

Money and Meaning

By David Lansky

Developing Family Oversight: One Family's Experience

Family leaders are made, not born.

Business families and families of wealth are bound together by their common interests in estate planning, in philanthropy and in their real estate and business holdings. In these families, complex family oversight roles have evolved over time around directing their businesses, supervising real estate holdings, serving as liaison with estate planners, and managing interlocking trusts and foundations. Often, the roles grew up around the senior family members who, by virtue of their early involvement, were able to develop very high levels of comfort and competence in rather difficult positions.

As families grow and their enterprises evolve, they begin to recognize the need for new leaders to assume oversight responsibilities that their seniors previously held. Succession in this respect *might* apply to running a business, but succession in family oversight is also desirable when a family's assets are invested outside a business, or lie in a family office, or in a foundation. Even when nonfamily professional managers are introduced, some family oversight is desired.

Occasionally, one or more of the younger generation seem naturally to rise to the levels of competence and authority that the family requires. These people acquire the education or experience necessary to run the business, to manage the investment portfolios, or to supervise nonfamily managers. More often, family members are appointed to, or fall into positions of significant oversight responsibility without adequate preparation, and they must then struggle their way through, sometimes successfully, sometimes not. At other times, the family's holdings are sold or divested due to a lack of succeeding generation leadership.



David Lansky, Ph.D., is the founder of Family Business Innovations. His firm assists entrepreneurs, families and financial professionals when emotional or relationship issues affect business operations or financial planning. Dr. Lansky can be reached at (847) 444-0705 or *via* e-mail at dlansky@familybusinessinnovations.com.

On rare occasions, we run into families who get it right. These families recognize the need for evolving and developing family oversight and they are able to make it happen in a systematic, effective way.

I am now working with a family that “got it right.” We can all learn from families like this. I am hoping that by describing this family’s experience and some of the processes that they created, members of other families and their advisors might benefit as *they* begin the important journey of developing new leaders for family oversight.

The Smith Family (a pseudonym) is a fourth generation family business. There are three branches of the original Smiths who own the company, totaling about 30 individual shareholders. Their wealth is distributed between the business (about \$500 million in annual revenue), real estate holdings and a family foundation. The current CEO of the company is a fourth generation family member; several fifth generation family members work in the company, but none is destined to assume the role of CEO anytime in the future. Furthermore, the CEO and various other fourth generation family members have significant responsibilities in managing their real estate, providing estate planning oversight, and directing the family foundation.

When the family first contacted us, their question was: “*Can we develop a process to help succeeding generations exercise family oversight of our co-mingled assets such as real estate and the family foundation?*”

The fourth generation family members recognized early on that succession in family oversight was necessary and that the family hadn’t yet established a method for accomplishing that. So right from the start the Smiths were able to *articulate a mission and a rationale for the succession process*. While this is an essential first step that many families cannot get past because of denial or naiveté, it would succeed only if the fourth generation *could assure buy-in from other family members*, and this is another point at which many families falter. The Smiths approached the situation in a business-like way: They presented their case at a family meeting (the Smiths conduct an annual family meeting) which helped to reduce emotions and focused their discussions on the relative merits of establishing a family task force to pursue the matter.

As families grow and their enterprises evolve, they begin to recognize the need for new leaders to assume oversight responsibilities that their seniors previously held.

A vote was taken and the task force was created. All family members were invited to serve on the task force and in our opinion, *this focus on inclusivity is one of the factors in its ultimate success*. The family agreed to pay the six task force members all of their expenses incurred in attending task force meetings.

The Smiths conducted the process up to this point without any outside consultation. This alone demonstrates the unique character of the family. But like

all families, the Smiths are not perfect and soon into their process they became bogged down. Another factor in their success then, was *the ability to recognize and accept their challenges*. The task force then interviewed several parties who might

assist them. After deciding to work with our firm, the task force articulated the following key issues that would need to be resolved:

- Identifying the family oversight roles that needed to be filled
- Delineating training needs
- Establishing compensation policies during training and thereafter
- Developing an exit policy for family members who wished to separate

Each of these issues was addressed in a systematic way. The task force agreed that a Leadership Development Chairperson was necessary, so a job description was developed for that position and one of the task force members was elected by the task force; another task force member was elected co-chair. We then helped conduct a “Skill Gap Analysis” for these two positions and began to identify training needs and methods. It was decided that these two positions were substantive enough to require compensation, and that the entire family needed to be involved in that decision. Task force members then realized that past relationship and communication problems might derail the process as it was moving along. *Therefore, the task force recommended to the entire family that a special family meeting be held in order to address communication and relationship issues in a constructive manner*. In this way, it was thought whatever decision emerged regarding the Leadership Development process, it would not be contaminated by past events.

Once again, the family proved its unique char-

acter. The special family meeting was attended by almost every family member. During this meeting, we helped the family to share stories about their past accomplishments, to articulate how they wanted to communicate and interact with each other, and to identify relationship issues that could be allowed to pass without having to dredge up past hurts. By the end of the meeting, the family voted to fairly and substantively compensate the Leadership Development Chair and Co-Chair.

The Leadership Development Team now had a mission, a method, and the entire family's emotional support to continue its work. In the following months, family members were surveyed regarding roles and responsibilities that they currently held, a document

listing these roles and responsibilities was circulated, and family members who were interested in serving a particular function signed up for that function. The family then conducted a "Job Fair" to further glean the interest of family members and to establish necessary skills and the associated skill gaps for particular people interested in particular positions.

The development of this family's leaders is an ongoing process that will of course continue to evolve. The size of the family, the nature of their assets and their emotional character certainly render this a unique situation, but every maturing business family or family of wealth should understand the essential elements of the Smiths' family process and consider how these elements can be adapted to their own unique position.



This article is reprinted with the publisher's permission from the JOURNAL OF PRACTICAL ESTATE PLANNING, a bi-monthly journal published by **CCH INCORPORATED**. Copying or distribution without the publisher's permission is prohibited. To subscribe to the JOURNAL OF PRACTICAL ESTATE PLANNING or other **CCH** Journals please call 800-449-8114 or visit www.tax.cchgroup.com.

All views expressed in the articles and columns are those of the author and not necessarily those of **CCH INCORPORATED** or any other person.