they used to pay a loan their father issued them when they bought his stock. However, it was unlikely that the company could earn enough profit to afford paying those dividends consistently during the twenty-five-year term of the loan. In addition, some or all of the eight children may want or need to use their dividends to help support their lifestyle. Indeed, one of the children eventually failed to make a payment to his father, and the whole arrangement blew up. The advice that initiated the arrangement came from a lawyer. It was great in terms of freezing the value of the father's estate, but it was impractical in other respects. The family ended up selling the company.

Alpha advisors (dominant personalities uncomfortable cooperating as part of a team) tend to resist working with other advisors in the group for the good of the business. You may run into conflict with advisors who think they have the right answers for the family and are incapable of or unwilling to collaborate with the rest of your team. There can be a competition for "most trusted advisor" among those who are serving you. In that situation, you may have to tell them what you are going to do and you will find new advisors if they won't work with you.

Your advisors' goal should be to put the best ideas possible in front of family members who are grappling with a problem. Advisors should not become emotionally attached to their positions, but candidly explore different sides of a question so owners can make the best choice possible. Let your advisors know that you expect them to disagree with you or each other because disagreement is part of the collaborative process. If you shape their expectations about this process, you are likely to create an environment in which that kind of interchange is possible.

Exhibit 11.2 outlines seven types of advisory systems. The more your advisors work in an integrated way, the more value you will receive from

them.

Exhibit 11.2 Types of Advisory Systems

Disjointed	The advisors do not know each other.
Autonomous	The advisors know of each other only through the client.
Partially aligned	Some advisors are connected through the client while others work cooperatively.
Collaborative	The advisors know each other with one in the lead; the client's needs take precedence over any competition among the advisors.
Advisory team	The client leads an interactive team, focusing on interdisciplinary collaboration to meet the needs of the client.
Alliance	The advisors from two or more disciplines maintain ongoing collaborative relationships.
Consulting firm	This is a preexisting interdisciplinary team that the client hired.

Case Study

To help you see how different family businesses with different family dynamics and business challenges have chosen and worked with advisors, consider the case study we described in the previous chapter.

Howard, the owner of HD Software Solutions, and his daughter, Diane, eventually realized that their business would suffer if they could not resolve their conflicting goals and tolerances for risk. Diane mustered up the courage to suggest to her strong-willed father that they hire a family business consultant to help them work through their problems. Howard initially resisted the idea, mostly because he worried the company could not afford a high-priced consultant. But he agreed to at least explore the possibility.

Diane, a member of YPO, asked her colleagues in the group to refer her to family business consultants who had helped their companies grapple with similar issues. At the same time, Howard tapped his longtime accountant and lawyer for some suggested names. With a list of seven possible

consultants in hand, they began downloading information from each of the consultants' company Web sites. Then they called each of the consultants to find out more about how they operate and what they would charge. Father and daughter sifted through the information together and were able to whittle the list down to three candidates who had the best credentials, with a fee somewhere in the middle range. They then set up meetings with each consultant.

Before the meetings, they made a copy of the table from **Exhibit 11.1**, one for Diane and one for Howard. Together, they rated the importance of each criterion. When they could not agree, they agreed to use the average of their weightings. For instance, Howard has a background in software engineering and accounting, and he assigned a fifteen to the "ability to provide data" criterion. He weighted "listening skills" and "candor" with fives. Diane, who earned an MBA in marketing, assigned those criteria five, twelve, and twelve, respectively. **Exhibit 11.3** shows the average rating for each of those traits in the shaded boxes.

After the meetings with candidates, Diane and Howard rated each advisor. Again, whenever father and daughter disagreed with each other on a particular criterion rating, they took the average.

Exhibit 11.3 Rating Advisor Candidates for HD Software Solutions

Criteria	Importance	Candidate Rating			Weighted Rating		
		C1	C2	C3	C1	C2	C3
Length of the engagement	5.0	7.0	3.0	5.0	35.0	15.0	25.0
Ability to provide data	10.0	8.5	5.0	5.0	85.0	50.0	50.0
Professional credentials	7.0	9.0	8.0	9.5	63.0	56.0	66.5
Authoritative demeanor	5.0	6.0	8.0	7.5	30.0	40.0	37.5
Listening skill	8.5	6.0	9.0	8.0	51.0	76.5	68.00
Candor	8.5	10.0	9.0	7.5	85.0	76.5	63.75
Breadth of experience	7.0	7.5	8.0	10.0	52.5	56.0	70.0
Years of experience	5.0	7.5	7.0	5.0	37.5	35.0	25.0
Provides several options	7.0	8.0	9.0	9.5	56.0	64.0	66.5
Friendly	5.0	6.0	9.0	6.0	30.0	45.0	30.0
Good chemistry	7.0	6.0	8.0	6.0	42.0	56.0	42.0
Bonds with all family members	7.0	6.0	7.5	6.0	42.0	52.5	42.0
Fee	10.0	5.0	6.0	10.0	50.0	60.0	100.0
References	8.0	8.5	7.5	10.0	68.0	60.0	80.0
TOTAL SCORES	100.0				727.0	742.5	766.25

Candidate C1, with a strong background in corporate finance and business management, projected he could complete the assignment within a year. Diane and Howard had figured it might take at least eighteen months, so he scored higher on that criterion than the other candidates. C1 seemed able to provide all the hard traits, but appeared lacking in the softer people skills. Therefore, his scores on the listening and bonding type traits were lower than his counterparts' scores were. C2's strengths were more on the people side. C3 had an impressive background as a chartered financial consultant with a master's degree in psychology. However, she only had about three years of experience in the working world. Therefore, her rates were significantly lower than her competitors' fees were. Overall, this candidate had scored the highest.

Therefore, the decision was clear. Howard and Diane chose to work with C3. They were both very pleased with the results. After correctly identifying the key issues (the father's financial insecurity and the daughter's feeling that her father undermined her ideas and authority), she suggested a plan to make Howard's financial future less dependent on the business. That made him comfortable enough to agree to let Diane initiate one of her many ideas (the one that required the least capital) for expanding the business with a new line of software products. Howard was so pleased with the results that he surprised Diane by suggesting they invest some of the profits from the new venture into bringing the consultant back to begin the process of developing a succession plan that would have him pass the reins to Diane in five years.

Chapter Twelve

Transitions and Planning

Common Problems

Failure to Plan for Succession

A University of Connecticut study about ten years ago asked six hundred successors of failed family businesses to check off a list of problems they thought were the main cause of their failure. The two problems checked most often were “inadequate financial planning” and “communication problems.” These issues were likely linked. These families probably avoided discussions about financial planning. There are many other reasons people avoid setting aside retirement funds, including:

- Many family members believe they will work until they die so there is no need for retirement planning.
- They may lack financial awareness.
- They may habitually put money back into the business instead of creating a retirement pool. The immediate needs of the business may take priority over their future personal wealth and security.

Do you remember Robert, founder of ABC Distribution in one of the case studies introduced in chapter 10? He delayed dealing with ownership and management succession because his sons were too busy arguing to acquire the skills and experience they needed to lead the company. Consequently, he has not funded his own retirement. His retirement plan depends on the value of the business, but, unless his three children can continue to enhance its value, they will not be able to afford to meet the company’s capital needs, meet their own lifestyle needs, and buy out their

father over time. Unless he sells the business to an outsider, Robert's financial security will remain tied to the business.

In white-water rafting, inexperienced rafters often wait too late to respond to conditions. A wise leader (in a raft or a business) pays attention to everything as far ahead as he or she can see and in back of him or her so he or she doesn't leave anyone behind. Novices tend to be so preoccupied with the mechanics of learning how to row that they don't look far beyond the bow of the raft. They wait until it is too late to respond to each new rush of white water. They aren't conscious of an obstacle until it's too late to avoid it.

A lack of retirement funding is one of the main reasons family businesses fail to be transferred to the next generation. It's a risky situation when a person's retirement is contingent upon the success of a company he or she doesn't run anymore.

Fear of Letting Go

A founder who is too much at the center of a family business for too long is generally unwilling to let go of authority or may hand over authority only to take it back. Such a founder may lack a life outside of the company. Or he or she may have not achieved financial independence compelling him or her to control the business to make sure he or she can maintain his or her lifestyle. He or she may resist having nonfamily executives or board members.

In this situation, if a founder can't keep up with the demands of the marketplace or the business has outgrown his management skills, the growth of the company may be compromised, or the company may be in jeopardy.

In one extreme case with three siblings in the business, one brother was officially in charge as president. His sister was a very competent CFO, and his brother was an outstanding COO. Yet even after their father had a stroke and could no longer walk or speak, he would still be wheeled into board meetings, he could gesture his approval or disapproval, and everyone continued to defer to him.

Undefined Tacit Knowledge of Founder

How can the founder access all his or her knowledge that he or she takes for granted and make it conscious and explicit? Leaders often have trouble identifying and articulating the wealth of knowledge they have accumulated during the course of their careers. In addition, family dynamics often disrupt the channels of communication. As we mentioned in chapter 5 in high-trust families, knowledge flows freely while low-trust families hoard knowledge.

When founders are asked to name their biggest concerns about succession, they often say, “I’m afraid my children will try to change the business before they really understand it.” What these founders are really saying is that they have knowledge they don’t know how to share. A successor might ask her father/founder to teach her how to deal with a given situation. Her father tells her to go out to the factory floor and observe. After all, that’s how he learned. The founder may not know how to put into words the most important knowledge he needs to pass on, and it’s something he isn’t aware of until succession begins to approach.

Some founders may not let go of control of the company because they don’t have confidence in the ability of the successor. In fact, the successor may be perfectly competent but lack the founder’s unspoken, or tacit, knowledge. Tacit knowledge often consists of exceptions to the rules.[12]

Again, you may recall from chapter 10, Robert, founder of ABC Distribution, who stalled implementation of his succession plan partly because he cannot get his warring sons to focus on the needs of the company instead of their own immediate needs. His inability to communicate with his sons has prevented him from passing along the wisdom and knowledge he has acquired during the course of his career. He has failed to groom his children, communicate his values, or rally them around a shared vision.

To help founders harvest their crucial business knowledge and wisdom, it is helpful to bring them together with circles of senior people in the company and present questions about different business scenarios. The founder will say, “When *x* happens, we need to do *y*.” His brother might say, “In 1992, you did something totally different.” The founder will say,

“That’s because of this.” He’s identifying an exception to the rule. When you engage in the process of identifying tacit knowledge, new knowledge often emerges. In the process, you might stumble upon new ideas that make a difference.

It is crucial to set up systems to identify bottlenecks in knowledge. Families need to ask themselves:

- What is the knowledge that really makes a difference?
- Where is that knowledge?
- How well does it flow where it needs to?

Exhibit 12.1 provides an exercise the family can do to identify blocks in the flow of knowledge between company members. Have people ask themselves, on a scale of one to ten:

- How well does knowledge flow among family members in the first generation?
- How well from G1 to G2? From G2 to G1?
- How well among members of G2?
- How well from G1 to nonfamily managers and from nonfamily managers to G1 and G2?

Exhibit 12.1 Identifying Information Bottlenecks

FROM	TO		
	G1	G2	Nonfamily managers
G1	9	3	7
G2	6	5	6
Nonfamily managers			

You can quickly identify if there’s a block in the flow of knowledge between G1 and G2. For instance, in **Exhibit 12.1**, we can see that G1 members share information well among themselves, a little less generously with nonfamily members, and barely at all with their children. The younger

generation members seem to withhold information to everyone, even their own siblings and cousins.

When family members do this individually, they often come up with very similar answers. Everyone knows where the bottleneck is, but he or she doesn't know he or she knows it until he or she is asked.

Lack of a Clear, Shared Business Vision for the Future

When a founder creates a new business, he or she has an idea, a dream, or a vision for the business. Later, when there are more stakeholders involved (for example, the founder has shared ownership with kids or key employees or new leaders have come on board), there may be conflicting ideas about what the business should do or what it should become. We have seen that the most successful family businesses have a shared vision of the future. When there is conflict over the direction of the business, every decision can become a problem.

If the family has a mission statement or statement of values, at any given time, it can measure its progress against those documents. "What have we done and what is yet to be done? Where is the gap? What do we need to do about it?" It gives a family a clear vision of its business and a vantage point from which to develop a strategic plan. The strategic plan specifies tactics, and tactics dictate roles, relationships, responsibilities, and performance indicators.

If a family's strategy says it will be the premier provider of a product in its market, any member can ask, "What would it look like to be premier? How will we know when we have achieved that? If it were a felony not to be premier and we were charged, how would we get off? By having the highest margin? The highest customer loyalty? The highest customer satisfaction? By owning a dominant share of the market?" Defining what premier should look like allows the family to determine if its strategy for achieving it is more rhetorical than actual. Measurable, specific elements of being premier must be defined.

You can tell if your family lacks a clear vision for the future by asking individual members, "How will we look a year from now if we've achieved

our goals? How will we know we have achieved them?" If everyone comes up with different answers, the family lacks a clear shared business vision.

When Xerox was the preeminent maker of copiers, it began to diversify without a unifying concept of its business. The company fell miserably from grace. It created one of the first computers, which never got out of the lab and into the market. By contrast, every product 3M brings to market either makes things stick or not stick to something else, such as epoxies and Post-It notes. The company will not develop any product that does not have something to do with coatings and bondings. Its mission is to keep to what it knows.

Ask individual family business members to describe the business plan, to check for alignment. For example, consider the mission of *Star Trek*, "to boldly go where no man has gone before." The original crew of the *Enterprise* might have a tough time determining, "Are we being bold? Has anyone been here before?" In contrast, it's easy to measure John Kennedy's statement, "We will safely get a man in space by the end of the decade."

Practical Solutions

We have identified four important steps family businesses would be wise to follow when planning a transition, such as ownership or management succession and retirement or estate planning. Such transitions are complex, and you will need experienced expert advisors to work with you and your family. However, the following steps can help you work more effectively with advisors so you can achieve the best outcome for your family and your business without getting lost in the complexity of the task: identify shared visions and values; calculate financial independence; identify transitions and solutions; and develop planning tools such as contracts and strategies.

The remainder of this chapter is not intended to provide a do-it-yourself solution to estate or succession planning, but will enhance your knowledge of the concepts and terms your attorneys and other advisors will toss around and, most importantly, will help you think about family considerations that technical experts may not address when they suggest financial, tax, or legal solutions.

Step 1: Identify Shared Vision and Values

Estate planning for the owners of privately held companies is often complex because of the need to deal with the transition of the business. Often, the business is the single largest asset in the owner's estate. Whether the intent is to keep it within the family, transition it to key employees, or sell to a third party, a business creates its own special set of challenges to estate planning.

Consequently, at the beginning of the planning process, it is vitally important to set a solid foundation. The early focus of planning should center on a clear understanding of your values; objectives for the desired outcome; long-term vision for the business and family; and the legacy you want to pass to the next generation.

In fact, we have found that the single-most important indicator of success for business families and families with wealth is a shared vision. When a family shares a clearly articulated picture of the future, they have the foundation for making decisions about the use of resources, for selecting members to carry out responsibilities, and for guidelines on how the family will function. When members of a family understand they are all trying to achieve the same objectives and they recognize their interdependence, they take better care of their relationships. This process is especially important for families who share ownership of active assets such as family business or passive assets including income-producing real estate and when more than one person shares the leadership.

Paul G. Schervish, director of wealth philanthropy at Boston College, has studied the decision-making of affluent families. He defined the most important foundation of decisions as clarity. He observed that, as wealth increases and businesses grow, complexity surges. Clarity of values, vision, and objectives is critical for moving forward with successful planning. Common core values, such as hard work, achievement, a thirst for education, and keeping the business within the family, provide foundations upon which the family builds its goals and visions for the future. They are the why behind the family goals and objectives. Passing those values to successive generations through modeling, mentoring, and training is a vital part of the legacy process.

One of Aesop's fables demonstrates the strength that can come from keeping family assets together:

Once, a father summoned his three children to his bed as he neared death. He wanted to give them a final gift to help them in life. He reached under his pillow and pulled out a bundle of three sticks tied together with a cord. He then gave the bundle to each of his children and asked each one to try to break it. None of them could break the bundle. The father then untied the cord, gave one stick to each of his children, and asked them to try to break the stick they were now holding. Each of them did break his stick. "Children," he said, "this is to show you that together you are stronger than you are separately."

In an elegantly simple way, this fable speaks about the wisdom of holding family assets together. But sometimes being part of a family in business does not make individuals feel stronger. Sometimes, the problem lies in what the cord is made of. We tell this fable to client families and ask them, "In your case, what is the cord that holds you all together, in spite of difficulties you experience?"

Some families become silent at first. Then an elder family member, often the founder, will slowly raise his hand. "I guess it is me," he will say. "I think I am the only thing who holds this together." When this is the case, the bundle is strong only as long as the founder is around. When he is gone, the group will only stay together if they can find a new binding force to replace the personality of the outgoing leader. The question is provocative and often helps the family more deeply understand why they are really in business together and their vision for the future.

Sometimes, families say, "our values" or "our spiritual beliefs." In their case, the cord is made of big ideas about what life, work, family, and commitments are all about.

With further exploration into their thoughts and feelings, different individuals demonstrate that they have different perceptions. Some feel it's a great thing to be part of the bundle, while others find the cord creates relationships that are too close for comfort. Often, the cord is a braid of several things, some of them positive and some not. Typically, the threads within the braided cord are a mixture of emotions and big ideas.

Think about what holds the stakeholders in your family business together. Try telling Aesop's fable about the bundle of sticks at your next family meeting. Then ask your family to think about what really holds you together. The discussion itself may lead to a stronger cord.

You might ask yourselves:

- To what degree is it about emotions?
- Do these emotions positively or negatively impact the family and the business?
- Does the influence of a personality hold the group together? If so, what is likely to happen when that person is gone?
- Is part of the cord about your values and beliefs?
- If so, how clear are family members about what those specific values are?
- Have you ever put them into words or a statement of family mission or values?
- In the best-case scenario, what would you like your family's cord to be made of?
- Can a family member really feel like she is part of the family if she chooses not to be part of the business bundle?

Bringing the family together to create a mission statement or statement of values in a safe, structured environment such as a facilitated family retreat can help the business transition from one governed by a founder's emotions to one governed by the agreed-upon values of the entire family and can greatly ease the process of succession. (See chapter 9 about mission statements.)

Thinking about family values helps to clear away barriers that could derail estate planning and provides a clear and concise strategy for passing assets, including the family business. Moving from the task of putting a will and trust in place before the next trip to Europe to the task of defining the family values and vision of the future are two entirely different planning approaches.

How to Create a Vision Statement

As a wise advisor once explained, the benefit of carefully developing the architectural plan well before erecting a building is worth its weight in gold. It is much easier to erase lines on a page than it is to jackhammer out a mistake. This process takes thought, so it takes time. The time invested saves time and energy later.

Ernesto Poza, author of *Smart Growth* (University Publishers, 1997), defines a vision for an organization as "a clear, concise statement of what we want at some point in the future … it gives form and body to people's most cherished values and beliefs. Visions combine strategic objectives and ways of doing business that constitute the essence or 'heart' of the organization. Visions highlight important results, not the processes or means of achieving them."

Creating the statement of a shared vision grounded in the family's values requires thorough, open communication; an exploration of assumptions; and involvement of the entire group of family owners.

The process may take a series of meetings in which the family has in-depth discussions about the future, their goals and dreams, and the realities and assumptions about the business environment. The result should be a clear statement of the future they are all committed to work toward.

The vision should encompass the desired ownership of the business, the roles that the next generation will play in the business, and, hopefully, clarity about the relationship between the family and the business. Many decisions, such as rules of entry, family compensation guidelines, and the family mission statement (chapter 9) should be grounded in the family's core values. It is the context from which the planning emerges and is implemented. We have identified five steps to create a shared vision:

1. **Identify individual dreams and goals for the future.** It is important that each member of the family identifies and shares what is most important to him or her when picturing the future. Some family members may not have felt they have the power, experience, or even the need to articulate a personal vision. **Exhibit 12.2** provides an exercise to facilitate this process.

Exhibit 12.2 Letter to One's Self

The letter starts out with the following paragraph:

Dear 2010 Self,

It has been eight years since our family retreat. A lot has happened in my life, the family, and the business. I am very pleased with what has occurred. Here is what happened in each of the areas (life, family, and business) and what I did to help it all come to pass.

My desired future view in these areas is as follows: [Each individual adds detail to his or her letter.]

Love, 2018 Self

2. **Collect themes.** As each member of the family reads his or her letter, one person collects the main themes on a flip chart. That person then summarizes the themes from the individual letters and identifies major points that have come up more than once.
3. **Use recurring points to draft a vision statement.** It is difficult to write as a committee, so we often ask one or two people to draft the statement and then give everyone a copy to review and suggest edits. The group can then review this revised draft, and they will typically do another round of editing.
4. **Test the resulting vision statement.** Each person should consider the question, "Is this vision one that encompasses my dreams and hopes for the future? And does it feel like something I want to help achieve?" If it does not pass this test, identify any trouble spots, and rework those until everyone is comfortable with the vision statement. Once it does pass the test, develop a strategic plan to achieve it. Consider what strategies are needed to accomplish the vision; who will be accountable for each aspect of the plan; and what the ramifications are for careers, education, and teamwork.

Exhibit 12.3 offers several portions of one family business' vision statement.

Exhibit 12.3 Vision Statement Excerpts from a Family in Business

We are committed to maintaining and developing our family business as a legacy that will continue into future generations. The structure of the business might change over time, but it will continue to grow, increasing sales, profit, market penetration, and customer satisfaction. Our continued business success will be a result of this commitment and our ability to build a strong team of employees, continuously improving processes, diversification (including new, patentable products), full use of our facilities, progressive technology, aggressive marketing through current and new channels, and an expanded international distribution system. Our family will continue to grow in harmony as well as prosperity. We will increase our communication skills, mutual understanding, and support. We will grow in our capabilities as business owners by learning more about our businesses, business in general, and financial management. We will support the next generation by offering them guidance in exploring a range of life options, including the opportunity to join a strong family business if and when it is appropriate. We will establish guidelines for employment in the family business, including the completion of appropriate education, experience outside of the family business, and selection on a competitive basis for existing positions. We would like to improve our individual network and gain assets outside of the business. In order to do this, we would like to see the company attain sales in excess of $l00 million in five years, allowing for reinvestment in the business and distributions to the owners. We are also committed to managing the relationship between the family and business in a constructive manner by developing an effective board of directors and a family council.

Re-vision

As the world, the business, and the family evolve, new circumstances arise that may alter the desired future. Subsequent generations must be able to incorporate their dreams into the vision. Otherwise, their interest in the future of the family assets will decrease. If the vision statement is maintained as a "living document," that is, if all stakeholders in the family or the business regularly revisit the vision statement and adapt it as circumstances change, the family will likely keep its interests aligned and maintain harmony.

Family values and a shared vision of the future are critical when deciding whether or not the business should stay within the family and, if it does, how it will be passed to the next generation. It also guides decisions such as whether nonoperating children should own stock in the company. These are thorny questions with ramifications for family business and wealth creation. A clear vision is a great compass when navigating these turbulent waters.

For instance, when a business is grappling with the issue of ownership of stock among operating and nonoperating children, parents may sometimes disagree with each other about who should own stock, who should have control, and what role the children who don't work in the business should have in the business. There is no right or wrong answer, but it is critical to succession planning that the answer be consistent with the family's values and vision.

In one family business, the father/operator felt strongly that only operating children in a managerial position would own stock in the operating entity. He did not want kids who were not key players to the business to dictate how the business would be run. On the other hand, his wife's values dictate that each child, operating and nonoperating, should own stock. After all, that is the family's greatest asset. After much negotiating and exploration of alternatives, they agreed that each child could own non-voting stock until age thirty. If they have not joined the business and attained a managerial role by that age, they must sell their stock to the operating child or children at an agreed-upon valuation. The remainder of their assets will then be directed at death to equalize asset values each child will inherit. The wife's desire to treat all children equally was satisfied, while also staying true to her husband's values of keeping

stock ownership in the hands of those children who were running the business.

Preserving the Family Legacy

Questions about how much money the next generation should inherit can test the strength of the family's shared vision. In our experience, husbands and wives have often not discussed these issues. Once they begin such discussions, they often disagree. Too often, disagreement leads to inaction. Many estate planning lawyers can cite dozens of cases in which they were hired to create documents that clients never signed. Some of those situations have very unhappy endings, when clients die unexpectedly before they resolved their estate planning or business succession issues.

As discussed earlier in this chapter, wealth complicates the decision about who gets what and in what portion. Clarity comes from knowing, understanding, reaffirming, and adopting the family values passed down from previous generations. Families that are true to these values have clarity and complete their succession planning.

Issues such as "equal versus equitable" and "earn it versus entitled to it" can be major obstacles for families in completing their estate planning. Equal involves splitting all assets in the same proportion among heirs. Equitable means providing equal opportunity. Earning something requires the heirs to develop skills and experience before they can enjoy the results. Entitled heirs feel that something is owed to them.

Even if spouses are clear about their values, they may strongly disagree with each other about inheritance issues for their children. Advisors can help them get unstuck by showing them how to tackle the issue from a new perspective. Good advisors listen patiently to their clients. Within the boundaries of the family's value system and shared vision, they provide alternative ways to accomplish the couple's goals. This may take time and several attempts, but the parents suddenly see a solution, break the logjam, and move forward to implement the family's succession plan. (In chapter 11, we discussed in great detail effective ways of working with advisors and consultants.)

For example, in one family, the second generation disagreed with each other about their children, particularly over the equal versus equitable issue.

Meanwhile, the grandparents would sometimes feed the grandchildren's entitlement. They violated the family's values by making unnecessary gifts to the grandchildren. The grandchildren, sensing the disagreement, played it to their advantage, requesting gifts such as new cars and expecting free education. The family, trapped by chaos, agreed they could not proceed as they had in the past.

They decided to begin the work by identifying values they wanted to pass to future generations such as their spiritual beliefs, the importance of relationships, stewardship of assets, education and learning, living within one's means, and managing debt responsibly. The parents also wanted to avoid or minimize estate tax to the extent possible.

This family recognized they had a family legacy issue that could destroy the family and its business. They identified the two key obstacles, took action by getting clarity and agreement on their family values, and committed it to writing. They then sought out wise and knowledgeable advisors to assist them with a sophisticated solution, consistent with their values, to handle future unexpected events and issues. Last, they took the time to communicate their values and the steps they had implemented to the next generation.

Over several months, they devised a series of trusts intended to reduce the families' exposure to the estate tax for several generations, as well as reduce their exposure to unknown potential claims of creditors. They acquired life insurance to help pay for remaining estate tax still due after the planning. Most importantly, the trusts included checks and balances that allowed for distributions to family members based on their two strongest family values: equitable versus equal distribution and earning it versus entitlement.

A 2005 survey[13] of 3,500 affluent families showed that 70 percent have not been able to sustain wealth over multiple generations. Only 3 percent of these unfortunate families lost their wealth due to taxes. Surprisingly, 60 percent lost their wealth due to lack of communication and trust among family members. An additional 25 percent lost their wealth due to unprepared heirs.

The family in the previous example sustained their family wealth by overcoming the two major reasons that wealth is often not sustained:

communication with and education of the next generation. Is it foolproof? Probably not, but families that clarify their values and vision find capable advisors and reframe the problems. They enhance the odds of passing down their wealth and their values and keeping their family connected together.

How Much Should We Pass on to Our Children?

As you consider how much to pass to your children, consider the impact of taxes, inflation, and division over time. An estate of $20 million divided equally between four children leaves each child with $5 million, a hefty sum by most measurements. However, the estate tax might take away 30 to 40 percent of that, leaving each with $3 million to $3.5 million. Now consider the effects of inflation. For instance, consider how much your first car cost. Could you purchase a drivable car for that today? Probably not! At a 2 percent inflation rate, one's buying power is cut in half in thirty-six years. Therefore, a $3 million inheritance will provide $1.5 million in buying power over time. This is not to advocate for large inheritances, but to encourage you to think about what could likely happen over time, to communicate that to your children, and to prepare them for the wealth.

You may also be surprised that wealth does not necessarily spoil children. Many children of affluence have gone on to incredibly productive careers, and many children of very poor parents have lifted themselves by their bootstraps and become phenomenally successful. Yet failure can also occur at both ends of the wealth spectrum. What determines a child's ultimate success is not the money, but the teaching of values, the value of hard work, and the mentoring that parents provide children.

Before leaving children a large sum, you should make sure they are mature, understand the value of money, pursue education, and live a purposeful life. Otherwise, the inheritance can be detrimental. Parents who base their wealth transition plan on their values and goals are more likely to prevent wealth from hindering their children's ability to lead meaningful, happy lives. In the end, your legacy has much more to do with intangible assets, such as your family's values and traditions, than it has to do with financial assets. But when deciding how much is enough or too much to leave to the next generation, if you focus on the nonfinancial assets, you are likely to enhance future generations' financial assets.

Step 2: Calculate Financial Independence: The Number

One of the major concerns of the senior generation is, “In the future, will I have enough assets to live the lifestyle I am accustomed to or I would like to live?” However, the senior generation often neglects this issue because he or she is so busy running a thriving business. The problem with putting off this task is that the financial independence calculation impacts many important planning decisions. (Terms that appear in italic in this section are defined in the glossary of key terms in **Exhibit 12.4**.) We use the term “financial independence” because owners often are not thinking of “retirement,” but rather of changing their role. Knowing “the number” allows them to think more clearly about their future and the future of the business.

Exhibit 12.4 Glossary of Key Terms

Contingent liabilities—*potential future expenses.*

Fair market value*—what a disinterested third party might pay for your company. For instance, what have other companies in your industry and of similar size, structure, geographic location, and reach sold for recently? Or at what multiples of cash flow or profit do publicly traded companies in your industry sell for today?*

Financial buyer*—could be institutional investors such as private equity funds and venture capitalists. A financial buyer is not interested in managing the company day to day, but is hoping the company’s value will grow by the time he or she sells his stake in the company, hoping to do so at a large profit.*

Financial independence*—how much in personal net worth you need to maintain your current or desired lifestyle.*

Minority discount*—a percentage subtracted from fair market value to account for a minority stake in a company to compensate for the fact that the buyer will not have voting control of the company he or she is purchasing.*

Non-voting stock*—also called preferred stock, these shares do not permit the owner to vote on company matters, such as electing board members. These shares do pay dividends.*

Premium*—a percentage added to fair market value to account for a situation in which there is high demand for a company like yours.*

Strategic buyer*—usually another company hoping the purchase of your company will help the company expand its geographic reach or scale or diversify into related areas of business.*

The closer business owners are to attaining their vision of financial independence, the more likely they are to consider giving up control of their company to the next generation. Knowing that financial independence is close or has been attained also frees owners to think about alternative ways of passing the business to future owners.

If the intent is to pass the business within the family or to loyal key employees, knowing how much is needed to attain financial independence can help owners structure a buyout of their business interest. The valuation of the family business depends on who the buyer is. For instance, owners are often more willing to sell at the low end of fair market value, accepting a minority discount if they are selling less than a majority interest to an internal buyer such as a family member or key employees. A strategic buyer might pay fair market value plus a premium to acquire the business if the business rationale justifies the premium. A financial buyer typically pays less so he or she can attain a targeted rate of return. Internal buyers such as family members or key managers often pay less to keep the business within the family, or, in the case of the key employees, owners often reward them for their role in creating the value in the business.

For example, a client who had invested in owner-occupied real estate as well as other income-producing assets had a well-thought-out business succession plan with a strong management team and a good team of advisors. Family members with excellent skills had joined the business. When the owner analyzed his and his wife’s financial independence number, he realized that, by his targeted step-down date, his cash flow from his investments would be much higher than his after-tax financial

independence number. Therefore, he realized that he did not have to maximize the value of his business in a sale to the next generation.

Knowing that fact opened up a wonderful planning opportunity to sell non-voting stock to trusts for children in the next generation. This would freeze the growth of the business in the client's estate and allow any growth in business value to go to the next generation without estate or gift tax consequences. This golden opportunity to pass value to the children and preserve the family business occurred because difficult business conditions and low interest rates resulted in an unusually low fair market valuation of the business. He decided to keep the business in the family for the next generation. To date, he has passed more than $15 million (estate-tax free) to the next generation.

Several fortunate and wise decisions contributed to his enormous savings and his ability to realize his dream of passing the business to the next generation. But without knowing the number, he likely would have felt reluctant to take advantage of these fortuitous events, making the passage of his business much more difficult and expensive.

What Is the Financial Independence You Are Seeking?

Financial independence is not just your need-to-have income. Nor is financial independence scraping by, barely making ends meet. Instead, it is the want-to-have cash flow to allow you to enjoy the lifestyle you wish, as well as the ability to make gifts to family members or charities that fit your value system.

Exhibit 12.5 will help you calculate a want-to-have cash flow in after-tax and after-inflation dollars. Consider expenses such as travel or other entertainment based on your interests and physical ability to participate. Also consider potential future contingent liabilities, and build in a cushion for potential health issues and a fund for desired business investment opportunities. You should also consider the resources needed to help parents or other relatives who may need assistance. Think carefully about these contingencies for the surprises that life tends to deliver while calculating your financial independence number.

Exhibit 12.5 Financial Independence Calculation

Expenses and Other Needs

_____ After-tax want-to-have cash flow to maintain desired lifestyle

_____ Annual + potential future contingent spending

_____ Annual + help needy relatives

_____ Estimate amount philanthropic giving

_____ Annual gifts to family

_____ (times) Long-term inflation rate

_____ (equals)Expected annual a/tax income needs

Resources

____ Net income from real estate

____ Total resources from retirement plans, other liquid investments, and assets

____ (times)Estimated long-term annual average return

____ Consulting income, boards of director fees, and so forth

____ (equals) Income from all resources

Financial Independence

____ Income from all resources

____ (minus)Annual after-tax expenses

____ Annual surplus or (deficit)

Next, look to your resources, including pension plans, 401(k)s, rollover IRAs, real estate net income, deferred compensation plans, potential consulting income, and investment accounts. You want to sell other assets that are no longer necessary. All of these will provide income, which are resources to help you attain your financial independence.

Comparing the cash flows from assets with the want-to-have expenses is very revealing to most owners. Either they find a comfortable excess above the required cash flow needs, or there's a shortage. Either result provides a powerful tool to assist in planning. If you find you have a comfortable cushion, you may choose to be more philanthropic or buy that one item you have wanted since childhood but never thought you could afford. You may be able to gift assets to heirs rather than waiting for your demise to pass them; you may be able to fund educational endeavors or other worthwhile causes consistent with your family values.

You may also feel more willing to give up control of the business to children or key management for less than top dollar. As we illustrated earlier, this may open planning opportunities. Missing those opportunities may result in increased estate taxes or staying in the business too long before letting go of control.

If the calculations reveal a shortage, that also is a powerful planning tool, allowing owners and their advisors to consider alternative strategies for producing income. If you anticipate selling the business, it could help quantify a range of acceptable valuations. This provides important information before the heat-of-sale negotiations when emotions can often get in the way of good financial decision-making. If the offer is high enough to provide financial freedom, negotiating for that extra few dollars that might blow the deal becomes unnecessary.

Implications of Financial Independence

Knowing the number also allows advisors to think about and suggest estate planning strategies that could ultimately result in estate tax savings. For example, one client who has figured out and attained his financial independence number decided to take advantage of depressed real estate values to sell property with significant appreciation potential to a trust for his children and grandchildren. If the land rises in value as he believes is possible, future generations will enjoy that appreciation, estate-tax free. Without knowing his position relative to his financial independence, he would never have considered this tax savings strategy.

Step 3: Identify Transitions and Solutions

Three Categories of Transition Planning

It is worth considering three categories of planning strategies, which often reflect the stages that families reach as their assets increase and as they clarify their goals and objectives, particularly as their business succession plan evolves:

- **Defensive planning.** During estate planning, some combination of wills and living trusts, powers of attorney, a living will, very basic buy-sell agreements between partners or family members, and/or some life insurance will protect the income stream of the company.
- **Proactive planning.** As its name indicates, it attempts to take advantage of opportunities and strategies to reduce estate taxes. Generally, it involves a long-term, thoughtful estate plan, with strategies such as annual gifts to children or grandchildren or life insurance owned by a life insurance trust designed to pay any estate tax.
- **Leveraged proactive planning.** This uses the strategies of proactive planning as well as other strategies that add leverage, such as discounts for valuations of assets that a family wishes to pass to the next generation. One example is minority interest discounts on the value of family business stock that a parent gifts or sells to the next generation. In addition, more sophisticated strategies allow business owners to pass substantial amounts of wealth intact and outside their estate. This helps preserve the family business and other assets for future generations.

Estate planning

“Rags to riches to rags in three generations” is a saying that is recognized in different forms throughout the world. In Asia, the saying is “rice paddy to rice paddy in three generations.” Recognition among so many cultures of how difficult it is for families to pass on their business

reflects how hard it is to preserve family wealth for more than two generations.

Although many families hire expensive lawyers, wealth experts, accountants, and investment managers to preserve their wealth, their plans often fail. It's not that these experts are not necessary or are to blame. It's just that they are not the best place to start.

If you begin your estate planning process by meeting with an attorney specializing in estate planning, in most cases, you will leave with documents reflecting that attorney's values, not yours. You will have his or her boilerplate language in your trusts and wills, customized to your basic financial circumstances and family structure, but not your values and vision for your family.

This is not to suggest you replace your estate planning experts. They are absolutely necessary to create and implement an estate plan. However, it is encouraged you go to those experts' offices prepared with well-thought-out ideas about your values and your unique family circumstances so you can guide your advisors to factor those into whatever plans and documents they develop for your family.

Business Succession

Typically, when family business owners think of succession, they think about management succession, that is, who will lead the company in the next generation. However, there are several other types of business succession. In fact, we have identified six in all:

- Management, ownership (who will own shares of the company),
- Authority (not necessarily based on ownership or title, but often on family relationship),
- Relationships (among trusted business partners, advisors, and family stakeholders in or out of the business),
- Knowledge (who possesses most of the company knowledge), and
- Values

Each of these types of succession requires careful consideration and planning to make sure that the business continues to thrive.

Just as we mentioned with estate planning, most business succession advisors and lawyers focus more on preparing documents than on ensuring that all these elements will transition smoothly. So before you begin to plan for ownership or management succession with your advisors, don't forget to factor in the family's vision and values statement as part of this process.

Families that have prospered beyond the third generation have had leaders who addressed pivotal questions related to each aspect of planning. **Exhibit 12.6** poses some of those questions.

Exhibit 12.6 Succession Questions

Management

1. What is our employment policy about hiring family members?

2. To what performance standards will we hold family who work in the business?

3. Are family managers held to the same level of accountability as other managers?

4. If an investor purchased our company, how many family members would keep their jobs?

Ownership

1. Is our current form of ownership best suited for our future?

2. Are the relationships between owners an asset to the business or a liability?

3. What do we want our shareholder agreement to accomplish?

4. Which family members will be eligible to own stock?

Authority

1. Does our board of directors really hold the CEO accountable for performance?

2. Is there a plan for succession that shareholders understand and support?

3. How will the elder leader(s) let go of authority?

4. How will successors earn authority?

5. Are we governed by principles or personalities?

6. How will we govern a multigenerational and multibranch clan?

Relationships

1. Would existing shareholders choose to be business partners if they had a choice?

2. What is the level of trust among family members?

3. Do members of the successor generation feel that decisions have been fair?

4. Has the complexity of your business and family outgrown the skills of your advisors?

Knowledge

1. What knowledge really makes a difference in your company?

2. Where does that knowledge reside?

3. How well does that knowledge flow to where it needs to go?

4. Are your employees paid to hoard knowledge within your company?

Values

1. What values govern your business?

2. What values do you want your family to be known for?

3. Does your family share the same values?

Do you have satisfying answers to the questions in **Exhibit 12.6**? Do your family members have the same answers you have? What would it be like to discuss each question in a family meeting?

Wealth planning expert James E. Hughes, Jr., author of *Family Wealth and Families: The Compact among Generations* (Bloomberg Press, 2007), has observed that families of affinity (those connected by trust, shared beliefs, values, and knowledge) are stronger and survive succession better than families related only by blood. A family discussion of the questions above will give you a very good idea of the level of affinity in your family.

Revisit Exhibits 7.1 and 7.2 to learn more about enhancing trust and communication.

It's also helpful to identify possible land mines that can derail even the best business succession plan. **Exhibit 12.7** lists the ten most common such land mines. If you check off any of these land mines that apply to your business, you would be wise to sit down with your key managers, shareholders, or family members (as appropriate) and meet with applicable advisors to rectify that situation.

Exhibit 12.7 Ten Land Mines that Sabotage Business Succession Planning

- Inadequate liquidity to meet estate tax liabilities caused by overconcentration of illiquid assets
- Unknown tax consequences of a transfer
- All the value walks out when the owner leaves
- Unrealistic valuation of the family and business assets
- Out-of-date buy-sell agreements
- No project manager charged with business succession/implementation responsibility
- Lack of well-thought-out catastrophe contingency process should owners or key performers meet an untimely demise
- Spouse and children lack clear understanding of owner's goals
- Failure of estate planning documents to factor in how to treat children who do not work in the family business
- Estate planning documents do not reflect current situation or objectives or run counter to the family's core values

Exhibit 12.8 will help you rate how well prepared you are for business succession. If you find your score is ninety-nine or below, it's time to go back to the drawing board with your advisors to make sure you plug any existing holes.

Exhibit 12.8 Scorecard: How Prepared Are You?

On a scale of one to ten (one = not at all or ten = completely prepared)	
	How would you rate your management team?
	Have you taken steps to mentor, train, and retain key management?
	Do you have realistic objectives about your transition strategy?
	Can you define "financial independence" for you and your family?
	How would you rate your advisory team's ability to provide advice on transition strategies?
	Do you know the value of your business?
	How familiar are you with tax issues surrounding the sale of your business?
	How do the ownership and management transitions strategies dovetail with your estate plan?
	What does post-transition look like for you and your spouse?
	How familiar are your spouse and family with your plans?
	Score:
100–110	Doing well!
65–99	Holes exist in your planning. A second opinion would help.
Below 65	Danger ahead! Establish a plan of action now!

Catastrophe Planning

Catastrophe planning addresses the questions that the owner's or principal's family, key employees, customers, vendors, professional advisors, and banker would have should an owner or principal suddenly die or become incapacitated. A catastrophe plan spells out:

- Who is the first person the owner's or principal's spouse needs to contact?
- What advisors need to be contacted?
- Who will make immediate day-to-day decisions in the owner's or principal's absence? Is he or she empowered to do so?
- Who will run the company, and how will he or she do it?
- Who are the company's bankers, and who should contact them? Do any company loan covenants include call provisions in the event of the

owner’s or principal’s death?

- Which customers need to be contacted? What should be communicated?
- Which vendors need to be contacted?
- How will the owner’s or principal’s family receive income over the next six to twelve months?
- Are there business facts and information that only the deceased would know? Should some or all be shared with others?
- Who will own controlling interest in the company? How will longer-term decisions be made regarding the fate of the company?
- Where are the documents and written instructions (insurance policies and claim forms, emergency procedures and operating instructions, financial information, wills/trusts, buy-sell agreements, and other business-related emergency instructions) located that will be needed in this situation?
- Do the company’s key employees have a reason to stay during this transition process? Should they?

Now that you know a bit more about the importance of creating plans for your estate, business succession, and potential catastrophes, the following are some of the planning tools that you and your advisors will need to develop to implement those plans.

Step 4: Planning Tools

Strategies, Documents, and Agreements

Let’s first define the three terms. A strategy is a method to accomplish a given objective, such as reducing a taxable estate, ensuring the business will transition smoothly at the death of a shareholder, or equalizing assets among heirs. Such strategies often, if not always, require legal documents or, in the case of life insurance, a legally binding contract to define the terms and conditions of the strategy. Documents include buy-sell

agreements, wills and trusts, irrevocable life insurance trusts, stock purchase agreements, and promissory notes. Agreements are typically less formal documents that families draft and agree to. They state the family's governances regarding various activities of the family and the interaction with the family business. Some examples include a stock ownership agreement that defines the limitations of stock ownership, restrictions on distributions, boundaries between business and family issues, and other matters that require family guidelines. Some parts of such agreements, much like the strategies, require formal legal documents such as a buy-sell agreement that restricts family business owners from pledging the stock as collateral for personal borrowing.

Instead of describing all possible strategies available, we will concentrate on three strategies and their accompanying documents to illustrate common planning approaches you can thoughtfully implement to protect the shared vision and values of the family:

Buy-sell agreements

First, let's imagine a software company with multiple owners operating without a buy-sell agreement. One of the owners announces he is moving four hundred miles away to his mountain cabin, but wants to continue receiving distributions from the profits of the company based on his percentage of ownership and will not agree to a reduced salary even though he intends to work remotely, only one day a week. Without a buy-sell agreement and an employment contract to define how this situation will be handled, you can bet that litigation will start, legal bills will begin to rise, and the wrangling to settle this will consume time, money, and emotions.

Another example involves a 50 percent owner in a construction company who is diagnosed with pancreatic cancer. While he continues to work, his effectiveness diminishes. Radiation and chemotherapy treatments sap his strength and consume his time. As the cancer spreads, he stays home more often in a weakened condition. This situation continues for a year or more. During that time, the company hires a replacement to fill the role the owner formerly held. The tough questions are asked. How long can the company continue to pay full salary to a partner who is, in effect, disabled? Should he

continue to receive the distributions of an owner fully engaged in the business?

After the owner dies, the business wants to go on reinvesting profits into growth and expansion. The widow of the deceased partner wants distributions of profits and a continuing salary. She offers to sell the stock she received under his will, but has an inflated view of its value. Both sides lawyer up. The fights begin with unproductive time spent haggling over a fair buyout of her stock. Business declines as word spreads of the disagreement, and competitors eagerly offer key employees lucrative compensation packages to leave. Bankers, concerned with their debt position, reduce the line of credit.

You may say, “This could never happen to me!” And hopefully it never will. But both of these were real cases. In fact, far worse situations occur. Without basic agreements, it becomes difficult, time-consuming, and possibly very expensive to settle.

This does not take into account the emotional toll that the situations exact on the business and its other owners. Ultimately, their families pay as they resolve these issues. Some advisors believe that the buy-sell agreement is the most important legal document that owners have at their disposal. When you see what the buy-sell can control, you may well appreciate this view.

The buy-sell agreement is designed to address and define the following in a legally binding document:

- Restrictions on transfer of stock
- Restrictions on using stock as collateral
- Terms and conditions for payments
- Valuation methodology and value determination to be used if parties disagree or valuation is not up to date
- Triggering events like death, disability, disagreement, termination of employment, or divorce

This is but a partial list. You should consult an attorney experienced in dealing with buy-sell agreements to discuss the nuances that apply to your unique family and business circumstances. Before visiting the attorney,

though, think about your goals, objectives, and values you wish to implement. Some of the goals owners typically desire to occur include a smooth continuation of the business in the face of catastrophic events; fair treatment of a partner and his family; and fair treatment of the business so it does not suffer from greedy or unrealistic expectations.

A buy-sell agreement can define conditions that everyone agrees to (including spouses of owners) to create a framework for settlement before a disruptive, unexpected event occurs.

Generally, there are two approaches to identify company value. One is a stated and agreed-upon value that is updated annually. This value may come from industry formulas, may be based upon a sale of similar company, or may be an actual valuation by a valuation specialist. Whatever the basis, it should be reasonable and based on the fair market value of the entity. The second is a formula such as four times EBITDA (earnings before interest, taxes, depreciation, and amortization), two times revenue, or a more complex formula that gives more weight to recent earnings and less to earnings in prior years. Any formula should be self-adjusting. That is to say, there is less need to review the valuation annually unless market conditions dictate or the company has entered a new line of business that would require rethinking the formula.

Last, the buyout price for all events does not necessarily have to be the same. If a partner decides to quit, the buyout price may be considerably lower than if he dies, becomes disabled, or retires. The difference in value recognizes that quitting is often a voluntary decision, one chosen by the partner. In most cases, a death or disability is an unforeseen circumstance. Often, you see full market buyouts for death of a partner (partly because life insurance can fund the buyout), something less for a disabled partner (for reasoning, see funding sources below), and a much lower number for someone choosing to leave, often no more than book value (assets minus liabilities).

Customization is critical to reflect the wishes of the owners. As addressed later, these agreements will need to be coordinated with wills and trusts in family settings, and they should be designed around the overall goals of the family. This takes thought, expert advice, and follow-through over the years to assert that the agreement remains fresh and continues to accomplish ownership objectives.

Life insurance: funding business liabilities

The second type of strategy, life insurance, is often a much-maligned stepchild of the planning process. Everyone seems to have an opinion about it—some good and some bad—depending on his or her experience with the sales force, the insurance providers (carriers), or what their parents and grandparents thought about it.

The fact is that life insurance is part of a strategy that will help the family meet many of its goals and objectives. Life insurance can pay off lenders when a key employee passes away. It can provide liquid dollars to keep a family together or give a dignified lifestyle to an older person after his or her breadwinner and mate passes on. It can pay estate taxes and, in so doing, avoid a forced sale of the business or other assets, allowing the business to stay in the family. Life insurance is simply an economic tool to accomplish an objective. It is the only tool that provides cash when needed.

Viewed from that perspective, let’s look at a few uses in which life insurance is virtually indispensable, especially in a family business setting.

For an unforeseen event such as a death of an owner, life insurance can fund a buyout of stock relatively inexpensively. If the agreement is among partners (a cross purchase agreement), each can own a policy in proportion to his or her ownership. They would also be beneficiaries of each other’s policy so they have cash to buy the stock of a deceased owner. If the corporation is the owner and beneficiary of the insurance, it buys the stock from the deceased owner’s estate. Either way, the cash is available to buy back the stock and allow the business and the deceased’s family to go on without being tied together economically.

For example, one owner sold a minority interest to a key employee in his company. He wanted to reward this middle-aged senior manager for his work and tie him to the company while the owner’s son matures as the ultimate heir apparent. However, tragically, the manager died rather suddenly. Their buy-sell agreement required that his stock be purchased at a fair market value established in the agreement. The company owner had purchased a policy on his senior manager’s life. The insurance company paid the claim, and the owner bought back the stock from the manager’s widow. This allowed the owner to control the stock and to develop a new

plan for business continuity while providing the widow with cash she needed for ongoing income.

In another situation, a husband and wife ran a very successful business. The husband suffered an untimely death, leaving the business to his wife. Life insurance on his life, payable to her, has given her the flexibility to pay down company debt and the time to reorganize the company while providing time to recover emotionally. The business is now worth substantially more because she had the ready cash to capture some great business opportunities. In both of these cases, life insurance provided liquidity just when it was needed.

Other triggering events in a buy-sell agreement require different funding strategies. For example, a disability buyout is designed to require purchase of stock six months or a year after the causing disability. Disability buyout insurance can be matched to the buy-sell agreement terms and will pay a portion of the value of the buyout, generally 70 to 80 percent. Insurance carriers often cap the amount they will offer, but this type of policy can provide a considerable portion of the cash needed for the buyout.

For life insurance that builds a cash reserve called the “cash surrender value,” you can borrow against to fund a down payment for a partner who decides to leave. It is a form of a sinking fund to avoid a shock to cash flow if a partner leaves the company. In this manner, the life insurance can provide a living benefit as well as a death benefit.

Life insurance can meet business continuation goals by helping to pay any estate tax due when the business passes to the children. The concentration of ownership in what often is an illiquid asset can cause problems for the business. The estate tax is due nine months from the date of death. Section 6166 of the Internal Revenue Code allows for payment of the taxes over a period of years, but such tax payments can place a difficult burden on the family and the business. If surviving family members are forced to liquidate the business or other assets, there will likely be a significant loss of value to the family due to the forced sale discount.

There are life insurance policies that insure both mother and father and pay at the death of the second, just when the estate tax is due. If properly structured in a special life insurance trust, the policy proceeds can be free of both income and estate taxes.

Insurance is not the answer to all the estate issues, but, coupled with other estate planning strategies, it can substantially reduce the impact of the estate tax and protect the family business.

Forms of business structure

In recent years, many families and family-held businesses have formed limited liability companies (LLC), limited liability partnerships (LLP), or family limited partnerships (FLP) for a variety of reasons. Often, these structures help protect family business assets that you have worked hard to build.

LLCs, LLPs, or FLPs will not be discussed in detail here, but it is beneficial to acquaint yourself with them. The following illustrates issues that can address and provide examples of their use.

Generally, these entities can accomplish one or more of the following common objectives: provide creditor protection; ease gifting to heirs; gift without losing control of the underlying asset; obtain possible discounts on the value of assets transferred to heirs; or help accomplish a business purpose.

Ask your attorney to explain the creditor protection element in detail. However, here is an example that might help. An owner who operates a motorcycle dealership (his operating business) also owns the land and building from which the dealership operates. If someone falls on the ice on dealership property, he or she might sue for damages. To protect his operating business, he has placed the land and building in an LLC. While the injured party could sue against the value of the land and building, the liability in all likelihood would not extend to the operating company.

By separating the real estate from his operating company, the business owner facilitates a transfer of the operating company to his children (less value to transfer). And once he pays off his mortgage on the real estate, he can charge the company’s new owners rent to provide passive cash flow to help him attain financial independence in retirement. This will help him feel more comfortable transferring the operating company to his children.

Partnership entities are also useful in gifting plans from the senior generation. Transferring assets such as real estate into the partnerships provides three interesting and useful results:

- Control of the partnerships can rest in the hands of the managing member in an LLC (or the general partner in a FLP) even though he may own a very small fraction of the partnership interest. For example, the general partner may own only 1 percent but still control the assets, income, distributions, and so forth of the partnership and its underlying assets.
- Gifting of limited partnerships interest can transfer the value of the partnership and its underlying assets down a generation while the senior generation still controls the asset and the distribution of any income. In essence, this provides a means to separate control of the asset from ownership of the value of the asset.
- A gifted asset is often a minority limited partnership interest. This gifted interest can often be valued with a minority discount of 30 to 40 percent. Because tax-free gifts to children are limited, this allows a larger gift to be made without paying gift tax. This has the potential to reduce the estate size significantly, which will reduce the estate tax. Furthermore, if the asset appreciates, the increase in value goes to the children without tax.

It is important to carefully consult with a knowledgeable attorney and other advisors about how these entities and varying strategies that might help you accomplish your family business goals.

Putting Your Plan Together

You now have the building blocks to approach your own estate and business succession plan. Your deeper understanding of these tools and your clarity about your vision, values, goals, and objectives will enable you to guide your wise and thoughtful advisors to develop creative strategies that will help you accomplish your objectives and to write the legal documents to implement the strategies. This will put you well on the way to crafting your own plan for business and wealth succession.

You would be wise to annually review your plans and make revisions that are dictated by tax law any changes in the family and its finances. This

review will provide you and your family with a viable, living directive to continue the legacy you desire.

[12] People are often unaware of the knowledge they possess or how it can be valuable to others. This knowledge is what we call “tacit.”

[13] Roy Williams and Dick Pressier, *Philanthropy, Heirs and Values* (Robert D. Reed Pub., 2005).

Part Four

Summary Principles and Conclusions

It is hoped that you have gained an understanding of the challenges that families in business typically face and you have found a number of solutions that you can use to address your current challenges. To help you move forward, a summary of the principles and practices to optimize your family business is presented. A case study to illustrate these best practices follows.

Principles of Success

Remember that the most successful family businesses are those that are principle-based rather than personality-based. The following principles lead to success:

- **Practice the art of the possible.** We often get caught up in the hurdles and obstacles of life. Instead of struggling with these, step back to discover what works, think outside of the box, and consider what the ideal might look like.
- **Be inclusive rather than exclusive.** When you engage the many stakeholders who are part of the family business system, you move more effectively toward solutions that will be implemented by that group rather than undermined by those who are left out.
- **Boundaries make good relations**. Healthy interpersonal boundaries and boundaries within the system (around roles) are essential to healthy family businesses. Make sure you don’t overreact to what others say (interpersonal boundaries). Work to assure that you separate your family role from your role in the business or as an owner (role boundaries).

- **Consensus is better than force.** When you identify differences in perspective and help people understand all points of view, you can come to an agreement for which there is support. When you force a decision, you may discourage compliance and cooperation. While this may take more time in the short run, in the long run, collaboration and alignment of energies makes for greater productivity.
- **A level playing field also helps foster long-term cooperation and mutual support.** Try to minimize rank and hierarchy. Instead, encourage participation by validating all points of view in the dialogue.
- **Focus on the future rather than dwelling on the past.** One of the challenges in families is the tendency to remember differences and injustices from decades (or generations) in the past. If we can release our attachment to those hurts and find what can work going forward, we will have better chances of success.
- **It is better to overcommunicate than undercommunicate!** Work to assure that everyone knows what is going on and understands the information.

Best Practices for Families in Business

The following are practices that contribute to the well-being of families and their businesses. They have been described throughout the book, but are listed here so you may look through them and check which ones you have done and which you may wish to consider implementing in the future. Also listed are references to the portion of the book where you can find these described and review them as needed.

- **Shared vision.** Do you and the other members of the family have a written vision for the future of the family and business? This statement assures that everyone in the family is headed in the same direction and is the basis of plans, policies, and roles (chapter 12).
- **Shared values.** Have you documented the values that are most important to the family and lead to success of the business (chapter

12)?

- **Planning.** Do you have strategic plans to provide a road map to success to help you reach your vision? Do you have budgets to guide your use of resources that are consistent with your plans (chapter 12)?
- **Family council and discussing the undiscussables.** Have you created a family council or had a series of family meetings to explore your vision and values and to develop a set of family polices (and/or a constitution)? Have you created a forum (like the council) to talk about the difficult subjects that must be addressed in families that own business and developed the skills to do so (chapters 7 and 8)?
- **Job descriptions and performance management.** Do you have clear roles and job descriptions for everyone working in the business? Does each person understand the tasks for which he or she is accountable and the extent to which he or she can make decisions on his or her own? Is every employee given feedback on a regular, structured basis so he or she knows what he or she does well and where he or she can stand improvement? Is that documented (chapters 8 and 9)? Have you developed, written down, and shared a family employment policy so all family members (and key employees) understand how family members may be considered for employment? Do you have a policy on compensation that assures that everyone receives fair market value for his or her work while distributions to owners are provided according to their percent of ownership (chapter 9)?
- **Ownership.** Do you have documents describing the ownership of the company with clear description of the roles, rights, and responsibilities of owners (for example, shareholder agreements)? Do shareholders have a regular time and place to learn about what is happening in the business and to share their goals and concerns (chapters 8 and 12)?
- **Catastrophe planning.** Do you have a plan for who would run the company if the leader died suddenly and documents that are readily accessible to help that person deal with the legal, financial, and operation challenges in that crisis? Have you shared the plan with key

people so they will be prepared to implement it at that time (spouse, other executives, and so forth) (chapter 12)?

- **Succession planning.** Have you considered what type of leadership will help achieve the long-term vision and who might be prepared to be a successor to the current company leader? Have you thought about the six components of succession planning and addressed those (chapters 10 and 12)?
- **Ownership succession.** Have you developed estate plans to assure the company would be protected from estate tax obligations and conflict at the death of the current owner(s) (chapter 12)?
- **Building trust.** Have you identified points of distrust and explored what is contributing to the distrust and what can be done to repair those relationships? Are you working to keep trust by honoring each other (chapter 7)?
- **Advisors.** Do you have advisors who are challenging your thinking and proactively bringing your attention to issues that will protect you, your family, and your business? Do your advisors talk to each other to be sure they are coordinating their efforts on your behalf? Do your trusted advisors work with the entire family business system (not just one person) (chapter 11)? Do you have a board of directors to help you work on the business rather than in the business with independent perspectives that come from outside the family and the business (chapter 8)?

Case Study Illustrating These Principles and Practices

We were called in to assist Samuel's Construction when the patriarch, John, had a brush with death. Even though he was only fifty-eight, his heart attack was a reminder that he could die before he had everything in order. He quickly wanted to identify a successor to run the construction company that his father had founded in a way that didn't alienate the kids who weren't selected. He recalled that, once his father had selected him as

president, his brother and sister would no longer speak to him. He didn't want that to happen among his offspring.

The company specialized in building commercial office buildings and had seen its ups and downs over its fifty years in business. But it had a nice backlog at this point and could support employment for John and his four adult children. He had found a niche for each of them. While there were some frustrations among them, he thought they had a pretty good deal going. When he mentioned that he wanted to select and begin grooming a successor, one daughter and one son each approached him privately to say he or she felt deserving of that role and wanted to be considered. John could see problems brewing. The other two kids lined up behind the brother because they felt he would be a terror if he didn't get the role.

When John called us in to assist him with this transition, as we always do, we first met with the entire family (John, his wife Linda, the four kids, and their spouses) and gave them an orientation to help them understand family business challenges and best practices. Once they all got to know us and were agreeable to work with us as their consultant, we proceeded with our assessment. We met individually with each family member and key employee, along with the company accountant and attorney. Armed with this information, we conducted a planning session with the family.

During our planning session, the family arrived at a vision statement to which they all committed. Their goal was to keep the business in the family and successful for the foreseeable future with the best leadership possible so all family members who were owners would benefit from company profits, whether or not they worked in the business. They wanted to have a family that was positively connected spending time outside of the business and helping the next generation learn the values of hard work, mutual support, and charity. They agreed they had a lot to learn and to share with the next generation. They committed to ensure that no issues in the business ever came between them as a family and their roles in the family would not create problems for the business.

The family developed a plan of action that included creation of a family constitution, a document that would be a touchstone for generations two, three, and four and, hopefully, future generations. Their constitution included the statement of their mission as a family "to support each other as honest, healthy, and productive citizens for generations to come" along with

the vision described previously. They came up with a statement of values and code of conduct that made it quite clear what they expected of each other. Their values included family, trust/integrity/honesty, happiness/fulfillment, faith/religion, learning/education, self-sufficiency, and health. Their code included:

- We will honor our individual integrity and the integrity of our family, so we shall always be honest with each other.
- We will serve diligently in any role to which we commit in the family, working in the business, as an owner, or representing the family in the community.
- We will commit to the agreements we reach as a family and the shared responsibility we have to see that they are collectively honored.
- We respect our individuality and will honor the uniqueness in each individual's personality and lifestyles as long as it does not interfere with the code and values to which we have all agreed.

They continued their work in committees after the retreat and added a family employment policy, compensation, and distribution policy to the constitution. They drafted these policies in small groups, and then we met together as a full group to discuss the ramifications. For example, the family committee proposed that no family member be entitled to a job in the family business. They had to have the qualifications for an existing position. This was particularly important as one of the grandchildren was about to finish high school and was deciding if he wanted to work in construction or go to college. Having the policy in place let him know that he wouldn't obtain a cushy job in the family business. He needed to prepare, get educated, and then qualify for a desirable role. In keeping with this approach, the family decided that all positions in the company should be paid fair market value: not above (because, after all, we own the business) or below (because this business will be yours someday so you can wait to be well compensated). This approach provided everyone with a fair standard whether he or she was part of the family or not.

As these discussions progressed, the family's assumptions surfaced about what would qualify someone to be Dad's successor. They began to

realize that they had the wrong notions about why one or the other might be appropriate. Eldest son felt he was entitled because he had worked there the longest, and, after all, he was firstborn. The daughter who sought the position had an MBA and felt that qualified her. She was the best educated. There had always been some feeling that a woman could not be a leader in the tough business of construction. One sibling admitted his elder brother intimidated him and he worried other employees would follow the older brother out of fear and it would destroy the environment they had always had there. On the other hand, he didn't think he could live with the threat that his brother would leave the business if he didn't get the position. We refocused the discussion to creating a foundation for the family business. This gave them a context for selecting an appropriate future leader for the business.

We took their vision of the future and began thinking about what challenges and opportunities the business faced and what would help them expand the company in this market. They looked at their current strengths and weaknesses and considered how to capitalize on the strengths while addressing the company weaknesses. During this discussion, John, the four kids, and their spouses began to develop a more realistic picture of where the business is now and what it would take to grow. Through these discussions, the family also came to understand one another's capabilities as strategic thinkers and the impact of their experience in the industry. The family created an outline of a strategic plan for the business and the family and created follow-up teams. Several in-laws took on the responsibility to plan family gatherings and a family book of memorabilia. The family members working in the business continued to detail the business plan.

Then we returned to the task of helping John select a successor. As John and his four offspring owned the business, we decided it would be appropriate to form a board with the owners and several independent people who would provide objectivity in guiding the business toward its vision and support the next generation should anything happen to John.

They considered the perspectives and talents they wanted on the board and determined they wanted someone who was good at looking at how to appropriately leverage the business in order to help it grow. Second, they wanted board members who had been through the process of transition in a family business before. They also wanted people whom they could trust to

keep information confidential. Last, they needed directors who would be willing to be candid with the family. With those criteria in mind, they began thinking about candidates they knew and spoke with their accountant, attorney, and bankers for suggestions of other candidates. They created a prospectus that described the purpose of the board, the background of the company, information about how they would conduct the board meetings, and expectations of board members. They shared this document with folks whom they thought might know candidates and with the candidates themselves.

Over the next four months, they talked to many people and came up with a list of candidates who fit the criteria. They decided they would like to have two outside board members to begin with and then perhaps add another later. They wanted one member to have more maturity and one closer to the age of the younger generation if possible. They agreed on the first two candidates they wanted to approach; Dad and one of the kids went to meet with each. In another month, they were ready to start the board of directors and created a board manual that contained information on board practices so everyone knew how the board would operate. An agenda of topics for the year was created for the board. One of the topics was the selection of a successor to lead the business.

The board became familiar with the business and the vision for the future. They created a succession committee that included the father and the outside directors. Together, they came up with a list of competencies that would be important in the future. These competencies included operational leadership, strategic thinking, and the ability to build a team internally with the family and with the board. Further, as more and more of the projects they were undertaking were in partnership with clients, the successor would need to have talent in negotiating with pretty sophisticated people. As the committee came up with its list, it became clear that none of the offspring had the abilities listed on the successor position description. The idea of searching outside the family arose. While John was disappointed that he might have to consider this, he was open to the board’s advice.

The committee brought its deliberation to the full board and presented the list of competencies and the rationale for them to the full board. All four offspring agreed with the concepts. They then came to the same conclusion that none of them had all the capabilities on the list. They expressed

concern. Just then, the youngest member of the family offered the suggestion that perhaps the two siblings could share the position. One was great with operations; the other was great with strategy, finance, and external relations. This led to further deliberation by the two siblings and the board as to how to structure two roles: president and COO. While Dad was still active, he could be the CEO. While this made the company a bit top-heavy, it provided great security in that several family members would be groomed for leadership. The board then developed a plan to help the two family members develop the needed skills and the ground rules for teamwork.

The family followed up this work by having quarterly family council meetings to discuss the family goals, family activities, and education. One of the meetings became a retreat where they would enjoy recreational activities together and review how they had done during the year. Another meeting with the outside board members helped them get to know each other and build trust. This also became a time when the family was able to get input on other questions, such as how their advisors were doing and whether they were getting the advice they needed from them. As time went on, the board became the focal point for discussion of the family's ownership role, while the family council came to focus more and more on the family. At the next annual retreat, the family reviewed its vision and mission to make sure it was moving in the right direction and fulfilling its purpose.

A big test happened when one of the G3 kids wanted a summer job at the company. He tried to go directly to Grandpa, who almost gave him the job. Then he remembered the family employment policy and sent his grandson to the HR manager to apply. When the two siblings moved into their new roles, the board did a study of compensation for those positions to arrive at fair market value. This took the pressure off John and the HR manager to arrive at a fair salary in the new roles. These two tests demonstrated that the structure, practices, and policies the family had established helped to keep unnecessary tension and conflict from arising in typically challenging situations.

As this case illustrates, families can work together effectively to address the challenges that are inherent in family businesses by implementing best practices for family businesses and thus succeed in the business as well as

the family. The process requires leadership! Someone must step up to the plate to encourage family members to come together, create a process to think together, and develop a shared view of the future.

When people feel they can safely and openly explore the future, their viewpoints will be considered respectfully, they can learn together about tools and practices that will help, and they can see that others have gone through similar challenges and succeed, there is hope!

We hope you will take this opportunity to lead your family into a future of harmony and prosperity.

Appendix

Outline for Family Ownership Education

One issue that often arises in family businesses is, “What is the role of an owner who is not active in the business, and what does that person need to know?” We will outline the categories of competencies that owners should acquire to become effective stewards of their assets, whether or not they are active in the management of the business. Family councils often take on the role of facilitating the education of family owners. Some of our clients have used a questionnaire form of this list to determine the curriculum that their own family members need.

Knowledge of Our Businesses as an Investment	Personal Financial/Wealth Management	Role of Ownership

• Ability to evaluate:
  • Financial strength in terms of return
  • Market value of stock
  • Change in value of holdings each year
  • Income per share
  • Free cash flow
  • Earnings trends
  • Debt/equity ratios, ROI, ROE, and so forth
  • Return as compared to other types of investments
  • Diversity of the overall portfolio (emerging as well as mature businesses)
  • Industry(ies)
  • Management effectiveness and trust in company leadership
  • Strategic direction and position in the industry(ies)
  • Stability and strength of the company
  • Awareness of the relevant industry trends, returns, challenges, and opportunities
	• Personal strategic planning
	• Financial planning (including estate planning)
	• Capability of evaluating investment opportunities against own plans (amount of risk, exploring returns, and so forth)
	• Dealing with psychological aspects of wealth (embarrassment, shame, isolation, entitlement, educating children, dealing with predators, and identifying trusted advisors)
		• Boundaries between ownership and management
		• Role and operations of board of directors
		• Evaluating management effectiveness
		• Effective team participation and leadership

About the Authors

In writing this book, we have drawn on and distilled our combined one hundred fifty-three years of multidisciplinary experience as family business consultants to guide you through the maze of obstacles that often obstruct the path of business-owning families.

The five co-authors of this book have their own private family business practices around the country and also belong to the Aspen Family Business Group, the premier international consulting resource for families in business that helps families maximize the potential of their business, promote family harmony, sustain positive family connections through the generations, use their wealth and financial resources to serve their families, and preserve and protect family wealth.

Darrell Beck, PhD, CMC, has more than twenty-nine years of business consulting experience spanning a diverse base of client organizations. Darrell partners with family business leaders to understand their vision for succession planning and development of leadership. He then determines the skills and traits that will be necessary for that vision to become reality and assesses the talent, often younger family members but sometimes including key employees outside the family, to determine fit with the values of the family and the traits needed for job success.

Leslie Dashew has combined her background in organizational development and family therapy to specialize in consultation to family businesses and families of wealth as well as other organizations, private and public. She has been recognized as a leader in the field of family business consulting by being named a Fellow of the Family Firm Institute (FFI). Her peers in FFI further recognized Leslie in 2010 with the Richard Beckhard Award, recognizing her outstanding contribution to the field of family business consultation. In addition, she has authored several books and many articles about family business. She is a mentor to many other professionals in the field. She has been in practice for more than thirty-five years and is now located in Scottsdale, Arizona.

Sam H. Lane, PhD, was headquartered in Fort Worth, Texas and had more than twenty-eight years of experience of helping family businesses achieve their long-term goals and ensure their continued viability. As a management consultant specializing in working with family businesses, he successfully created and implemented individualized approaches to the unique challenges faced by family enterprises.

Joe Paul, MS, works with families in business, family offices, and family foundations. Since 1978, he has helped families to communicate well, plan for their future, and expand their tangible and intangible assets. He specializes in three of the challenges facing families in business:

- Development, application, and transfer of leadership
- Resolution of family issues that interfere with decision-making and the development of assets
- Management and succession of the knowledge that gives a company its competitive advantages

Joe is a senior member of FFI and one of its original Fellows. He enjoys mentoring other professionals nationally and internationally. He lives in Portland, Oregon.

William E. Roberts, CLU, ChFC, has served privately held business owners for more than thirty years from his base in Greenwood Village, Colorado. He and his firm work with owners to develop their Family Core Value Statement, a clearly stated set of principles and values that drive the planning process to a successful conclusion. He and his team use assessment tools designed to bring clarity and direction to the planning process. Through the use of insightful questions, realistic visions of successful results are identified along with the dangers and opportunities that line the path to these results.