



8 Insights from Long-Lasting Global Enterprising Families

Implementing Them in Your Own and Client Families

A Toolkit for Families

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This paper is adopted from the book **Borrowed From Your Grandchildren: The Evolution Of 100-Year Family Enterprises**, with the support of First Republic Bank's family engagement and governance group, and their managing director, Stacy Allred.

Overview

After an entrepreneur or wealth creator has developed a successful business or family wealth, what is the next act? They often believe that the important work is already done. All they expect from their children and successors is that they don't waste or lose it. Is that really enough? Or are there important tasks ahead for the generations that follow?

This toolkit presents what successful families undertake as they face deep challenges while growing and changing over generations. The tasks ahead for each new generation are very different than the achievement of the founding generation, but they are often just as difficult. The family must not only sustain the family's wealth, but also steward the family's legacy in many other areas, such as developing responsible members of each new generation, maintaining connection, alignment and motivation, and using the wealth and resources that have been created in wise and impactful ways. After achieving huge financial success, successive generations often turn to the family's non-financial wealth.

Business founders and wealth creators want to see their success passed on to the rising generation. They want their family enterprise able to last for generations. How exactly can they build on their success and prepare for this challenge? They often turn to their advisors for help, but given how unique this endeavor is, often neither the business creator nor their trusted advisors understand the full scope of what is needed. This workshop addresses that challenge.

The insights presented here came from interviews with family members from 100 large global business families that have thrived and continued to create value — financial and non-financial — as a family for more than three generations. They were asked to look back to their first and second-generations and share what they did to set their long-term success in motion. Their stories were not only about their business achievements — they also attributed their success to:

- Working together as a family
- Transmitting their legacy of shared values
- Building a shared culture
- Developing new generations of leaders
- Making an impact within their community and environment.

This toolkit shares action steps to implement each of the insights below, for your own family, or that of your clients.



The Special Nature of Family Business

A majority of businesses worldwide are family businesses (both large and small), yet only a modest percentage survive past the second-generation. Those that do survive are often large and have a powerful impact. What makes these long-lasting family businesses successful? Of course, good financial and smart business choices are essential. To better understand the success of these long-lasting family enterprises, we need to look beyond the business at the nature, culture and values of the family.

Family enterprises differ from public corporations in two important ways:

- They nurture personal relationships and motivate members to pursue more than financial goals.
- They have a long-term focus because they see their family enterprise and wealth as gifts to succeeding generations, and therefore invest in innovation and the future as well as in the growth and development of leadership within each new generation.

These qualities combined allow the family enterprise to act in ways that are not possible for other forms of business. The family enterprise maintains a consistent mission, while adding worth to the enterprise. Over time, such families move from an ownership perspective to what we call a **Stewardship Orientation**. Stewardship is a perspective on ownership that looks beyond immediate financial returns, to the wellbeing of the long-term enterprise and the family. They create business and financial ventures that pursue non-financial goals stemming from their family values, mission and culture, and these other ventures actually lead to their sustainable success and longevity.

As a family enterprise, each family has a core identity and set of values and goals that go beyond financial wealth, which define what is important and meaningful to them. Over generations, these non-financial values and goals become more essential to sustaining alignment and connection within the growing family. These are not static; new elements emerge as the family redefines who they are within each new generation.

We use the term **generative** to describe successful, long-lived family enterprises because they continually create financial and non-financial wealth across generations. Each new generation adds to the legacy of family social and human capital. These eight insights explore how family culture and behavior contributes to business vitality, resiliency and innovation.

While most families in our study have diversified beyond a single legacy business, more than 80% of them still own an operating business among other assets — although many have shifted from family to non-family leadership, gone public, or acquired or invested in additional businesses. They represent every category of business — manufacturing, resorts, finance, food service, engineering, transportation, media, forestry, farming and service companies. By the third-generation (G3), most families own more than one business or have expanded globally. The families also have real estate, investments, family banks, venture capital funds, family offices and charitable foundations.

Considering all this diversity, we were surprised to discover these families shared eight key insights that form pathways to continual renewal and value creation. Their family successes offer alternatives to the conventional expectation that a family will eventually fragment and produce dysfunction, demonstrating a family can take initiative to counteract this potential decline.

Our intention is to help earlier-generation families build these capabilities for using their wealth wisely, and develop new generations who share and advance the values, culture and goals of the family.

Insight 1: Build and Sustain a “Great” Extended Family

What do you do after your family has created a business that produces more wealth than your family expected or needs for a full and vital life? The generative family makes the choice to use some of their wealth to create a great family as an investment in the future. They shift their attention inward after achieving wealth and business success to invest in nurturing and inner development of their family members. This is what they want to achieve with the wealth they have created.

What does it mean to create a great family? By the second-generation (G2), the family is no longer a single household. Instead, they refer to their expanding family as the extended family — the new families created by each of member of G2 who are tied together not just by blood, but by shared ownership of significant assets. By G3, the extended family becomes like a tribe that shares a business and wealth. But the meaningful relationships that make up a family do not just emerge; they must be developed. That is the task they set for themselves.

Cultivating New Generations

Extended family tribes are more than traditional nuclear families. Each generation increases geometrically and passes their culture, values, traditions and skills to each new generation. Their many related households are united by shared values, mutual aid and focus on future generations. Unlike a land-based community, they are dispersed, often globally, but retain their personal relationships and tribal identity and culture by frequent contact and organization.

Building family connection carries many benefits for future generations, the community, and their business and financial ventures. Investing in family development creates a virtuous circle with the continual success of the family enterprises.

The purpose of a family is to protect and care for each other and to raise a new generation of adults capable of surviving in a challenging world. The family is an emotional entity that uses its financial resources toward these non-financial goals. Additionally, the family has relationships, goals, obligations and concerns that go far beyond business. They want their values and concerns to be addressed by the business, even as they want to maintain their family wealth for their own livelihood and that of generations to come. A family needs to create an organized group to deal with family activities, like meetings and education, that are not related to its business and financial activities.

By G2, the family focus expands to a caring, capable, connected, responsible and impact-generating family who actively plans to benefit generations to come. Their attention shifts from outward to inward as they build their growing family over successive generations not only to sustain their financial goals, but also to support their relatives and the community with non-financial goals.

Family enterprises cannot sustain their connection without personal relationships among the widespread family members. If the relationships do not exist, enterprises may operate as a business, but not

necessarily a family. It's especially critical that these relationships span generations. This enables the family to pass a set of legacy values and mission on to the next generation, but also to be open to new ways and ventures. Generative families realize that the family has to invest in knowing and caring about each other to remain vital. They often live in different places, and therefore, they have to actively create opportunities to spend time with and learn about each other. Together, they build a family culture and set of values as they take the time to do things together as a family.

Action Steps

When it comes to creating a great family, it's all about balancing the past and the present with the future. After each insight, we present some action steps for the family to begin their own work together:

Cultivate deep personal relationships

Too many families think that all they need to do to ensure their future is to conduct short annual business meetings and name a business successor. But generative families realize that as the emerging households of their extended family disperse and move in different directions, they need to build deep, personal bonds with each other.

These bonds are accomplished by having regular family gatherings, or family assemblies, where family members get together for a combined vacation, business meeting, education session and team-building experience. There are often camps and meetings divided into generational cohorts so that each generation gets to know each other. Relatives create relationships within their generation and also across generations. Older family members mentor and teach younger ones.

Convene regular family meetings

Generative families are concerned not just about the financial returns of various enterprises and shared assets but with what they are doing as a family. Generative families have a strong need to reach out to and include the rising generations in their work as a family. They see their children as their future and actively prepare them for their future leadership of the family. They hold regular family meetings to learn together, get to know each other, and work on new ideas together.

Unless the members of each young generation come to know, enjoy and respect each other, or feel some commonality, it's difficult to find a reason to continue the family as a vital entity. That's why many families report that the meetings of the new generation — where the latter defines their own contribution to the values and vision — were an important milestone in the family's development. These shared gatherings allow the new generation, who often have no formal ownership or roles in the business, to learn and share their ideas. This empowers them, allowing them to feel they are being invited to become leaders or participants in some aspect of the family enterprise.

A family elder notes that while not every family member attends whole-family retreats, a majority of the family attends — and not because they must, but because they wish to:

What encourages everyone to come to our annual retreat is our children making relationships with their cousins. So, by the time they get into the boardroom or family council, they have relationships with each other. When my daughter and her husband, who are fourth generation, hosted our annual gathering for the teenagers, they had 15 teenagers show up — and they're instantly friends.

Celebrate and share the legacy

The family shares a special legacy and set of possibilities that are rare to experience with others. Through shared family gatherings, where the younger family members bond and learn about history and culture, the family transmits its heritage and an invitation to the new generation to become involved. If this engagement opportunity did not exist, the family would struggle to retain vitality in its next generation.

As founders grow older, they need to tell the story of the family to their children and grandchildren. They have a common legacy and stories that define who they are. That legacy includes many successes. Families perpetuate themselves by sharing their history, celebrating their milestones, and remembering past achievements.

Define inspiring, shared efforts

A family needs something to look forward to — a vision and project that engages and inspires new generations to be a part of it. Each family member has his or her own individual path, and they can make investments without being involved with each other. But a generative family decides that their work is never done and that, with their shared resources, they can do things together that they could not do individually. These projects can be financial, but more often than not they are non-financial — having to do with a unique location or philanthropic effort. This effort is new and not yet completed — giving the younger generation an opportunity to make a difference.

Increase non-financial “family capital”

There are not only financial resources and value within a family. Instead, a family is equally motivated to develop non-financial sources of value, too. Those sources include human capital, capabilities, energy and motivation that can be contributed from family members; the social capital developed by the family's involvement and contribution to the community and environment; and the relationship capital of the family's trusted relationships and organization. A generative family should create a plan not just for business and financial development, but for their non-financial capital.

Set up a family “place” that is separate from the business

While the family continually changes, it also wants to maintain its special identity and culture that may go back a generation or more. The family has to make sure that change does not lead members to lose touch with who they are and find ways to sustain common purpose. Families often have a special vacation place — a ranch or resort property or a family office — that has space for family members to gather and even keep special objects, like pictures, mementos and art, that rekindle their connection to what is unique and special about them.

Every successful family enterprise reinvents itself with each new generation. Some family members may choose to leave, while others want to participate in renewing the family and its businesses. A family has to expect to be deeply transformed in every generation, and to be resilient, a family has to anticipate and prepare for deep change.

Insight 2: Foundation of Values to Define Culture and Focus

Generative families attribute their long-term success to a motivating core mission and set of values. Their values define and sustain a consistent, resilient and successful culture of both family and business, as this family noted:

The reason we unlock our doors every day is what my mother and father taught us — and what their grandparents taught them — that this is your family business. It exists to make the community a better place and to make the family closer and happier. If it's not providing those things, you're just kind of spinning your gears. Our family business is a tool that brings the family together in a pursuit that gives us all some opportunity and some happiness.

Articulated values codify a generative family's culture and align members around it, as they move from their legacy of prior success through to the present to adapt, change and redefine themselves for the future. As a unifying and motivating force for each family, values help to recruit and rally the next generation with a sense of meaning and purpose — offering incentive to become involved in the business when they could go their own way.

Values arise from the family's legacy, but they also evolve as each new generation emerges. One family with 18 “principles” noted, “*We want to maintain the traditional values in our family system but modify them to meet changing business conditions.*” For this family, staying together was their key principle and a reason to maintain high moral standards, honesty and values; then, their goal was to cultivate and strengthen the bonds of trust in each other. They recognized that continuing family security and growth came from the following values:

- Hard work, initiative, and frugality
- Accepting, honoring, and following decisions by arriving at consensus
- Giving each individual maximum opportunity morally, educationally, and professionally
- Enabling senior members to reside or retire in their countries of choice

Values are not just about sustaining a successful business. They're also about how the business and family conduct themselves. They often indicate that profits are not the only guiding purpose for the family; their business, family and resources stand for something more than profit. There is a commitment to others —to employees, suppliers, customers, employees and the community — that must be respected. Values make it clear to all of the stakeholders what they can expect from the family and how they can be held accountable. They also let family members know what is expected of them in their own behavior.

The family, of course, supports the business, but their values lead them to also support non-financial aspects of doing business and uses for their wealth. They want to have inspiring, educational and fun family gatherings, develop a responsible rising generation, find harmony and shared activities that matter, and make their community and the world a better place to live. Because of their resources, these families decide that while each household can pursue these as individuals, they can do it better as a community.

All of these activities use resources and wealth created by the business, but are not business goals. The activities are about the impact they want their wealth to have on their lives and beyond.

Values can be unique to their entities

Values tend to look different for different entities. Individuals have values, as do families and businesses. Businesses have a values statement; generative families do as well. Family enterprises have different values statements for the family and for the business. They are related and complementary, but as each entity is different, so are their values.

Values are not static, and they certainly are not defined by a single word. Each value must be given substance, a personal definition of what it means and how that value is to be expressed. Values are also not necessarily complete; they are statements of aspiration, what people want to see. Often, they can be viewed as difficult, placing pressure on family members to act in different ways to reflect what the value expresses. And while values are often conveyed as statements of aspiration, they provide achievable projects with which to be involved. Ultimately, values are living, motivating ambitions by individuals, families and businesses: they define actions, directions and goals.

Action Steps

Too many families start and stop with a statement of several worthy but ambiguous values that they and their business represent. But creating values is a process, as is putting them into action. Here are action steps taken by the families with whom we've spoken.

Come together across generations to explore and define mission and values

The first step is for the family to come together to consider what matters to them. They must share and explore each person's individual values, as well as the values of previous generations that have led to their success. This exploration is not a quick process; it requires taking the time to get to know each other and to discuss the past, present and future. It often takes place over several meetings or in small groups.

Cross-generational dialogue about values and purpose is the foundation for family engagement in creating their future. By inviting each new generation into this discussion, the family initiates conversations that anticipate change. To hold these discussions, the family must get together regularly, build relationships, and integrate different agendas of new and growing family members. They are heirs to significant wealth; they become generative when they shift from being primarily consumers to taking on the responsibilities and opportunities that their resources provide.

Remember, affirm, and celebrate the legacy values that have guided the family and the enterprise

The family must respect its diversity in order to include all the new members and get to know what they can contribute. A family discussion of personal values, and how each person's individual values can contribute to the whole family, is necessary before considering what values are shared. A great family allows each individual to be part of it without sacrificing their individual values.

Each new generation gets further away from the example and philosophy of the founders. While the family will adapt and redefine its values with each new generation, they must learn from and begin with the values of the founders. Telling the story of the founders and learning from their example is a way to

acknowledge how the family and its heritage are special. Families sometimes grapple with the question of how to balance honoring and learning from the values of their founders and past generations while allowing openness for new emphasis and concerns of each emerging generation. This is a subject for family conversation that should not be an either/or conversation, but an inclusive one.

Create a family statement and a business values statement

The extended family should work with the legacy and individual values and come up with a integrative values statement that tells who they want to be and what they want to express as a family, a family statement. These are separate from those of the business values statement, which build upon the legacy values of the founders and express what the legacy business stands for and aspires to. The family group defines its own values, but the business values incorporate input from non-family business leaders. Ideally, the statements should not be single word values, but should express more clearly, in a few sentences, how those values are defined, seen and practiced.

Initiate specific actions to realize each value

Values are living entities and guides to action that must be embodied to become reality. They are aspirations that sometimes are hard to live by. The family should have periodic conversations about how they are living their values and how they can do better. These can be tough conversations, as the family must be honest about its challenges and even shortcomings. However, values affirm and inspire the family to reach higher. This activity of aligning behavior with values leads to changes that excite and motivate the family toward higher and higher achievements.

Insight 3: Culture Shift from Paternalism to Partnership

Family enterprise leaders and trustees are often reluctant to share information about the business with family beneficiaries. They have learned to keep their own counsel and depend on themselves and are often not used to having partners. They exercise responsibility by “taking care” of the rising generation but do not feel the need to inform them. This paternalistic style is common, but the family members we interviewed found this tradition did not allow for the development and engagement of the next generation. Without being informed, how can they learn about the legacy and prepare themselves for possible employment in the business? Family business founders all over the world, no matter the business they’re in, are larger than life. The personality profile of a business founder and wealth creator is a person in control: a person who lives the business, makes all decisions, micromanages and often finds it hard to trust others. This person is a great businessperson, but family members in the second and later generations report that this person often finds it hard to let go of control; mentor new leaders; or envision a family culture premised on transparency, trust and collaboration. Generative families shift the nature of leadership roles and family culture as they pass into new generations.

Each member of the rising generation faces a different world: Their affluence and success in business is a given; wealth has always been present in their lives. They wonder what they can do that is important and significant and how they can make a positive contribution to the family. They want to be responsible contributors. To do this, they need to be informed, have a clear path and role, and be invited to participate.

Business founders want to see the business continue and seek a successor, but they do not fully understand the need to inform, listen to or work with others in order for the next leader to be successful. Founders assume the next leader will be like them. But that cannot be. No successor can have the authority and role of the founder. If a single person is named business successor, this person does not have the same relationship with his or her siblings as their parent had with the family. Successors cannot just do as they wish; they must answer and be accountable to each other.

Families report that G2 or G3 has to redefine their culture to be more transparent, involved and collaborative. In many families, this shift leads them to initiate new activities. Thus, the second-generation must be family innovators and design a new family culture.

Rising generations are expected to become knowledgeable not as executives or business operators, but as stewards who oversee the business. Take, for example, an observation from a business leader:

I joined the Young Presidents Organization. In my first meeting, I described how we held stock in trust and I’m the managing trustee. So, I control the company. One of my friends said, “You’re in big trouble. You don’t have shareholders. They’re not paying any attention to what you’re doing.” That woke me up. We decided the best shareholders are educated shareholders, so we launched a yearly family whole-day business meeting to engage everybody, rekindle enthusiasm and generate a sense of ownership. It’s been so positive for the family to have this glue. We get great reengagement and return the next year and start all over. As a result, we’re starting to get more continuity.

Another challenge facing the successive generation is understanding that the family is more than the business, but the business is the family's fuel and foundation. In succeeding generations, members often change from hands-on owners/operators to stewards, hiring non-family leaders for the business and taking on oversight and transmission of their values to the business.

Creating this new family culture is the primary achievement of the second or third-generation. Despite all of the diversity in our interview group of generative families, the dimensions of this collaborative culture were similar. Each family faced the challenge of making the shift from patriarchal behavior— where the bulk of the family is passive and not very informed or active — to one where they are integral participants as stewards.

Action Steps

Several common activities take place as the family creates a collaborative family culture while they shift from a single founder/leader to a shared group of family stewards. Put business first, with the expectation of competence and education in every family member.

Promote communication and transparency

Generative families all hold some variant of an annual business meeting where family members are invited to attend and learn from the business and financial leaders. These events can be traditional one- or two-hour presentations of numbers and charts, but many families find ways to make them more interactive. One family with a large business “produced a very detailed annual report, not unlike that of a public company.”

Family meetings are increasingly interactive, sharing information not only on the family but also on what's happening in their various enterprises. Activities can include visits to the family business or foundation, conversations with key employees and tours of company plants, so there's a good bit of hands-on activity with what's going on in the company.

Define role for “family stewards”

Uphold collaboration with appropriate roles, boundaries, and accountability

Stewardship is a focused and accountable role. Family members are informed, and some roles are open for their participation. But each role has its limits: A board member makes major strategic business decisions, a member of a family committee or task force makes recommendations, and a family member is not entitled to employment (rather, employment in the family business is earned). Every family member must understand their role and be accountable for generational standards of behavior. Stewardship is a responsibility, not a license.

Listen to the voice of the rising generation

Young family members of a family enterprise have a role not found in other types of businesses. They're not often owners, or own only a few shares, so there isn't the expectation that the business will or should listen to them. But they are members of the family, and they expect to inherit leadership and ownership. They are the future of the family and the business. Their new ideas and energy will guide the future. Generative families realize that the knowledge and energy of young members is an important resource; early on, they not only include and inform them of what the family does, but they also invite and listen to their ideas. As members of the families we interviewed grew older and took on more active roles, their new ideas contained the seeds of innovation and reinvention that are critical to future success. This encourages the family to have meetings and discussions that listen to their new generation. In this way, the family sets up a structure for innovation and family entrepreneurship that includes the rising generation as well as the other stakeholder groups. Governance activities like family investment groups and "family banks" allow the family to actively seek and invest in innovation.

Insight 4: Build Interdependent “Pillars” Separating Family and Business Governance

A family enterprise faces complex challenges, many of them outside the business proper. These challenges are concerned with how the family develops non-financial “capital” and how they exercise positive oversight of several family enterprises. To achieve this, a business family develops governance. It must govern not only its enterprises, but also govern itself as a growing, often diverse, family. With many members and goals, the extended family must organize working groups, policies, roles, decision authority, and investments for profit and philanthropy. Both the various businesses and the family beyond the business are large and complex operations. Mission and values alone do not do anything for a family unless they are actively implemented. These aspirations need more than good intentions; they need goals, policies, organizational structures, resources, planning and commitment to be realized.

Outside the business, generative families create a parallel family organization that meets regularly and organizes a rich program of family activities that goes beyond the business, a **family council**. While many families have family organizations and reunions, a generative business family seems to need this more formal family organization to link family and business concerns, as well as fully express its values. A family council will organize regular whole family gatherings for educational events, and philanthropic activities, tying the connection of the family to its various business and financial ventures.

Family governance then connects family activities to business/financial governance of boards of directors and trustees.

The family has several tasks that are separate from the business operations:

- Develop caring, active family relationships across each branch and generation.
- Align interests and values around business and management of family wealth.
- Define, initiate, and organize family social, philanthropic and educational activities.
- Manage the boundary between family and business so that family members are treated fairly, and family matters do not undermine the business.

In order to develop a family organization, important guidelines must be in place, include ensuring transparency, providing information (with invitation to comment) and sharing ideas (but not making decisions). As a family leader stated,

It’s critical to our success that communication channels with family members remain transparent in both directions. That’s how we ensure there’s trust, harmony, and support from the family.

Inclusiveness is a core aspect of building relationships; an example of this is inviting family members who live far away or pursue independent careers to get to know each other. While they may not be full owners, they can still feel as if they are involved.

The council is the leadership group that sets up and oversees family activities just as the board of directors oversees the business. Setting up a council allows the family to give formal authority to a second set of leaders, who care about the family relationships and possess emotional intelligence. Their goal is to develop the human capital of each rising generation member of the family. They can also resolve conflict and offer fair practices and decisions that respect each individual, not just the major owners and shareholders.

Family governance offers family members who are not business oriented a pathway into engagement with the family. They can become family rather than business leaders and help the family in non-financial realms. In generative families, the family side of governance has equal importance and status with the business side and enables the family to pursue activities as a community.

Action Steps

A family enterprise usually has some sort of board of directors or owners that oversees the business. That board develops and changes its form as the family and the business grows. That's one element of governance. But as the family grows, they also begin to organize family activities and a family organization, such as through a family council. These two pillars of governance need to be differentiated while they work together.

Separate and define roles of family members and owners

Create owners' council to oversee the family enterprise

Develop a professional board for each business entity with professional skills

A family business can have a single board represent the owners if they own a single legacy business, however there may be several boards if the family also has a family office, foundation, or real estate or land trust. These boards include some family members and, over time, begin to include non-family independent members who help the family apply the best business principles while keeping the business profitable and innovative.

Set up a family council as the executive committee of the family

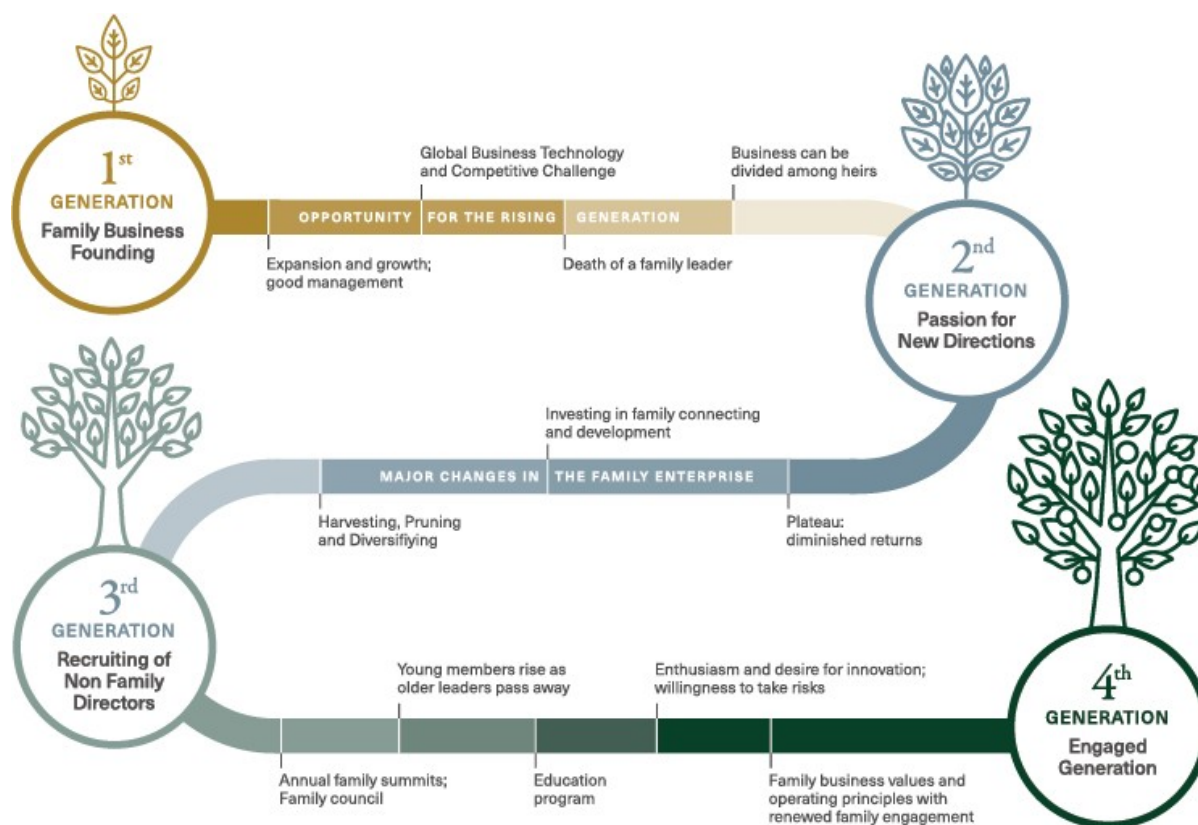
As the family grows to include more than a handful of members, it needs to define a small group that organizes, communicates and holds family activities. These activities include regular, often annual, whole-family vacations or retreats and other groups that take care of philanthropy, family property, vacations and education. A council is named, often including a representative of each family branch, to set up each family activity and make sure it happens. A family council can be as active and important to the family as its business board. In the first generation, a family may have some family meetings, but there is little need for a formal family council. As G2 siblings marry and their G3 children grow up, the family goes beyond meetings, actively setting up shared activities for the family, such as family vacations, managing family vacation houses, telling the family story and educating the rising generation.

Write a family constitution that gathers and defines values, policies, and practices of all family entities

A constitution is written by the family, drawing on legal agreements, and goes further to define each element of family and business governance: what it does, how it is organized, how decisions are made, and what family members are responsible for and expected to do. This is shared and agreed upon by each member and is a living document that offers a road map for the family. It is drafted by the family, often with a consultant as a resource, with various parts contributed by each family stakeholder group. Typically, it begins with a short statement of the mission, vision and values of the family, followed by outlines about how the family is organized and works.

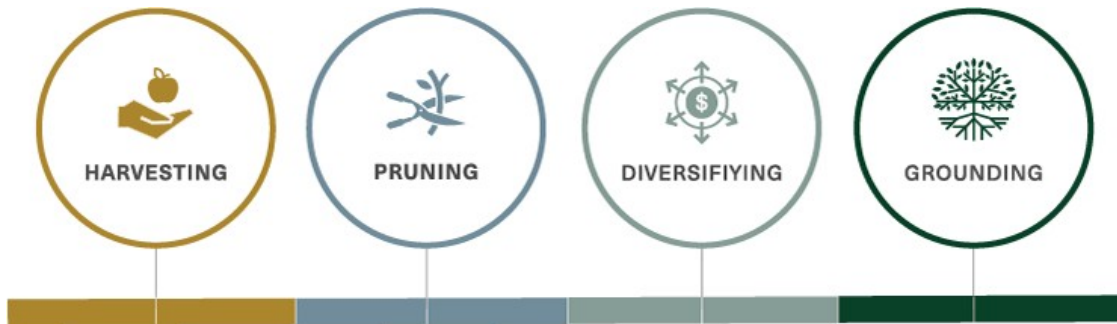
Insight 5: Continually Evolve and Renew the Ownership Portfolio

Generative families see themselves as being on a journey, continually reinventing themselves. Each family can define specific key events marking changes and developments. By the third-generation, none of the families in our study contained the same business mix with which they began. Each generation redefines and renews its business and financial activity to sustain their wealth for a growing number of family members. The old effective business practices need to be updated and redefined for new realities. The family, not designed to allow huge changes, must learn to become resilient as it faces upheaval in the business environment. As it enters an especially volatile era, it needs to deal with unforeseen adversity.



Four Transformations During Evolution

While every journey is different, families report four major transformations that occur in different ways and at different rates as they evolve.



Harvesting:

Over time, generative families harvest significant wealth from their legacy business and other investments and must decide what to do with it. Even if they maintain only their legacy business, the family accumulates wealth outside the business. Most families experience some sort of liquidity event, which is another transition point. The family has to decide what to do next and whether they want to continue as a shared financial entity. Increasing wealth, or a sudden unexpected event, creates an opportunity for the family to add assets and redefine their business strategy and mix. Generative families decide to invest much of their wealth together rather than distribute it to each owner.

Pruning:

As the family grows, some households and even branches decide they no longer want to be part of the family partnership. Every family in the study had some households choose to exit to ensure that those who remain share the values and commitment.

Diversifying:

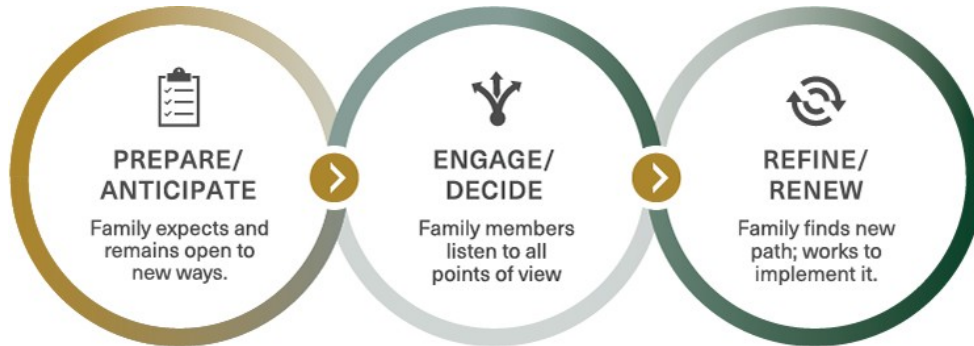
As each generation adds to the family wealth, the family works to contain a portfolio of entities. These include one or more legacy businesses, real estate assets, investments, family vacation properties and philanthropic foundations, all of which must be stewarded. The increasing mix of assets challenges the family to redefine its governance and leadership to align different goals and overcome conflict.

Grounding:

The family must take steps to sustain its identity by gathering and including new family members as they enter and come of age, reaffirming their commitment to partnership. Aligning the growing family is a continual challenge, necessitating constant exchange and negotiation. The family office becomes the home for these family and business activities.

Resilience and Renewal

There is a three-phase resilience cycle in how generative families respond to change.



Prepare/anticipate:

Even when it is not preparing for a specific change, the family expects and anticipates broad general changes, such as the need to develop a new generation of family members or prepare for a shift of customers or products. It notices early warning signs and faces their import.

Engage/decide:

As a change approaches, the family gathers to consider what it means. The family engages multiple members and listens to differing points of view before it acts.

Redefine/renew:

After the change, the family does not go back to the way things were. Members find a new path and work to implement it. While they respect tradition, they are able to let go of anything that is obsolete.

Action Steps

Look ahead to threats and challenges within the family and in the business environment

No social system is immune from change, whether a family or a business. Despite this reality, most systems expect the current reality to continue and resist efforts to prepare or anticipate change. Current success can fade as new conditions arise. Capable family leaders die, move on or lose their touch, and they have to be replaced. A family enterprise should regularly perform a Strengths, Weaknesses, Opportunities and Threats (SWOT) analysis, defining and facing up to what lies ahead. While experts can help with this exercise, generative families find that it is something that should be open and should engage a number of family members, especially young people who might see themselves in future roles. The family should set aside time to discuss their SWOT findings and consider how to anticipate and respond to them by building on their resources and making possible changes.

Allow family members free choice to leave or remain in the family enterprise

You are born into a family, but most people grow up and create their own destinies, even when they benefit from having inheritance and using family resources. However, if there is a substantial family enterprise or trust, a family member may find that the luck of their birth turns into a life sentence when partnering with siblings and cousins, who may be very different. Generative families have some trusts and holdings that cannot be split, but they usually offer an opportunity for family members to be bought out and leave some or all family enterprises to go off on their own. There are clear procedures and rules; separation is a very consequential decision, but it is a safety valve for families that run into differences or conflict about what they will do. Some families act early and split holdings to allow family branches to separate, or they offer different assets to each sibling, encouraging and supporting different paths. Not every family is destined to be a business together forever or even for another generation. Each generation should make its own decision about whether family members want to remain as partners. When involvement is a free choice, young family members feel invited to share their ideas and offer their energy to the ventures of the family. Free choice encourages active partnerships, across generations, among family members who want to be part of the effort.

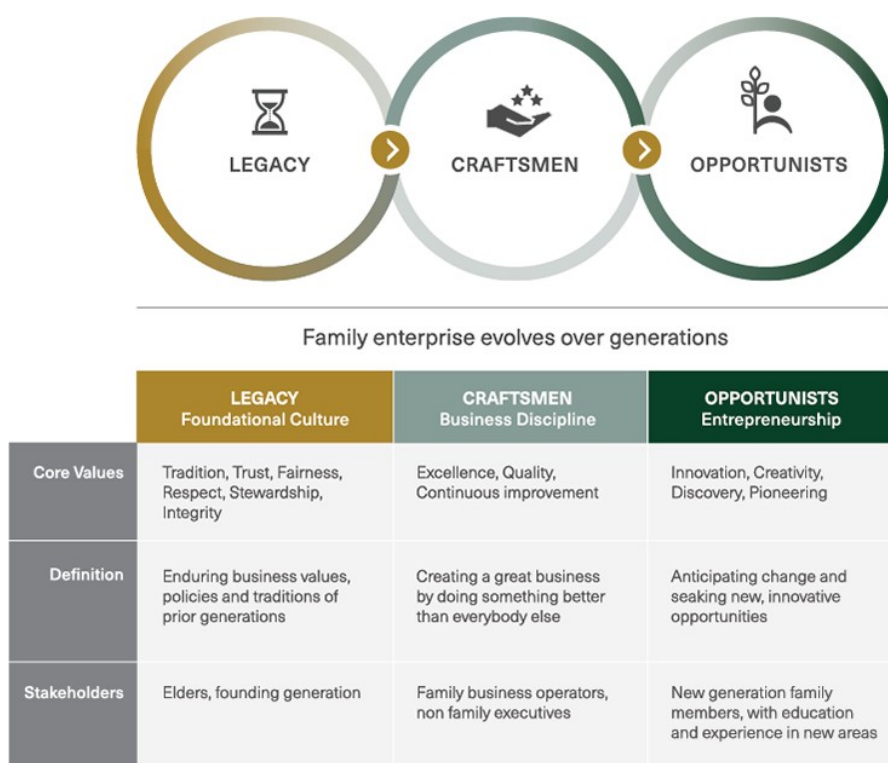
Seek and explore new opportunities through innovation councils

The family enterprise, business or financial entity has been successful for more than a generation, but change is on the horizon. Often, rising generation family members, with their education, travel and work experience, have a pulse on the future. The generative family engages family members in surfacing, developing and supporting innovations and new business opportunities. They often create a business innovation council, or family bank, to discover new opportunities for the family. Why is it important to engage all stakeholder groups, especially the rising generation? They represent the future and are expected to carry out the strategy, so it is important to involve them. Also, their creative ideas can come from areas that the elders and professional advisors are not aware of, bringing new opportunities and dimensions to the family. This builds resilience and adds an adaptive resource.

Many families set up an innovation council to surface new business opportunities, and even create a family bank to invest in new businesses. Such efforts include young and elder family members as well as advisors who add experience to the family's ideas. These efforts form the basis for the family's continual renewal as a portfolio of family enterprises.

Insight 6: Active Cross-Generational Stakeholder Alliance

Three groups with divergent skills and perspectives dominate the lives of a generative family: Over time, the business needs to move toward more professional management by including non-family advisors and leaders. But professional management is not enough; the family must also initiate a focus on change and new ventures. These twin challenges are faced by every generative family.



- **Elders (Foundational Culture):** Legacy values, wisdom, and experience of the older generations
- **Professionals (Business Discipline):** Expertise of advisors, non-family executives and family members with advanced skills Business professionals are not necessarily non-family members. Young family members can become professional managers, but they need to understand that they must develop skills, pursue education, and get work experience that is far greater than that of their parents. As the business grows and thrives, each generation must enter a larger and more

complex business and a changing business environment. They need very advanced capabilities to be able to succeed, and what they know and can do may not be enough.

- **Rising Generation (Entrepreneurship):** New values and commitment to innovation

These three constituencies can work at cross-purposes or one can dominate the others, but to be generative, they must balance and work in harmony.

Generative families engage each new generation as they come of age. They listen to their voices and see their development and commitment as an investment in the future. Innovation, new ideas and opportunities often arise from the rising generation. Older generations are stewards, sustaining family resources for the use of succeeding generations. But when their successors receive these gifts, they must be responsible, capable and prepared for the huge responsibilities that fall upon them. Even when they have many professional advisors and non-family leaders, family members must continue to innovate and renew their legacy. For example, they must listen to each other, including those who are not part of the business, to form a generative alliance.

Action Steps

Ask what each group wants and bring them together to listen and learn

Each stakeholder group in a family enterprise tends to keep to themselves and lose touch with other groups. Elders talk to other elders, advisors talk to other advisors, and young people talk to their friends and personal networks. Each one faces their own culture, and if they remain in this “bubble,” they will become less tolerant of others and less capable of working across boundaries. They associate with people who agree with them and tend to see the other groups as “foreign.” Generative families understand that they are composed of these three groups and that their fate is determined by contributions, capabilities and perspectives of each of these stakeholder groups. Each group has its own perspective and agenda, but they have to remain open and find ways to connect and reach out to other groups. Having open meetings where input from everyone is listened to and taking time to learn from each other is what the generative alliance is all about.

Build a collaborative business culture — professional but values based

The generative alliance is a professional group: It is responsible for huge business and financial efforts and has a deep responsibility for the future. The foundation of the family enterprise must contain a professional business culture that has standards and expects a certain level of competence from its members. From its values, the family defines a culture and expectations of behavior that form the foundation every family member must adhere to. For example, areas like transparency, respect for employees and environmental impact or how the family acts in public may be clearly defined so that the role of family members in relation to the family office or businesses are clear.

Develop a platform for continuity as well as innovation and change

The generative alliance is a balancing act — not just of different perspectives, but also of emphasis and efforts. It must respect and sustain the values and concerns of each member of the alliance. The legacy values of the elders, the professional business practices of advisors and the new experience of the rising generation must be listened to — but no single group can have control. New ideas cannot drown out the

need to sustain what exists: the “golden goose” that generates capital. New ideas with high risk must be prudent and well researched. The whole culture must be able to experiment with enough mutual respect and with a shared commitment so that no individual or stakeholder group is blamed if an option does not work out. A successful enterprise will make many mistakes, but it is always ready to recover and forge ahead

The core of the generative alliance is balance. In a family enterprise it means that inclusion is important. In appropriate ways, family members, elders, major owners, advisors and non-family executives all work together to guide the complex family enterprise. Each group knows its role, its responsibility, and how to be reasonably heard and involved in various facets of the enterprise.

Insight 7: Develop a Capable and Committed Rising Generation

A great business family's main "product" is its rising generation. The family wants to see their children become capable, responsible folks who care about each other, share the family values and be ready to take on stewardship of family enterprises. The elders can't ensure that every heir will turn out as they'd wish, but they nonetheless invest in activities that make this outcome likely — as shown in these two accounts:

The important matters include what we expect heirs to do, values for parents to instill in their kids and access to foundation programs. We have community projects, sending some kids to do hospital work or Habitat for Humanity, to give them a flavor of the business stuff we think is important.

People don't understand the importance of education and underestimate the time, care and devotion it takes to build a strong family. Our family business is a combination of individuation and collectivism.

The families in our study identified values and qualities they encourage in their children.

- Generosity: Give back to the community.
- Respect: Value people of all wealth backgrounds.
- Work Ethic and Skills: Have the capability to earn one's own money and find work at which they can succeed.
- Self-esteem: Find value in themselves independent of their wealth.
- Financial literacy: Handle money wisely.
- Responsibility for wealth: Do not become spoiled by affluence. Instead, understand that wealth is a tool, not an end.
- Frugality: Apply prudence in spending.
- Appreciation: Value the opportunity wealth offers.

In most families, instilling such values is the task of the individual household. But these long-term family enterprises, because of their complexity and the demands of their ventures, require this task to be shared by the extended family tribe.

Generative families develop the capability and commitment of the rising generation by a variety of active methods of engagement and learning, as these two families report:

We identify and support upcoming talent, identifying people who have an interest in learning about the business even if it is just on a family-ownership level or if it's somebody who thinks to themselves, "I might want to work at the company." How do we go about fostering that? One of the ways is getting them involved with the family council, then trying to have them learn about the business and see if it's something they might want to do later in life. The family council meets four times a year directly after the board meeting.

Having a family that's committed to family education is essential. There needs to be a driver within the family pushing it. In the early days, we held workshops on understanding personality types, communication skills and finances. Utilizing an outside source to provide some programming makes a huge difference because if you're trying to develop these things on a one-off basis, it's incredibly time-consuming. Years ago, we developed a longer-term curriculum of what we cared about having our kids learn. Then we looked at the components and identified the things we thought made sense for the kids to learn together in a common space or place. We then identified the things that we felt were better taught and learned within the branches of the family.

Generative families also develop educational and skill development programs for the rising generation. These go beyond information sharing to develop the new generation's capability to take on leadership in the family enterprise. They teach relationship, financial and business skills — skills they wouldn't necessarily learn in higher education.

Family business education is not simply “delivered” to the youngsters, it combines active engagement from them and leadership from the elders. These programs can be similar to experiential corporate training. Like executives, the young members learn to work effectively as a team, overcoming (sibling) rivalry and removing conflict from the family:

We have done age-appropriate work with the young generation, including self-development, leadership, understanding self and basic entrepreneurial practices. We review every acquisition we've conducted and review our financials twice a year with them. They've gone through our tax returns in detail and been to such things as product launches, grand openings, and site expansions. If they want to have a car when they turn 16, they must make \$5,000 on their own by, say, lifeguarding or cutting grass. We've also designed a summer experience for teenagers where they spend time in finance, IT, strategic planning, human resources and small-business initiatives.

Mentoring is the pairing of a young family member with a trusted senior person who helps them develop skills to work in the family business, and to whom they can confidentially open up about their anxieties. The mentor can be another family member, an independent board member or non-family executive, as this family council leader reports on fourth-generation (G4) members:

Our G4 are in high school, ready for summer jobs and internships. We create opportunities for them to work in the business at age 15. We also focus on educating our G4s about the business, what they're a part of and what they've been born into, along with talking about wealth and stewardship.

Mentoring and career development serve a dual purpose for qualified family members, helping them prepare for their career of choice and/or part-time governance roles. Being part of these efforts offers the rising generation visible opportunities to add to the family's social and business mission and demonstrate leadership abilities.

The family encourages young members to develop on their own, apart from the family enterprise. They want them to develop skills and experience the family does not have by living and working in ventures that can add to the family's capital. After developing skills and credibility by working outside the family, members gradually bring what they have learned back to the family by becoming involved in governance activities.

The generative families invest time, energy and resources in engaging and developing their new generation. By teaching values and developing skills, the family expects to overcome the threat of having unproductive or entitled heirs. The family invests in their children, and teaches their values and mission, to sustain the family enterprise.

Action Steps

Develop a family education program

Families regard transparency as a core value. But giving information to young people who do not understand it makes no sense. A large and complex family enterprise finds that what family members need to learn is not taught in school, even in business school. They create customized seminars and learning activities for young people, which enable them to do something together while learning about the business and family enterprises. They are also a vehicle for teaching the family values about business and money. These learning programs often take place at family assemblies but also, increasingly, can be online or in special sessions, perhaps guided by business and financial advisors. Regular briefings on business activities, major projects or new investments can get young people excited and help them realize that this is their family doing wonderful things.

Convene a rising generation council for young family members to define the family's future

Offer opportunities for active learning and involvement in the businesses

As young people grow up, they become increasingly curious about what the family does. A business or family office can be mysterious, and inviting young people to visit, be briefed, or work in an internship or summer job can bring what the family does to life. They also help connect young people to what the business leaders do and what they care about. The generative family should find ways to invite young family members to learn about what they do — in their businesses, family office and philanthropic activities — actively and directly. Many families offer a summer internship that becomes an important event when young people look ahead to what they want to do in their lives.

Support career planning, mentoring and personal development of the rising generation

Generative families are not just looking for a single person or people who want to make the family business their career. Their next generation are the “product” of the family, and the family wants its resources to help each individual become the best and most capable person they can be. Each young family member can be encouraged and helped to form and continually update a personal career development plan. Families want to invest in their rising generation. Generative business families offer resources to young people and encourage them to use them. They offer coaching and mentoring, assessment and career planning, to learn their capabilities and discover what they might do. They want each young person to find a path to be responsible, capable and excited about what they do in the world. They use their resources to encourage them plan and make good choices.

Create a talent map and qualifications for family roles and responsibilities

The generative family looks to the future, to sustain and build upon past achievement to create future value. The family needs young family members to eventually take on many responsible roles contributing to the family.

These are often not full-time jobs; rather, they are roles that take some time in an otherwise busy life. In

order to encourage and prepare their rising generation for these roles, a family can create a “talent map” of the possible roles — board and committee memberships, projects and service roles — and define clearly what capabilities they require. Knowing this, young people who want, say, to be considered as a member of the investment committee, or as a board member for their philanthropic foundation, can make their interest known and undertake to prepare themselves for this role. Having this map encourages young people to step up by showing them that a role is not an entitlement, but a responsibility and an opportunity to serve and give to the family.

Insight 8: Work Together to Build a Better World

The philanthropic spirit is the key component of ensuring that we never forget where we came from, giving back is a piece in the puzzle, it's not only an opportunity, to a certain degree it's a family obligation. A key question preoccupying generative families is, when you have great wealth, what is it to be used for? The whole family is concerned about the impact of their wealth on the world and how their business and resources make a difference in the world. Rising generation family members, particularly, are often less interested in the family enterprise unless they can work together in service of a larger social impact. The generative family sees social impact not just as philanthropic activities, but in the values they espouse with their investments, and the environmental, social and governance responsibilities of their businesses.



This spirit takes several forms in business families:

- Pursuing philanthropic efforts, including creation of charitable foundations, as a family and with the business.
- Defining social responsibility and affirming values for family enterprises.
- Conducting impact investing, aligning values and profitability.

While these seem discrete and different, a generative family sees them as connected and finds ways to have social impact through all of them.

By the third-generation, the family focus often shifts to social values and activities done by the family as:

- A visible way to give back and create a sustainable future for their grandchildren.
- A shared passion that draws new family members together.
- A setting for next generational learning and development.

These activities align the public and private family; the personal commitment of family members gives the family meaning and identity, and this identity becomes a public statement of who the family is and their social commitment, as these two accounts illustrate:

You must decide what and how we're going to create added value for humanity, for people. Then we come back to responsibility — if the family decides to maximize making money, that's easy and then you can do anything. My grandmother told me: never do it for money because you will never be successful or have enough. Create added value for the people around you. If you do that better than anybody else, then you will make money.

Money is a consequence; it cannot be a target — maximizing shareholders' value to me, the whole free market economy. Our company should be part of the solution of the world problems, not part of the problem. And I hate the rules of Wall Street and our attitudes to always make more money. This is not business; this is a casino. It goes back to being in there for the long term. We're best placed to be the champion of sustainability, and I'm sure that others will follow. We're still under the radar. But eventually with the new balance of power, those who really add value to the world will be appreciated — well, that's the belief, the faith. But it's also a necessity to keep our free-market economy alive. If I listen to my grandchildren — that they are also balancing between having a good life and having fun and doing that in a sustainable manner. I think the next generation will be a partner in that effort, that ambition.

The family's values can be expressed through philanthropy, corporate social responsibility and impact investing. These activities offer pathways for the family to work together across generations while serving others; they can even furnish career options for young family members.

A common theme among our generative families was gratitude and responsibility to give back. A family philanthropist notes,

The first question I always ask is, tell me why you're doing this? It all starts with a sense of gratitude. They feel there have been blessings and gifts they've received. They're grateful for those gifts, they're grateful for those who made them possible, and they want to give back.

One family leader echoes the sentiments of many in expressing the naturalness of this attitude,

Earlier generations made a lot of money and gave back a lot of money. So, this is a family value that has endured — we've always had a foundation and always contributed to the community. We reinforce this by having a community service project."

The visible and tangible expression of values in the community has a deep impact on the family as well. The giving focus offers a way for the family to contribute to projects that make a difference by working together. They are a pathway for involvement that offers opportunity for family members who are not part of the business, and a way for the family to build positive connection and express who they are. Family philanthropy and social purpose are held as the core reasons that a family is able to sustain unity and commitment across generations.

Generative families extend their definition of family to include non-family advisors, employees and community members. "We offer a decent job to more than 1,000 employees on our farm and help their families put food on the table. To make our surrounding community healthier and more secure, we are constantly looking for innovative ideas to give back and help decrease unemployment."

Working together as a family to do good, particularly in one's community, becomes a powerful win-win, benefiting not only those to whom the service is directed but also the family as a whole. It deepens family relationships and brings families the joy of making a positive difference in the world. This is particularly impactful for the rising generation, giving them a sense of their ability to effect positive change in the world.

Some families tend to go on service vacations, offering help in community projects. One family recalls a trip

to China with some as young as preteens. They saw the social challenges facing China in the early stages of its development. The trip became a learning touchstone for the family, helping them set a global philanthropy focus.

Our research found that successful families who survive beyond their third-generation attend to the care and development of their family and their business. They consider this internal investment one of the most important ways to use their wealth. While business savvy and adaptability are important, they view the foundation of future success lying within their extended family and non-financial capital — including the development of the character, capability and commitment of each new generation.

Action Steps

Model giving and service early

The family demonstrates commitment to service in their community by doing projects together, by sharing projects and commitments by the family, and by talking about what is needed in the world. They teach their children to contribute financially and personally.

Define values outside of business, focusing on the world we want to see

Families talk about the challenges, inequality and pain they see in the world, and their own role as people with advantages to make a difference. They talk about the responsibility and expectations they experience, and what a responsible person can do to make the world a better place. They encourage each person to define their own values and take steps to make them real.

Create projects that have meaning for the family together

The families expressed their shared values by taking on specific projects, where they contribute resources, time and energy to make an impact. They align over several shared goals and enjoy working together to contribute. This provides an opportunity for generations to work together.

Tie business to social goals and values

Their values are not disconnected from their business and financial behavior. They want the values and behavior expressed in their economic activities to be aligned with their values. They look at the social impact of their investments, their business behavior, and actively seek ways to increase their positive impact on the world.

Setting Your Family Priorities and Key Actions: 8 Insights Worksheet

To help in your strategic planning for your family or a client family, you can use this worksheet to define the possible steps and priorities for each Insight to support the creation of a **Family Development Roadmap**. For the greatest effectiveness, this would be done directly with the family.

INSIGHT	WHAT WE DO NOW	EFFECTIVE 1-7	IMPORTANCE 1-7	WHAT WE MIGHT DO
BUILD GREAT FAMILY				
FOUNDATION OF VALUES				
CULTURE SHIFT				
FAMILY & BUSINESS PILLARS				
EVOLVE & RENEW				
CROSS-GENERATION ALLIANCE				
DEVELOP RISING GENERATION				
BUILD BETTER WORLD				