



A recent survey suggests that successful multi-generational families are just as concerned with the quality of their relationships with other family members as they are with financial measures – good governance can help the next generation build on these relationships

Best practices of successful multi-generational families

By Dennis T Jaffe and Amy Braden

HOW CAN WE DISCOVER the best practices that are used by successful multi-generational families to sustain family connection, steward their wealth, and empower family members in each generation to leadership? For the past several months we undertook a research project to discover these practices.

The project culminated in the recent publication of a White Paper, part of JPMorgan Private Bank's *Challenges of Wealth* series – through which Morgan provides leadership on issues of concern to wealthy families.

As a first step, the project involved interviews with a panel of a dozen of the most experienced family business consultants around the globe. We asked each one to define from their own vantage point, the practices that characterised the most effective and progressive families. Their responses showed surprising agreement around a core of proactive practices. The project will next benchmark them through a survey of a large number of families about their current practices and the importance of each of these practices in their future planning.

We began by asking how families defined success. They were as concerned with the quality of relationships, and the development of people, as they were with financial measures. They defined success not just in financial terms, but also as sustaining a unified sense of family connection and developing competency and leadership in each new generation to take the family forward. To achieve these goals, families tended to create a clear and consistent set of practices around governance. Effective governance “generates a sense of direction,” says panelist John Davis, bringing “the right people together at the right time to discuss the right things”. While these practices can arise spontaneously, the most successful families who have sustained their entrepreneurial vigour and connection through generations have cultivated and institutionalised these

practices, rather than leaving them to serendipity.

On the tails of the projects results, we came up with eight proactive practices that characterise the most successful multi-generational families.

Articulate a clear and powerful vision

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

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

Cultivate entrepreneurial strengths

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

Over the generations, as fewer family members are needed to participate in wealth-creating activities, this mindset is critical in

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

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

Plan strategically to mitigate risks and capture opportunity

In a study of family-owned manufacturing companies, John Ward observed that the family firms that prospered had renewed or regenerated their business strategies several times.

Business renewal is often neglected. Randy Carlock notes, "Most families are motivated when the next generation starts to say 'we are ready', or when something happens – death or a health issue. They all have trigger events – but some families have planned for it. They are proactive."

Thus, family ownership groups should:

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

Build unifying structures

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

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

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

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

Three structures were mentioned most frequently in the study results: a family council; a family constitution; and an empowered board of directors or advisors who oversee and integrate all the financial and business entities. These help organise the family to:

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

Clarify roles and responsibilities

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

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

Eight practices for successful families

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

Communicate, communicate, communicate

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

Personal bonds are equally important. Family members "must be able to communicate within a network so they feel part of an entity," Murray points out.

Tim Habbershon adds: "If family members understand where the train is going and feel they have had input towards deciding its direction, they will climb on board for the long run. If they are denied information and input, they tend to become suspicious."

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

Help develop competencies

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

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

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

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

Provide independence, including exit options

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

Each of these practices takes many forms in the practice of path-setting families. No family practices all of them. We are awaiting the responses from our survey of wealthy families to learn which practices are most prevalent, and which are important for the future. This project will hopefully help other families to be more effective at creating their futures, maintaining entrepreneurial focus, sustaining positive connection, and developing productive, fulfilled individuals for generations to come. ■

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(The research paper discussed in this article can be obtained by emailing family.wealth.center@jpmorgan.com)
