GOOD FORTUNE: BUILDING A HUNDRED YEAR FAMILY ENTERPRISE

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Contents

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Rodrigo Garcia-Uribe managed the project, handling details, scheduling, and transcribing. Keith Whitaker and Susan Massenzio contributed a significant edit of the original draft.

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Introduction

Among families with significant wealth or businesses, there is a widespread sense that well over 80% will succumb to the proverb of "shirtsleeves to shirtsleeves in three generations." Many wise voices have risen in response to propose what they should do to avoid this fate.

This study adds a new perspective: it recounts in their own words the practices and stories of nearly 40 families who have successfully transitioned significant businesses or financial wealth through at least three generations or over roughly 100 years. They have lived what others have wished for or talked about. Theirs is the story of those who recognize the "shirtsleeves" possibility and respond, "Not yet".

We use the term **Generative Family** to describe these successful families that have sustained a family enterprise across several generations. We found seven qualities that characterize generative "enterprising" families that trace their unity, shared core purpose and family capital over a century:

Qualities of a 100-Year Family Enterprise

Shared Purpose and Values: Not Just About the Money
Family Community Across Generations
Professionally Manage Business and Financial Activities
Continual Adaptation and Resiliency
Free Choice to Remain Partners
Active Development of Human Capital
Commitment to Give Back to the Community

This paper describes these qualities in action as a family responds to the challenges that emerge in each generation. They are "good" not just because they fit the values of family members, but because they seem necessary for the family enterprise to develop and thrive over generations.

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These generative families offer lessons to others, lessons tested in the crucible of experience. Some of these include:

- All of these families[1] created a great business first, and subsequently decided to **become a great family** as well. The latter accomplishment took much longer and much more collective effort than the former.
- All of these families enjoy great financial resources (the median was 700 MM USD). As a group, they control resources well in excess of 50 BN USD, or roughly the annual GDP of Bulgaria. But they have uniformly come to see their true wealth more broadly than simply financial. They value the development of their "**human capital**" that includes the lives, experiences, skills, and knowledge of generations to come. It also includes the legacy of positive impact their families have had on employees, customers, and communities.
- Because these families recognize their true wealth in the human and social capital they accumulate, they have taken active steps to **cultivate and grow** that capital, through communication, education, and clear methods of decision-making or governance. They have also consistently, and with ever greater insistence from one generation to the next, elevated their attention away from stewarding financial capital. Their attention is almost wholly qualitative rather than quantitative.
- These families act as **values-based**, socially responsible entities, using their vast resources to make a positive difference in their communities. Their philanthropic commitments grow out of and in turn grow their focus on human capital.
- These families respect their legacy and core values, but they continually **adapt, innovate and change** as they face new realities inside the family and in the business environment.
- After starting as hands-on owner/operators, the families have adopted an **owners' mindset**, where the family enterprise may offer special opportunities to family members, but the family is united as responsible owners who operate the business professionally, to create family wealth within the parameters of their values.

1 We define a family as the extended family of relatives and married-ins who are descendents of a wealth creator who started a successful business for which ownership and control was passed on to succeeding family generations.

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I. Overview of Our Research

This report is based on in-depth interviews with representatives of 38 successful, long-lived generative family enterprises.[1] We selected families who were visibly successful, as exemplars of families who had successfully avoided the "shirtsleeves" destiny. We asked them to reflect back upon their generations of success, and share the actions they had taken to achieve their financial and family success.

ABOUT OUR FAMILIES

We selected these families based on the following characteristics:

- Success in preserving a family enterprise through at least two generational transitions
- Possession of an enterprise that is global in nature, that is, that derives sales or returns from multiple countries and continents.
- Family net worth exceeding 200 MM USD.

Specifically, our sample of 38 families has these characteristics:

- All of the families were over a half-century old, and more than two -thirds traced their history as a business enterprise over 100 years.
- Thirty-one (31) of them are based in the United States; the others are from Germany, United Kingdom, Australia, Canada and South Asia.
- All but two had a self-reported net worth of more than 200 MM USD, with the median value being between 600 to 800 MM USD. Twenty-three (23) of them are billionaire families.
- Twenty-one (21) of them still own their "legacy" (e.g. original) operating business. In seven cases, the legacy business has become a public company. In all but one of those cases family retains a controlling interest.
- Fifteen (15) of the 38 families operate a family or investment office rather than a single operating business.

In all 38 families, the family's financial wealth derives from a business that provided an inheritance for generations. In more than half our families, the family remains owners of the "legacy" family business, which has grown to be an enormous global enterprise. Whether or not the family still owns the legacy business, over generations these families have diversified into other assets. We use the term "family enterprise" to refer to the diverse financial and business resources as well as the family owners and beneficiaries of these resources.

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The family enterprise is a complex social system. Within a family enterprise, family members are both *relatives* and business *partners*. Some family members may also be *employees* of the enterprise. The family over generations becomes an ever-enlarging group of families, united by inheritance of shared ownership in various family enterprises. The family benefits from the enterprise in many ways, but shared ownership by more and more family members also leads to challenges and stress that can only be managed by creating a family organization. Using the term "family enterprise" rather than "family business" emphasizes that a family enterprise involves much more than financial or business resources.

Our focus is on the transitions of these families across generations. *The average family in our sample is transitioning from G3 to G4*. Based on these families' longevity, our respondents reported on over 100 generational transitions.

We label each generation of the family in relation to the founding generation, which we call G1. Current control over the enterprise was distributed across generations as follows:

GENERATIONS IN CONTROL	NUMBER OF FAMILIES
G2	8
G3	7
G3 & G4	7
G4	12
G5+	4
TOTAL	38

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Our interviewees were primarily active and influential members of the "next generation" of these families, who are preparing themselves to take positions of control and oversight of the family enterprise. In this paper, we let these families speak in their own words. Because of the isolation that great financial wealth often causes, learning "straight from the source" is a rare and valuable opportunity.

The interviews focused on generational transitions, including such questions as

- How do you remain unified and connect as a family over generations?
- How do family owners manage their business and financial relationships?
- How does the family teach and prepare their next generation?
- How did these practices evolve?
- How do you as a family define success?

ADAPTATION & CHANGE IN THE JOURNEY ACROSS GENERATIONS

The successful multi-generational family enterprise must adapt to an environment of continual change. The 38 families we interviewed have gone through many generational transitions. In each new generation, there are greater numbers of individuals with diverging expectations, needs and dreams. The practices these successful families develop represent a journey of increasing complexity, and demonstrate how the extended family creatively responds to the predictable crisis of each generational transition.

The pages that follow detail the challenges arising in each transition. The chart below summarizes the evolutionary path that families follow over generations:

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Characteristics of Each Generation in Family Enterprises

G1 to G2	G2 to G3	G3 to G4	Beyond G4
Collaborating Siblings	**Emergence of Cousins' Community**	**Business Renewal – Family Re-Engagement**	**Business Independence – "Tribal" Extended Family**
Siblings	Branches of Cousins	1st and 2nd Cousins	Many relatives; Independence of family and business
Commit to stay together	Dual allegiance – branch and extended family	Align diverse members to shared mission	Active, professional Board with family involvement
Learn to work together and respect differences	Accept diversity of needs, values and perspectives	Getting to know each other across many locations and families	Many types of relationships guided by family policies
Develop communication about differences	Renew commitment to family enterprise	Renew legacy business or diversify	Whole family gatherings to build community of shared legacy and purpose
Employment open to interested family members	Limited space in business leads to employment policies	Exit policy for those who do not share commitment to the enterprise	Limits of wealth to support families, focus on human, family and social capital
Develop transparency and collaborative decisions	Define purpose for family to remain partners	Develop family policies and meetings to balance family and business	Family Council and Independent Board
Family gifts	Develop shared philanthropic focus	Prepare next generation for stewardship	Next Generation education program

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Facilitating "Best" Practices.

In pursuing the family's financial, individual and social goals, each generational transition reaches for a variety of practices. These practices are advocated at conferences and by consultants, and one of the primary questions in our research was whether successful families actually use these practices and attribute their success to them. An earlier study[1] looked at the use and importance of 15 practices in 200 successful multi-generational families. In the earlier study, we found several of these practices were reported as factors in inter-generational success, and in this current study, we found several of them were increasingly important over generations to the families we interviewed.

We divided the practices into those that have to do with family policies, roles and decisions and those that have to do with the family enterprise. The number of families that use each of these practices greatly increases over generations, until, by the 4th generation, nearly every family uses every practice:

PRACTICE GENERATION	G2 (8)*	G3 (7)	G3-4 (7)	G4 (12)	G5+ (4)
Family Governance					
• Family Council	63%	71%	100%	85%	100%
• Family Constitution	25	43	71	96	100
• Next Gen. Education	13	43	71	75	100
• Exit Policy	0	43	43	85	100
Enterprise Practices					
• Independent Board	25	71	85	96	100
• Non-family CEO	25	28	43	25	100

* Generation Number (number of families included)

As can be observed from the table of contents, our major focus concerns the situation faced by families beyond the third generation. Our findings thus shine a light on practices and conditions rarely if ever described this way before. The pages that follow look closely at the different responses required at different transitions in a family's life.

1 Jaffe, D, with Flanagan, J. (2012). *Three Pathways to Evolutionary Survival: Best Practices of Successful, Global, Multi-Generational Family Enterprises*.

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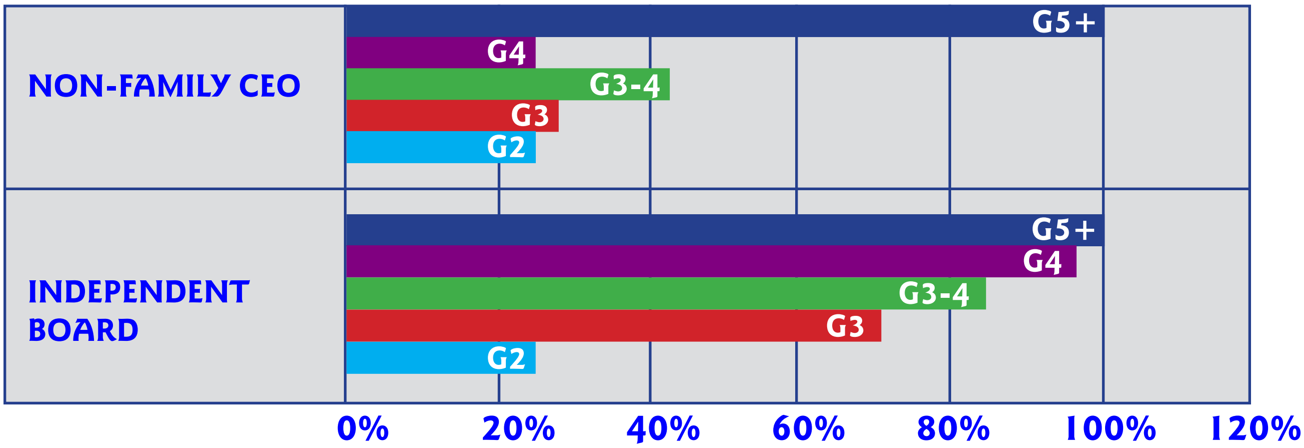
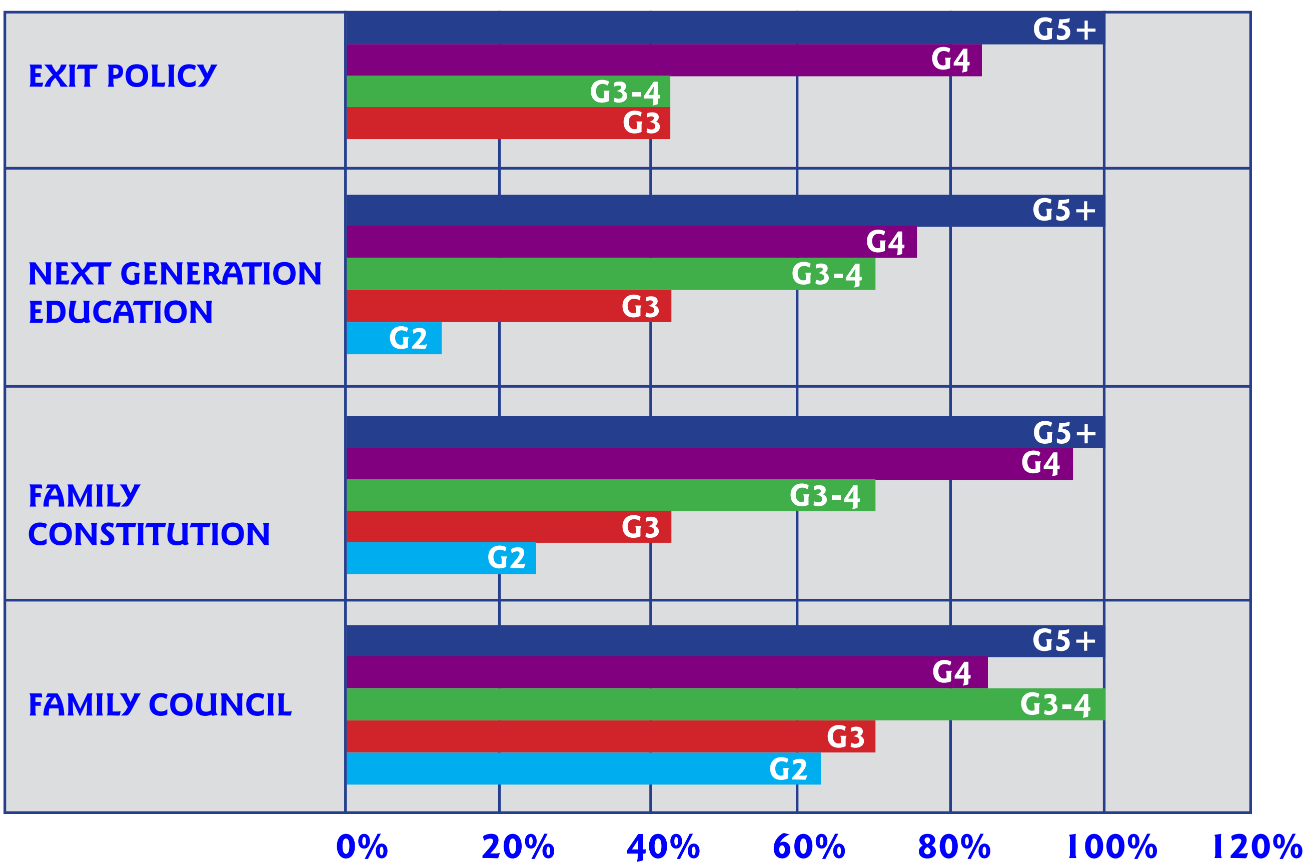
Family Enterprise Practices Evolution Over Generations



Family Governance Practices Evolution Over Generations



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COMMON THEMES OF ENDURING GENERATIONAL TRANSITIONS

One of our interviewees, the leader of a family enterprise entering its third century observed, *"Things were fairly predictable for several generations, but in the past 20 years we have seen more changes than we did in the previous century and a half."* In listening to the stories of these 100-year families, we heard several themes that helped these families respond to challenges at every stage in their development.

Intentionality: The 100-year family enterprise is not an accident. The business' financial success is just the starting point. After their G1 business success, these families decided to use their resources to create a "family of affinity", a connected family with shared values dedicated to making the best use of their opportunities.

Balancing Multiple Goals: The family enterprise organizes itself to discuss, decide upon and pursue not a single unified goal, but multiple goals in various areas in a balanced portfolio of activities.

Resilience: A successful family enterprise is characterized by being adaptable and resilient. No family can avoid tragedy and no business can avoid crisis. The successful 100-year family is able to respond constructively to each of the several crises that come their way.

Evolving Governance Practices: These families develop representative groups (such as a family council) and perhaps other task forces or work groups. They clarify shared values and policies for governance, employment, compensation, dividends, and sales. These policies are often codified into a family constitution, which collects and expands upon the family's legal, trust, and shareholders agreements. Each generation tends to review and revise and update the practices to fit their new realities.

Transparency: In most cases, the G1 founder is not accustomed to sharing information, ideas, or control. When a family reaches G2 and beyond members need to get up to speed on the key information about the business and financial agreements. Trust documents, business plans and financials are shared, understood and discussed by more and more family members.

Collaboration: As a family enterprise grows, differences are more prevalent than common ground. Successful families continually foster a shared sense of purpose and commitment to work together in a cooperative and respectful manner, to face and resolve their differences openly together.

Responsibility: The typical shareholder in a public company does not feel responsible for the conduct of the business or even much connection to it. A family enterprise, however, is both a business and a source of personal identity for members. As owners, they feel responsible for the business, for what it does and how it does it.

Stewardship: These families expect that many family members will make a commitment to the stewardship of the enterprise. Stewardship goes far beyond employment in the business, to include pursuit of broader responsibilities than financial returns. It often includes paid and unpaid work as a board member or as a community member creating shared activities.

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Professionalism: As the enterprise grows, these families decide that it must be led professionally and accountably. This evolution often involves developing an independent board of directors. Family members who work in the business or serve on the board must meet independent, professional criteria of competence. Increasingly, the families incorporate non-family operational leadership.

Freedom: These family enterprises distinguish themselves by allowing members in each generation freely to choose to remain or to take their share of the family financial assets for themselves. While they began as a blood family, over generations the family becomes what Jay Hughes and others have called "a family of affinity", containing those who are committed to the shared values and the work to actualize them.

Developing Human Capital: These family enterprises allocate resources for the education and development of next generation family members. These members are encouraged to find ways to support themselves, even though they have income from the family. The family becomes an educational community, which, among other things, reminds members of their shared heritage.

Philanthropy: These family enterprises have more material resources than they need to thrive. Many of their members see the inequality in the world and wish to use some of the family's resources to make a difference. Family philanthropy emerges as a way to do so as well as to sustain family connection. So does the business, which creates a special bond with long-time employees and the community.

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II. Generational Stages of Development of Family Enterprise

This section follows the evolution of the family enterprise over four successive generations from the perspective of the family. It presents the common challenges of family and business growth and development emerging in each generation, and how the families in our group manage the increasing complexity of creating a strong family connected to thriving family enterprises.

FROM G1 T0 G2: COLLABORATING SIBLINGS

After growing up typically as a single family in one household, the second generation (G2) separates into a group of families with different spouses, roles, perspectives and concerns in relation to the family enterprise. Several family members likely work in the business. Almost everyone expects to inherit some of it. For the family enterprise to succeed in the second generation, the siblings must develop the ability to communicate and work out their differences.[2]

Several typical challenges complicate this transition:

A Legacy of Paternalism: All of the family enterprises in our sample were founded by a man. These founders by their nature usually do not share much information and control with the rest of the family. In many cases, the G1 father took care of everything and the next generation, sometimes very suddenly, had to discover what the family enterprise contained and decide what they are going to do with it, how to run it, and their ultimate goals.

Developing Trust: Sibling rivalry arises in all cultures. In a family enterprise the risk is that the rivalries take precedence over collaboration and shared purpose, leading to conflict that undermines the success of the business and the harmony of the family. In many of our cases, a member of G2 (often the oldest son) was named expected successor. The presence of a designated successor does not guarantee a smooth transition. G2 must develop new ways to communicate and make decisions together in the absence of the authority of G1, and work with respect and trust with the other members of his or her generation.

2 In this study, we often learned about the transition from G1 to G2 from family members in G3 or G4. From this retrospective view, the first transition looked uncomplicated. One commonly cited reason was that only one member of G2 seemed interested in managing the family's business or finances and the other siblings were comfortable with this arrangement. Also, because in most of our families the transition took place decades ago, traditional practices often reigned: women and younger siblings deferred to the oldest son. This result suggests that contemporary practices—in which all siblings are often encouraged to take an interest in the family enterprise and in which traditional notions of inheritance are weaker—holds the potential both for more conflict as well as for a more informed transition from G1 to G2.

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Affirmation of Shared Purpose: A family enterprise cannot easily remain unified and connected over generations if the members do not share an emotionally and personally meaningful purpose and set of values. Several G2 families in the study reported that they did not see any reason for staying together and were moving to separate. This outcome should not be seen as failure, but rather as an affirmation of individual freedom. If siblings do not have a reason for remaining partners, then they should not be counted as failures if they remain connected as an extended family but decide to manage their financial assets as individuals.

The transition from G1 to G2 thus represents the first time that G2 siblings face the question, "Do we want to be partners in the a family enterprise?" Bound up with this question is often another one: "Do we want to sell or keep the business?" The decision to sell does not necessarily lead to family dissolution, as this example reveals:

I

Downsized but Growing[3]

One family we interviewed only began to design shared governance after the sale of the business caused several family members in the business to lose their jobs. The sale also revealed that members of G1 and G2 had conflicting attitudes about the use of the proceeds. G1 had struggled to develop the business, while G2 grew up as the family lifestyle became more comfortable. Still, nobody was prepared for the fortune that came from the sale: they had to step back and consider what it would do to their family and what they wanted. While still active, G1 wanted to begin to pass authority to the G2 as the siblings demonstrated their capability for leadership. Also, G2 were raising their own families and living in different areas; they wanted the members of G3 (their children) to get to know each other. This series of reactions caused the family to decide to hold a meeting. Both G1 and G2 had a chance to express their intentions and desires. The family then created two values statements: one of the legacy values and the other of the values the family wanted in G2 and G3. Over time, this meeting led to regular family meetings and the creation of a family council. The family describes its own trajectory as from a family business to a family office.

In the face of these challenges, our interviews underscore three particular practices that contribute to successful transitions from G1 to G2. These practices are necessary because a group of siblings, with a complex emotional history, who grew up with family wealth, face a different context and set of challenges than that of the family wealth creator.[4]

3 Each of these highlighted "stories" contains the experience of one of our respondents.

4 The different realities of the first and second generation are described as emerging from different cultures. There are acquirers and inheritors. See Jaffe. D. and Grubman, J. Acquirers and Inheritors Dilemma, *Journal of Wealth Management*, Fall, 2007, and the new book by Jim Grubman, *Strangers in Paradise* for accounts of the transition between first and second generation in family wealth.

Preparing to Collaborate: Many of the families enjoyed a long period of cross-generational apprenticeship between G1 and G2. This apprenticeship usually started when one or more G2 members started working with their father. The role of the G1 wife "homemaker" should also not be underestimated. In many of these cases, the G1 mother was an active participant in preparing members of G2 to work together. Siblings have to get beyond their competition and rivalry to identify their shared interests and different skills, interests and abilities. This does not happen by chance, but entails a commitment to work together and to learn the skills of collaboration and teamwork, which are not natural to siblings.

Increasing Transparency: G2 usually grows up with very little information from the business founder. He is accustomed to keeping his own counsel. Yet, for the next generation to learn to work together, they **all** need basic information about the business and finances. Several of our families made clear that along with sharing relevant business, financial, and legal information there is a need to learn "what it all means". Most G2 members find themselves living with trusts. In such cases, they must learn their roles, rights and responsibilities within this complex structure.

2

From Rivals to Shareholders

For one set of G2 leaders, the shift from their G1 father's way to a team approach was profound. With a dozen family employees (both G2 and G3) and a medium sized business, they began to communicate and work together much more closely:

When my father ran the business, it wasn't transparent. The family was not informed about two major acquisitions. We were asked to sign documents without even reading them…We all see that now in our generation, so we're moving into this more transparently. I'm bringing transparency because I'm CFO. I'm talking main numbers that nobody ever got to see before. So it's all generating more communication…We're starting to see ourselves differently as not just fighting between each other as business people but as shareholders of a company that has value.[5]

Evolving Governance: After being informed and learning to work together, G2 needs to set policies and make decisions. This is often the period when governance enters the family's life in a conscious form. *Governance refers to the skills and structures that enable the growing family to define values, mission and policies; maintain connections; oversee the business and the family participation in it; and distribute consistently and fairly the financial and other rewards.* Governance in this form had little meaning in the founding generation; the founder usually has little idea of what this is or why it might be important to his children.

5 All quotations have been edited for grammar and distinguishing details removed or changed.

Setting up governance is a new experience, and siblings may run into unexpected conflict as they discover different values and needs. It may not be clear who is supposed to take charge of this or how it should be done. Governance evolves out of circumstances, as the sibling group confronts challenges and decides that they need to develop policies and practices to work together to resolve them. A family champion must emerge to reach out and call the family together. This person is not necessarily the designated family business leader. Some of our families were characterized by a self-appointed family leader who initiates a process of engagement and collaboration, frequently amid skepticism or disinterest from other family members.

3

A Prophet in His Own Land …

One interviewee reported that he returned to his family after the death of his father with the hope to help the family create a family office and began to define governance policies. He found that his siblings didn't seem to understand what he was proposing or want to get involved. He felt that he was working as an unappreciated servant.

4

Owners' Council

One G2 interviewee reported that his family started a new manufacturing business after his father sold a business that he had inherited from his father. G1 and the three members of G2 became the "owners' council" of the new business. Over time, G2 spouses joined their meetings, and they began to call this group their "family council." The business grew far beyond expectations, and the family faced a variety of new challenges: pressure from competitors, the demand to become more global, the task of recruiting seasoned non-family executives (including a CEO as G1 retired) and independent directors to their board, the management of an active family foundation, the investment of other assets, and, not least, the introduction of the maturing members of G3 to the business and the council. The time they invested in governance was well repaid as G3 took initiative, assumed control and met these challenges over many years.

The transition from G1 to G2 takes work. But many of our families recalled that working together as a sibling group was a deeply meaningful and productive learning experience. By airing their different views of what they wanted from the family, and for themselves and their children, they came to know each other in a different way than they had before. In many cases, as the family realized the extent of their wealth (financial and human), the discussion moved to how to serve the rest of the community.

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FROM G2 TO G3: EMERGENCE OF COUSINS' COMMUNITY

The transition from G2 siblings to G3 cousins brings with it many new complexities:

- The number of family members increases exponentially. Siblings usually grow up in one household. Cousins belong to several family entities: their nuclear family, their "branch" and the larger extended family.
- Cousins naturally begin to orient to the values and interests of their individual family of origin or branch. As the branches spread, the family enterprise faces the challenge of keeping cousins aligned and connected.
- Cousins may not be sure why they are connected to the family enterprise; they need to make a new commitment to it, and as such move from being a blood family to a family of affinity, a family by choice.
- G3 grow up in separate households each containing a new family member, an in-law, who is a stranger to the family. The families are often geographically dispersed as well. G3 households thus develop different values, styles and expectations about money. Although a trust or business structure may connect the family as owners or beneficiaries, individuals may not feel "on the same page" personally.
- G2 siblings differ in their ages by only a few years. G3 cousins may differ by one or two decades.

In general, if a family enterprise wishes to stay together from G2 to G3, it must build personal relationships **across** family branches and develop shared extended family identity that motivates members to *want* to do the work to remain partners.

Meeting this challenge depends on the successful family's ability to **anticipate** the difficulties and to **adapt** themselves to them. Third generation family enterprises do not rest on the preexisting policies or practices that have got them this far:

5

A Decisive Shift

After his G2 father died, a G3 family leader found that several of his cousins expected to join the board to direct the family real estate company. However, he anticipated that some of them were not ready for the job, and appointed some of their more qualified spouses to the board instead—a move which previous generations would likely not have taken. Because of his position in G3, he knew that he had to defend these choices to the family. He thus convened sessions to educate the rest of the family about the challenges facing the business and about the role and responsibility of the board. Despite bruised feelings, his siblings grew to accept his decision. He also reached out to involve G4 members in these sessions.

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6

G3 Defines Its Own Path

The manufacturing business was in a small town, where the two G2 brothers and their families grew up as they worked in the business with their G1 father. The brothers were rivals, and there was always conflict between them as they took over the business and each raised a large family. The G3 cousins grew up together, hugely influenced by their grandparents. Some began to work in the business while others moved away. While G1 and G2 developed the business, which was very successful, G3 pondered their future:

Originally most of the founders' family, second and third generation, all grew up in the same small town. There was a culture of close relationships especially between the third generation…The second generation did a really good job of not letting the business relationships overflow into affecting family relationships. The cousins grew up spending time with each other and social events and became really close to each other. (We have) similar spiritual and core social values.

There was conflict within the second generation that stemmed from conflicts in the first generation… and there was a branch mentality to an extent of both shareholder ownership and roles in the company or roles on different ownership councils…. But we think we've gotten through most of that now with the transition of (a G3 member) to chairman of the board.

G3 struggled to overcome their rivalry and competition for the "slots" they inherited. They began to meet separately, and told G2 they were comfortable with a leadership transition that would be fair to both family branches. They made it clear they trusted each other and were working well together. Each family had its own family council that "provided a voice for the family members whether they are shareholders or not". They added an ownership council that brought together the two separate family councils. The ownership council created family events such as regular teleconferences, an annual "family camp," and learning forums and webinars for the next generation.

They also created a shareholder agreement governing work in the business. The business had a Board of Directors composed of equal numbers of independent directors and family members. They created a formal role for G3 to become "board observers" where they would attend board meetings and a process to apply for formal board membership. These activities developed a firm foundation for family connection and participation in a huge business. They agreed that in five years the third generation will take control of the board.

This example reminds us that even though they grow up in different households, it may be precisely G3 members who can look beyond the "branch mentality" and the historical differences that underlie that mentality to see the anticipate the possibilities of family togetherness and adapt new ways of working together to actualize those possibilities.

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FROM G3 TO G4: BUSINESS RENEWAL – FAMILY RE-ENGAGEMENT

A G3 family enterprise can look back upon close to a half-century of success. But this success gives rise to new challenges, which lead G3 leaders to question and redefine many of the paths the family has followed. As they disperse and diverge, family members grow less connected, to the point where cousins may not know each other well, despite their shared ownership of family assets.

In family after family, these questions emerged:

- Why are we together as partners?
- Is there anything special about our partnership that we want to continue?
- How much income does each family expect from the financial assets?
- Is it time to sell the business?
- Who is best able to lead the diversification and development of the enterprise?

These questions arise from a common set of conditions:

- By the time G3 matures, G1 has likely departed the stage and become the memory of a larger than life figure.
- A G3 family can no longer be considered "new wealth." G3 members have likely grown up in a family with the trappings of success, and they usually expect continued success. G3 members may not be ready for or expect the depth of challenge that they face.
- G3 members probably do not all have the same information about the family's business or finances. They have probably heard different stories and have different expectations about what the business will provide them. Some members have likely been closer to the business and expect to become leaders, while others are more distant from it. The "insiders" see the challenges, while "outsiders" may expect rewards, impatient of sacrifice.

The business has also likely been transformed:

- It is now either a large legacy business or it has been sold and become a series of assets that may include real estate, a family office, ownership of one or more companies, and a family foundation.
- A cadre a professional non-family managers has emerged, and to keep their commitment the family faces pressure to professionalize their operations, talent management and policies for family involvement.
- The enterprise has also likely reached into new ventures to develop new wealth.
- In almost all cases, the "trust wave"[6] has swept the family's assets into trusts and turned family members into beneficiaries and perhaps trustees.

6 A term developed by Jay Hughes. See *The Cycle of the Gift: Family Wealth and Wisdom*. James E. Hughes, Susan E. Massenzio, and Keith Whitaker. New York: Bloomberg, 2013.

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Many of the families we interviewed recalled that, in G1 and G2, the business provided plenty of money or work for everyone. This abundance, along with the strong personality of G1, precluded much of the need for explicit policies in G1 or G2 about governance. But even the most abundant business or forceful founding personality faces strains by G3. If the enterprise is to remain together, G3 members must agree on a common path.

The 30 families in our sample at G3 or beyond all faced these challenges. One of the main avenues into doing so is through a **reevaluation** of the legacy business. Sometimes difficult changes are in order:

7

Turnaround or Breakdown?

After the death of the G2 family leader, his brother ran the company for more than a decade. When G3 became owners, they learned the business was barely breaking even. They created a Board of Directors with some independent directors and G3 family members. The Board in turn forced the G2 family leader out and hired a non-family CEO. While the business quickly became much more profitable, the branch whose father was pushed out was very upset.

The shift in G3 to revitalize the business, while necessary for business reasons, can lead to hurt feelings. Because they are an extended family as well as shareholders, the family cannot ignore these reactions. If they do, they risk one branch wanting to exit and dividing the business. In the families we interviewed, by the time they reach G3, every family enterprise has faced a request by some family members to sell their ownership.

How does G3 anticipate and manage the challenge of reconciling so many divergent individual agendas? Developing an active **family council** is a key element of the response:

8

Affirming Family Unity through a Family Council

One G3 family that owns two large businesses—a farm, and a bank that is a public company (with the family a majority owner)—took a pro-active view of the family business as it entered its second half-century. The five G3 family branches, with nearly 20 members and a 35-year age span, realized that they didn't know much about each other.

They had already begun to meet regularly a dozen years before to consider their future, as a family council composed of two members of G2 and seven of G3. The first question they faced was whether they saw themselves as one extended family or five. After much discussion they decided they wanted to be one family, but doing so would take a commitment to each other and the next generation. They decided to develop commitment to each other by taking the time *not* simply to operate the business efficiently but for the whole council to be involved in every decision for a period of time, as a way of getting to know each other. They wanted to practice collaborative leadership across all five branches. They elected a paid chair to help them learn to work together rather than do the work for them.

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The family had designed some governance processes in G2, but the new council agreed that all these policies would be reviewed by G3, as the third generation began to see themselves as family leaders. They defined appointed the council as a "Board of Boards," to oversee the boards of their individual businesses and their family foundation. While the chair of each family enterprise would be a family member, they began to search for "the best non-family CEO we can find" for each business. In the bank as well as the farm, the family owners made it clear that the family was committed to the enterprise as long-term owners.

As this family demonstrates, since the members of G3 and G4 grow up apart and may not know each other well, they must develop activities to get to know each other and develop personal bonds. A family member from another family said, *"I knew some of my cousins growing up but since we all lived in different locations we really weren't very close. So these meetings helped us get to know each other again and to interact and find out who we all are. So far that has been very helpful to get that family connection going as opposed to just the business connection."*

In addition to a family council, almost all of the G3 and older enterprises we studied regularly gather all family members, including spouses, in a **whole family assembly**. This assembly often takes the form of family summer camp or shared vacations, which help family members bond. But it is not just a social gathering. It is organized to share information, communicate, and make decisions. This group is also often called upon to ratify the agreements and policies proposed by the family council. And it may offer educational activities, which help G4 members create development plans for their future. These plans give G4 members a chance to think about whether they want to become involved in one of the family enterprises or even to propose new entrepreneurial ventures.

As a key part of the work of their family council and family assembly, almost all families transitioning from G3 to G4 take on the task of **developing the human capital and relationships of G4** and beyond

9

Creating Ambassadors

One such family, that owned a farm and food business with an extensive tradition and reputation in the community, had 11 G3 and more than 20 G4 members. Every blood relative was a shareholder, and several G4s work in the business. They feel both a deep emotional and financial commitment to the company:

When I go to these (shareholder) meetings I just want to be a good ambassador. I know that I'm an owner but I don't know how to run the company. I'm just really proud that we're doing what we're doing and I want my kids to be the best people and the best ambassadors that they can for our name because this is a small town and people would go, oh, you're that person. I think that's what we all have instilled in our kids.

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Many new activities are emerging in this family. They initiated a strategic planning process at the board level to look at their business future, and a parallel process for the family by the family council. The family council began as "a liaison between the family and the business so that we would be the family voice to the Board, so the family knew they had a voice with the Board. …But now the family council has become about relationships." The council is creating a next generation education program to develop the skills and capability of G4, whether or not they decide to enter the business. From initially a limited role, the council is becoming more active to include and engage the more than 50 family members. They have a number of council positions and have even created the role of "communication manager." The G4 members have business cards on which they are titled "Ambassadors," so that they can visit stores and places owned by the family and meet the employees. The family culture has a strong spirit of commitment to the business and to supporting each other's growth and development.

This spirit of this story is echoed by a majority of the families in our study who were moving into G4. The following example speaks even more forcefully to the growing importance of attending to family relationships:

10

Finding Harmony

This family had an intensely private G2 leader who built a diversified series of businesses, including a family office, which he passed on to his two G3 sons. The older son ran it, selling a large business and further diversifying, and then by agreement he retired and his brother took over.

The family began to meet under the leadership of a trusted family advisor, and set up a foundation and other activities for the growing G4. The impetus for these activities came largely from the women in the family, who wanted to exert influence in this male-dominated milieu. Family legacy also played a role. Our G3 respondent remembers that the family initially did not know much about G2's business dealings. They gradually learned more through family briefings, including that their business was celebrated as dedicated to their employees and social causes. They now wanted to apply these values to themselves. G4 became active especially in the family foundation.

G4 contained 11 cousins, with complex relationships that included multiple divorces and blended families. As a family they confronted the family legacy of failed marriages and the effects on their children. As our G3 respondent explained,

My generation has been very sensitive to broken families and appropriate spousal choices…We're much more relationship concerned. There's been an evolution of being very aware of disharmony in previous generations and a real commitment by ours to find more harmony in our partners and in our families and our real commitment to being with our children. Our parents were so busy working, not that we were afterthoughts, but on some level that is kind of what it was.

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Notwithstanding such powerful practices and focus, the transition from G3 to G4 is often a time of family fission. Indeed, one way a family enterprise can remain united is by giving family members the **freedom** to leave and receive a fair price for their ownership from the rest of the family. Because it is a family business, members usually cannot sell their shares to anyone but another family member. So it is crucial that a G3 family have a clear policy for internal sales, and the ability to leave a partnership that does not serve their interests.

However, it is also important to recognize that this family disconnection is not irreversible. Some of our families had a period of disconnection, before a new generation decided to reinitiate connection in the growing new generation:

11

Reconnecting a Disengaged Family

A family enterprise with a 150-year history and more than 135 adult members of G4, G5 and G6 is working on transition to G4 leadership. They have held annual family meetings for more than 50 years. Our G3 respondent recalls her first meetings 40 years ago, when she was in the 6th grade. "I remember meeting with the outside board members and being so impressed with the adults who took their time to meet with those of us in our age group."

Fast-forward 30 years to 2000, when a new family CEO became concerned about diminishing family attendance at these meetings. He initiated a process of reengagement. The family had a legacy of male leadership in a family largely consisting of women, who felt disenfranchised. The new CEO saw that the business needed focus to become more professional and profitable, but also that the family was not involved. His first step was to call for volunteers from G4 to work on a task force on family employment policies. They developed family internships and ways to teach the family about the business.

The task force then evolved into a nine-member family council, elected by the whole family. The council initiated a more active format for annual family meetings, where family members could learn about the business. The council created an interactive agenda for each meeting, with special events and program for younger members. Over the past decade, they created or revived a family video, trips, and a family education program. The family created four ongoing task forces: Communication, governance, education, and family meetings. With the active engagement of the family council, this family has passed leadership to a new G4 family CEO.

The family council, family assembly, and focus on G4 are all means to the same end: the cultivation and strengthening of family relationships. Sometimes by the third generation those relationships have weakened to the point that the best thing the family can do is to acknowledge reality and dissolve the legal or business structures that tie them together. But if they want to transition from G3 to G4 as a family enterprise, then continuing to foster those relationships will be their true work. As we see in the next section, the focus of the family enterprise after G3 rests on twin pillars: the family and the enterprise, separate and interdependent.

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III. Beyond the 4th Generation

When a family enterprise reaches G4, it looks back on more than 75 years of history. Entry into G4 is a sign the family has successfully developed the ability continually to adapt to new circumstances. They are an extended family by blood, but more and more they have also become a voluntary "family of affinity", so defined because some family members choose to drop out of the enterprise aspect of the group while a core group actively chooses to remain together. In a sense, rather than considering them as an extended family, because of their commitment to their family enterprise and their shared values, goals and activities, they can best be considered "tribes" of families sharing a common heritage.

BUSINESS INDEPENDENCE—"TRIBAL" EXTENDED FAMILIES

The 16 families in our study who are at or beyond control by the G4 have evolved over nearly a century to consist of two large, intertwined but increasingly independent entities:

- **A "tribal" family/community of engaged owners.**
  The many, far-flung cousins develop close connections not only because of their legacy but because they share activities. Together they make decisions, educate each new generation, and perform community service. They like to be together, and they share far more than a business. As a group of strongly connected individual families, united by blood, economics, a legacy and culture, and shared commitments, they can be thought of as modern-day tribes.

- **A professionally run, diversified enterprise, containing a large legacy company, several companies, a family office or holding company.** The business is clearly differentiated and distinguished from the family, ownership from management. Management is professional. Many of these businesses employ thousands, who are attracted to the special culture and values that long-term family ownership brings. Six of the 16 families retain significant family involvement in management. While half the families have brought in a non-family CEO, they remain open to having a family leader if a qualified leader emerges from the family.

Let's consider each of these G4 entities in turn.

The G4+ Family. Families at this point in their evolution have several common qualities:

- Explicit values that define policies for how they use their money and run their businesses
- A rich history they celebrate together
- Extensive family organization overseeing their decisions, finances, leadership and control of the enterprise
- Extensive family organization devoted to growing human capital, including regular family meetings, next generation development activities, and philanthropic and community activities.

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Despite these powerful assets, the key to understanding the success of G4+ families is to see that these assets form the foundation: the family itself must adapt and change in order to continue as a unified and clearly defined working group.

12

Activities are not Enough

A family with two G3 branches had a thriving business. But by G4…

There was a sense of family in gatherings and interaction, but it was more ritual based and duty based than with any kind of clear compelling family purpose and direction and there wasn't much authenticity… there wasn't openness, trust and communication…not much sharing and respectful family history and legacy… I think the mission and purpose was to make money and be successful, get some social status, but I think I was disappointed by the spiritual poverty of this.

When this G4 son returned to lead the enterprise he found a great deal of disorder and felt he had to "save the business." However, he did not have the support of his siblings or cousins. When another member of his generation was forced out by a G3 owner, there was mayhem and the G3 generation decided to put the business on sale, as the family could find no compelling reason to stay together.

This is a common development by the 4th generation. Recognizing a shared legacy and sustaining an extensive family organization are points of engagement for G4+ family members. To continue as an entity, such families must develop a delicate, multi-leveled mindset vis-à-vis the business and each other:

- They must see the business as **independent** of the family. The family is increasingly seen as an outside force, a benevolent parent to the business, which they treat like an adult child: allow it to grow on its own.
- The family must clarify their role as **owners**, not necessarily business managers or operators. The family must shift from being an owner-operator, which often characterizes the business in G1 and G2, to becoming an ownership group.
- The family must have personal relationships and share values and a commitment to do the work needed to sustain a unified, productive family enterprise that can face and overcome its differences.

The Business.

Over nearly 100 years, each G4 business has been through major transformations. Some have become diversified, migrating into other areas by modifying or expanding their portfolio of products and services. A business that old has faced setbacks and crises, some even facing bankruptcy. In an enduring family enterprise, crises lead to adaptation and rethinking of how they work.

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Some of the common triggers that lead the family to reevaluate business policies and practices include:

- A sudden death highlights the lack of a qualified successor either inside or outside the family.
- With more shareholders and a maturing business, a sudden or gradual decline in profit moves the family to pay attention.
- If the business is doing well, the family faces offers to buy it.
- As the business generates profits, the family extends and diversifies into other investments or business ventures.
- Generational transitions bring more shareholders to the table, and sometimes add new professionals who challenge the management of a break-even business.
- Inevitably some family members want to sell their shares, and the other shareholders must face the questions of whether they will buy their shares and how to value the company.

Any of these events may cause the family to revise their oversight of their major asset. To do so, they may have to challenge long-standing employees, leaders, and traditions. Several common developments helped the families in our sample face these challenges:

Professionalization:
The G4+ families with operating businesses all report a point in time when the family had to make a choice to professionalize the business, even if it meant challenging the family members who were its leaders. Professional management must be empowered to challenge and change traditions that are no longer functional. Sometimes they removed a family leader who was not an effective leader, and at other times the need for change emerged when a new generation took over control.

Independent Directorship:
To take these steps, these families created an empowered board of directors able to offer oversight and demand accountability from the management. These boards almost always included a significant number of non-family independent directors. In about half our families, independent directors form a majority of the board. Family members serve alongside them, but they too are held to professional standards for their service.

Family Employment Policy:
While in almost all of these families there is a pathway for a family member to work in the business, they also developed clear employment policies that emphasize competence and accountability rather than entitlement. While employment is open to family members, and they are encouraged to work for the family, the family has raised the bar for the preparation, experience, ability and accountability for family employees.

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These changes do not come without pain. Often families had to reinvest profits, which cut down on the short-term returns to family members, who may not be patient or supportive. As a result, all of the families in our sample have faced the choice of **pruning** the family tree by buying out a branch or member who does not want to reinvest. *None of our G4+ family businesses include 100% of the adult family members in the ownership group.* Each has had a "liquidity event" or a buy-out process, whereby members have decided whether or not to remain owners. Remaining entails two responsibilities that some family members do not want to take on. One is the **commitment of time and energy** to governance, both oversight of the business and participation in shared family activities. The second is the **willingness to forego short-term profits** and income for long-term investments. If a family member lives far away, does not feel excited to be part of a community of second and third cousins, or wants access to capital to spend or invest in a different direction, he or she may choose to leave.

BUSINESS RENEWAL

Six of the 16 G4+ families in our sample follow what we might call a "classic" developmental arc – from entrepreneur, to a generation that grows and professionalizes the business, to a point in the third or fourth generation where the increasing numbers of family members have to decide the nature of their engagement in the business. In the rest of this section, we will share two examples in which the family moved to clarify the **boundaries** between the business and the family. We will then turn to a third example in which, despite the importance of family and business independence at this stage, a G4 family found it necessary to **reengage** with the business.

13

Renewal by Task Force

In this family the long-term G3 family leader had done the work of recruiting a non-family CEO successor and developing a board that contained G3, G4, and a majority of independent members. But by G4 there were nearly 50 family members from three branches with a history of conflict. Despite that history, and barely knowing each other, the G4 began to meet as a group, trying to resolve conflicts around dividends and to discover whether they had any further commitment to each other. To deal with these issues, they formed four task forces on governance, next generation development, dividend policy, and philanthropy. As they met, their branch identity gave way to a new identity as a generational cohort. Since the business had embarked on an ambitious ten year plan, the family created one as well. They formed a family council of 12 members, with a full-time paid family chair to lead the efforts.

The task forces allowed the family not only to create policy to resolve conflict, but also to learn to work together:

Through the task forces process we were able to build working relationships and then from these working relationships we were actually able to develop friendships….ten years ago our annual family meeting was fraught with conflict and stress and I think it was seen as a burden. Someone saw it like they were giving up their weekend to come and be with the family business and now I think that the family feels excited about coming to the family meetings. It's fun, and it's exciting, and people are happy to see one another.…

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The family made a substantial commitment to the development of the next generation. They allocate 2% of the family distribution to fund a personal and leadership development program.

We've really tried to develop this human capital element of the next generation as well. At our annual family meeting we have an educator come and work with that next generation to try to make the experience of being with the family and being with the business as positive and fulfilling as possible. We have this person working on team building and leadership training and problem solving and we spend several hours during our annual meeting with the next generation activity. We get the adults to come work with the kids at the kid's level. So we're not asking the kids to come to our meeting—we're going and meeting them in the context of building relationships in ways that work for that age group.

14

Managing the Family-Business Boundary

A non-US family started by two brothers, with a history of four generations of talented and dedicated family CEOs, now controls a large public company and several other ventures. The family numbers 450 members, spanning the globe, who meet for a large family reunion every two years. They are deeply involved in the business.

Ten years ago, as the G4 leaders began to retire at the prescribed age of 65 issues arose concerning succession as well as employment policies for next generation family members, the inclusion of women in the business, and the management of the family's large and ambitious foundation. They realized that the family reunion was not the best place to address these issues nor was the business board, with its blend of family and independent directors.

In response, G4 and G5 created a family council to manage the family's engagement in the business and other non-business activities. The council created guidelines for entry, advancement, and succession in the business. One of the unique features of this process is its requirement, for any family member employee who wishes to enter senior management, to receive an extensive assessment and to pursue a one-year project in social entrepreneurship outside the company. The latter requirement reflects the family's deep commitment to their community.

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As mentioned, it is crucial for G4+ families to develop both independent businesses and independent families. At the same time, in a number of families the need arose for the family to reengage in a period of profound decision:

15

Coming Back Together

For many years a visionary G2 family leader led this large, public, family-controlled company. The enterprise also included a family office and other ventures, and the G2 leader fostered a strong tradition of independence in the rest of the family members to pursue their own professions.

The identified G3 successor died unexpectedly. His brother reluctantly took the reins. The G2 leader had wisely created a strong board of talented independent directors. As the G3 leader began to transition to G4 the choice arose to sell the business:

That was the crisis when a generation, my own fourth generation, who haven't really had to spend much time talking to each other suddenly had to enter into dialogue with each other and say, what do we do? We were going to crystallize the wealth that was created over 90 years. Do we want to stay in business together? We had come to the exit decision as part of the strategic review…it wasn't that we weren't functioning effectively. It was that we'd recognize that the rewards were unlikely to warrant the risks. At that stage, we had to look each other in the eye and say,' do we want to stay in business together?' And the response was yes.

So we went through a process of total inclusion, consultation with everybody developing a strategy. This is what we are going to do and if you won't want to do it, here's the exit and please, the exit is there. If you want to go, let's do it with your head held high and let's keep friendly and happy and there is no compunction, no pressure on you. Some of us think that it's a good idea to keep the family capital, because we think we've got a better chance of allowing it to endure. And nearly all of us said let's keep going and then stay down and said, OK, what is the responsible response to this? This cash has fallen into our laps. We didn't create it so what's the responsible solution? And that really is how we've continued to operate since then. ..Suddenly we became a collaborative group, so my generation needs to work out what we are going to do.

The family developed an ethic of independence, so the challenge facing G4 was to shift that focus to shared engagement. Our respondent, a G4 family leader, recalls that his father cautioned against too much family involvement. He held that a family business "can impose a dreadful servitude on people, but nevertheless, he had this sense of duty" (to the family). They also had to face the reality that the next generation would be wealthy but not rich:

So, we're managing preservation…They see what we are and where we've come from merely as a background to who they will become that there is no sense of entitlement to either position in the business or income or anything else other than they see it as part of their roots, something they are pleased about. And they'll give a little bit of time and bandwidth to become effective shareholders and owners.

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LARGE LEGACY COMPANIES

A large legacy company creates special conditions for a G4+ family. As long-term shareholders, family members want the business to remain strong and profitable. They also want the family to live the values embodied in the business. They often see the business as a public trust. They feel a connection to their employees, their products, and their communities. Finally, they usually want members of future generations to serve on the board and potentially work in the business.

G4+ families with large legacy companies make use of all the practices discussed in the preceding pages. What makes them different is that they often find themselves deploying many of these practices **at once**. The following example captures elements seen in many of our families:

16

Business First

This G4 family contains 600 members, of whom 250 are owners. There are living members of five family generations, and 26 family members work for various entities in this conglomerate. They have always had a policy of encouraging family members to work in the business, but they had a major business and family reorganization nearly a decade ago, as they began to see that even as revenues in their business empire grew, their profits did not:

About eight years ago we said, 'You know, we need to be a little more intentional, because this family is getting bigger, it's getting more spread out...' That's when we decided to say family is family and business is business, and we started to go through a transition, moving from a family business to a business family, and that was a critical step for us to make that move. Because when you have a family business, employment becomes a birthright and we were getting too many family members into the business that weren't qualified and performance was suffering…

The difference between the two is that a family business' first and foremost primary goal is to maintain family harmony, and profits are secondary. And the business family focuses on business first; profits are respected and performance first. It's about the right people in the right spot, so they're qualified throughout the business. We went from focusing on business harmony to business performance. It was a real hard thing for us to do and we did that. And we've been on track ever since we were in the tremendous turnaround in the performance of our business.

The transition was stressful. The board, made up only of family members, had to remove some non-performing family members who were large shareholders. They created what they called an Owners' Council, and downsized the board to contain three family members and four independent directors, including the family CEO. They made these decisions unanimously, but also created a clear policy by which family members can sell their shares.

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They got clearer about their values as a family, defining their family mission, vision and values in an explicit family constitution. In addition to the **Owners' Council**, which represented the 250 family owners, they created a **Family Council** representing all 600 family members, and a **Philanthropy Committee**, with four G4 members and two from G5, to oversee the family's commitment to give away 10% of their profits. They appointed a full-time family chairman who was responsible for maintaining family harmony by policing the boundaries between family and business, mediating conflicts that arose, and facilitating the development of family members so that they could be qualified and productive when they served the business. The family chair was the key to establishing and sustaining the business first orientation without discouraging family members from working in the business.

The policy of business first has not kept family members from working in the business. The business actively recruits the most talented family members. But it has created an active, multi-faceted program of education and personal development to prepare members of the emerging generation for entry and leadership in the business. It begins when the children are young, and continues as they grow up:

The parents need to make sure they're talking about the vision and values around the dinner table. Once they get older and they become inquisitive, we have a whole set of things that we do with the family, starting with the younger kids….We actually start at the age of 12 and categorize them from age 12 to age 20 and that's a wide group but it's wide on purpose, because we want some of the 20-year-olds to be the mentors to some of the 12 or 13 year-olds. So you have them together as a group. We take that age bracket and we do functions with them, two to three times a year they'll do different events. And we call it 'cousin-palooza'… We'll do fun events throughout the year and one of those will be some type of learning as well. Education doesn't revolve around what we do, it revolves around who we are because you get these kids together and introduce them, and like, 'Hey, I know you; you sit next to me in science class. I didn't know we are related.'

They have many events, a web site and a Facebook page, so family members can get to know each other in their early years. As they get older they provide information about the business, and internships, summer jobs and mentoring and career development. The family offers an extensive leadership program and other opportunities to learn and grow together. As they learn, growing family members come to understand that working in the business is not an entitlement, it is a responsibility. But the family is active in recruiting family members into the business—they seek out talented family members working outside and try to interest them in coming on board. Every year, all family members working in the business (currently 26) have a weekend together with each other and their spouses, to talk about their special experience together.

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17

Both Family and Business

This G7 family has a similar tradition of a family business, which has evolved into a diversified conglomerate of businesses that are run for both profit and values. For several generations, the family was run by a succession of paternalistic patriarchs, but over that time they slowly evolved an active governance structure bringing the family together. They have had annual family meetings for over 100 years, and developed a family council and next generation education programs more than a generation ago. The dispersed family has always been active and inclusive. From the beginning, spouses were welcomed into the business as shareholders. As the next generation grows to over 1,000, they have developed an exit policy that allows family members to go their own way. With blended families, divorces, and stepchildren, the definition of who is family is increasingly complex.

In the 1960s the fifth generation faced a choice. As they grew larger, the question was whether the family really wanted to be involved in the increasingly elaborate business ventures. The answer from the family was "yes" and they began to build upon the regular family meetings they had already held for many years. They developed an active structure that included oversight of the business, family meetings, and a foundation. These moves necessitated developing an elaborate family organization independent of the business. That organization contains a family council of ten people elected by the family. A full-time family president elected for a five-year term (with a three term limit) leads the council, which manages family activities and governance. They have had several accomplished and dedicated family presidents. We interviewed the current president, who compared her role with that of the leader of a complex non-profit organization.

The annual family meeting is a special event, paid for by the family, where many social, educational, governance and service activities take place. At the last annual family retreat two-thirds of the nearly 500 family members attended:

What encourages people to come is that our children are now making relationships with their cousins, and we have this program that's built around the 0 to 13 year olds that is so important that we find that they just beg their parents to go. Sometimes we hear back that the parents don't really want to go, but the kids are very anxious to engage with their cousins. All of that is wonderful because of the experience they're getting. Not only are they getting parents to come who might be on the edge, but they're creating a relationship with each other so that by the time they get into the boardroom or the family council they have relationships and they know each other.

So I think the next generation program is inspiring the next generation to kind of pick up the flag and keep marching forward….the biggest challenge is that we can't do any of this without having a business. We can't pay for summits or pay for people to participate in family councils or [become] family presidents if we're not making money.

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The family board includes three independent directors, the non-family CEO, and nine family directors. The shareholders conduct a strategic planning process for the business and the family every ten years. There is also a foundation, focused in four areas, that provides roles for many family members. A recent survey asked family members what was more important to them, the family activities or the business, and the responses divided 50/50. The family is about both family and business.

FAMILY OFFICES

It is not unusual for a G4+ family to sell its legacy business and diversify. The maturing business may not offer the returns that could be realized in other ventures. As the family grows, some family members of the geometrically expanding family want to exit the family enterprise. The family must design clear policies to govern the sale of their shares. Upon such a sale, many families create or expand family offices to manage the proceeds for family members who choose to reinvest.

The families we studied saw themselves as much more than family investment groups. They saw the family office as **multidimensional**: it helps them manage not just their money but also the family's many familial, social, and philanthropic connections. In these cases, as the following two examples reveal, the sale of the business is not an end but a new beginning.

18

The Village Tradition

One G4 family divided into branches 18 years ago after an IPO led to the sale of their business and creation of several family offices. One branch with 40 family members came together to redefine how they wanted to work together. They felt deeply connected to the tradition and values of the family, but now, as a financial family, they developed a new approach to governance which they called "the village tradition."

Every two years, they hold a family assembly, combining fun, strategic review, and shared learning. They already had a family council, and they developed a family constitution. It included provisions for a shareholders meeting twice a year and a foundation that met several times a year. They have begun to convene a next generation group and develop clear guidelines about access to money and distributions. When an issue arises, they deal with it within the appropriate group.

19

Follow Your Dreams

The family office of another family began with the sale a generation ago of their remaining interest in a large public company their ancestors founded at the turn of the 20th century. The sale enabled members of the three large family branches to decide whether they wanted to be part of the new family office. A majority signed on, and they have continued to create financial wealth. The board contains members from each of the three branches and from three generations. Members of G4 have moved onto the board and management of the family office. One hundred family members travel to the annual shareholders meetings, though the family would like to have even wider participation from its 700 family members.

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The family has not been without conflicts and tensions. In order to resolve them, they have committed deeply to values of transparency, trust, and engagement. They exercise this commitment through the election of 13 family members to the family council, which holds open meetings:

You foster trust through being open and through communication. If you don't have these things, communication and openness, you can't really have trust in any kind of relationships, professional or personal. If people don't feel that, they don't add to the connectedness of the family…So the role of the family council is trying to straighten out some of the ill feelings over the years. People have left the business because they didn't feel trust.

This family has a deep tradition of values about family connection, not only in governance, but to enhance the wellbeing and development of each family member. The family has used its resources to support, for example, a family member who is an accomplished artist, and encourage other family members to "follow their dreams." They have frequent family gatherings. There is a family web site, which contains a growing library of family stories and interviews with elders that are videotaped at family gatherings. They have developed a seminar series for younger family members, on topics like tax, budget, investing and insurance, which are attended by 30 to 50 young family members. Since 1980 they have had an auxiliary—or "junior"—board for family members who want to learn about finances and become involved in governance. This group has graduated family members to join the official board, which includes nine family and four non-family members.

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Lessons Learned: Choosing to Build a Connected Family

The 100-year family enterprise is never a bystander to their family wealth. While the enterprise begins with a huge financial success, that was not the end point, but the starting point for our successful families. After the first generation success, our 100-year families decided to use their material success to create a second successful entity: a connected family with shared values that is dedicated to making the highest and best use of the special resources and opportunities that have been given to the family. They decide to create a conscious family, a group who are personally tied to each other through a legacy, and a commitment to becoming stewards for their own and future generations. They move from being a family of inheritance to a **family of affinity** who share a vision, values and commitment to actively build something together.

These families expect that many family members will make a commitment to working and becoming engaged in the work of stewardship in the family enterprise. Some family members may work in the business, but the stewardship role goes far beyond employment. It often includes paid and unpaid work as a board member or as a community member creating shared family activities. We call them **Generative Families**. The generative family over generations offers many opportunities to become engaged, and, as a community member, a number of members of each generation must elect to become active leaders in various family activities.

These generative families have discovered that having family wealth is only the beginning. The question to be answered by each successive generation is, "What do we want to do with the Family Wealth?" Each generation develops a shared purpose that motivates family members to become more than passive, disinterested consumers of the family wealth. They find ways to become engaged and committed to planning, deciding and sustaining the resources of the family. They get together to consider and plan for how they can use the wealth of the family to develop the next generation, to provide for each other and the community and to have positive impact on the family, the community and often, the world. This special family-building task is not for everyone, and the enterprise family separates from the blood family, by allowing family members in each generation freely choose to be part of the enterprise family, or to take their shares of the family wealth for their own individual family.

It is hard to listen to the stories of these 40 families and not feel admiration and respect for what they have done. In a time when there is much concern about the concentration of wealth in the hands of "the 1%" a study such as this that looks at how these families are making use of their wealth, is an important addition to the dialogue. While this study should not be taken as an apologia for wealth concentration, it does offer a positive narrative. The successful 100-year family is not necessarily a selfish group of consumers of excessive luxury goods, but can also become a socially responsible entity, using its vast resources in a responsible way to make a difference in the world. When we compare the activities of a family enterprise with the activities of a public corporation, we see that the special nature of a family that shares not just resources but a values-based connection with each other can be of great benefit as we face a harrowing set of global challenges in the next generation.

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Dennis is an associate of Wise Counsel Research. For 35 years, he has helped families manage the personal and organizational issues that lead to successful and fulfilling transfer of businesses, wealth, values, commitments and legacies between generations. As both an organizational consultant and clinical psychologist, he is one of the architects of the field of family enterprise consulting. He works with multi-generational families to develop governance tools and the capability of next generation leadership, and with financial organizations and family offices to develop their capability and skills to serve their family clients. He is an active speaker and workshop leader in these areas for families and financial service firms.

His global focus has led to work with groups such as the Family Business Network, where he has worked with the Pacific Asia chapter to develop a program for next generation family members, and as a member of the Advisory Board to the Stetson University Family Enterprise Center. **The Values Edge**, an acclaimed tool for exploring personal, family and organizational values, using a deck of values cards to create a Values Pyramid, has helped many families learn about themselves.

Since 1981, he has been professor of Organizational Systems and Psychology at *Saybrook University* in San Francisco. He received his BA in Philosophy, MA in Management and Ph.D. in Sociology from Yale University. As a member of the Family Firm Institute since it was founded, he has presented at many of their annual conferences, served on their board, written frequently for their journal *Family Business Review,* and was awarded the *Richard Beckhard Award* for contributions to practice. In 2007 he was named *Thinker in Residence* for S. Australia, helping the region design a strategic plan for the future of entrepreneurial and family businesses. In 2010 he was a visiting professor at the undergraduate family business program of Stetson University.

Dennis is the author of a trio of books that are guides for members of family enterprises, including *Stewardship of Your Family Enterprise: Developing Responsible Leadership Across Generations,* as well as *Working with the Ones You Love: Building a Successful Family Business* and *Working with Family Businesses: A Guide for Professional Advisors*. His research on the governance of start-up companies, *After the Term Sheet* is an important contribution to the field of entrepreneurship. He is a regular contributor to periodicals such as *Families in Business, Private Wealth, Journal of wealth Management, Worth* and *Family Business*. In 2005 the *Journal of Financial Planning* named him for the *Editor's Choice Award* for his article on family business strategic planning.

He has written a dozen influential management books, including *Getting Your Organization to Change, Rekindling Commitment, Take This Job and Love it!* and *From Burnout to Balance*. In 1984 he founded *Changeworks Global*, a consulting firm in San Francisco, where he worked with organizations and family businesses about long-term change to build competitive advantage by unleashing the power of their employees. For three years, he was co-editor of the magazine *The Inner Edge*, focusing on spirituality in business. He was deputy director for research at the Macarthur Foundation sponsored network for Healthy Companies from 1992-95.

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About Wise Counsel Research

Wise Counsel Research is a 501(c)3 public charity registered in Massachusetts. Its mission is to study and share the role of wisdom in contemporary life. It sponsors investigations in such areas as the impact of wealth, philanthropy, and advising. Its methods rest upon reasoned dialogue with leading heads of families, executives, and practitioners. Its researchers are scholars who are also attentive to practice. Its research products aim to sharpen debate, pose hard questions, and engage thinking. While independent of any college or university, Wise Counsel Research maintains the highest levels of intellectual integrity. While independent of any private enterprise or family, it seeks to improve practice in the "real world." Wise Counsel Research's work has been supported by the University of Chicago's Defining Wisdom Project (itself a recipient of the Templeton Foundation) as well as various private foundations and individual donors.

About Family Office Exchange

Family Office Exchange supports a global member network of wealthy families and their advisors who are pursuing best practices for optimal management of their families' wealth and legacy. The community includes more than 450 organizations in 20 countries who utilize FOX's resources each year for advice, networking, education, and comparative metrics.

FOX is headquartered in Chicago and London, with offices in New York, Boston and Washington DC. For more information about FOX, call 1.312.327.1200 (The Americas) or 44.(0)20.7520.9443 (Europe, Africa, Asia/Pacific) or visit www.familyoffice.com.

About Family Business Network

The Family Business Network is the world's leading network of business owning families, promoting the success and sustainability of family business. The role of the FBN is to articulate the positive role of family business and its contribution to the economy and society. The FBN works to create opportunities for sharing best practice through national, regional and international programs and events. The Network also seeks to provide a thorough understanding of the micro and macroeconomic framework of family business and to promote the longevity of family business worldwide.

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GOOD FORTUNE: BUILDING A HUNDRED YEAR FAMILY ENTERPRISE

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