By **Fredda Herz Brown**

Sustaining Family Enterprise and Resilience

Plan for course corrections by focusing on five dimensions

In this age of rapid information flow and a global economy, family enterprise is challenged to define a steady course and yet be ready and available for quick course corrections. In addition, the changing demographics of families themselves makes the task even more complex. People are having longer, more vital lives; there are various forms of joining a family other than birth; and marriage itself is more complex.

While the unique characteristics of families that share ownership of assets may tend to make them less amenable to respond to these changes, focusing on sustainability will enhance their resilience. After all, marrying a family to an economy creates complexity or obstacles that, when surmounted, can create economic returns and a sense of accomplishment.

The sustainability of the family enterprise depends on its ability to balance the steady course with the nimbleness to plan for course corrections. It's been my experience that families are more able to meet the challenges described above when they've developed structures, policies, procedures and behaviors that provide a backdrop for their lives and their decision making. These will guide their steady course and form the foundation for examining the need for course corrections. In my work on sustainability, I've defined five dimensions to which a family enterprise must attend: (1) family legacy and connection; (2) governance (structures and processes); (3) financial accountability and management; (4) human capital; and (5) leadership development and giving/generosity.

While each of these dimensions provides the foundation for steadiness and preparedness for course corrections, it's the process of working to develop each area that offers a chance to learn to make decisions and thus provides a further foundation for course corrections. Let's look at each of the dimensions.

Family Legacy and Connection

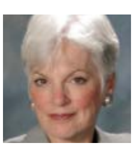
Families need to honor and acknowledge their legacy, as well as the changes that occur as they grow, such as the addition of in-law family members and their cultures, the increased geographical diversity of the family and the increased number of family members. Families that can deal with this increasing diversity and remain connected provide a good structure for themselves and their businesses. Families can remain connected over time through behaviors such as family meetings and retreats, family newsletters, family storytelling and emails.

These family-oriented structures also provide far more than the chance to share information, which in itself is important for inclusion and keeping everyone on the same page. These structures also provide opportunities for members to learn about other family members, experiment with decision making and experience the collaborative process of working on a joint mission and vision.

Governance: Structure and Processes

Governance is a fairly new terminology attached to family enterprise, and it refers to the structures and processes that the family uses to make decisions about its total enterprise. It begins with clarity regarding family values and the development of a family mission and vision, which guide the family in its pursuits. It then develops into methods that permit the family to govern itself in keeping with those clearly stated objectives/goals. Each generation must re-examine its goals/mission and vision of the future.

The values of the family and mission for its holdings



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will form the backdrop for the businesses themselves. Checking against its mission allows a family to affirm the fit or lack thereof between the business(es) and its values. It can course correct a more planned process for the business and the family.

In addition to the values, mission and vision, the family must clearly define the connection between structures for ownership representation/voice and corporate governance. Everyone needs to be clear about when they have a voice, representation or a vote.

Financial Accountability

From my conversations with senior family members, it's clear that they worry about how the next generation will manage the family financial inheritance.

How a family approaches development of its human capital can determine its long-term sustainability.

A family enterprise is a shared family economy, in which members rely on each other for successful management of finances. A powerful heritage unites them —a successful legacy business, a strong family web of connection and a name with significance and equity in the community. Their shared financial accountability for the enterprise intensifies the bonds and thrusts further responsibility onto family members.

The challenges of financial accountability can be daunting. How does the family meet the current capital needs of its members while still assuring that there will be sufficient resources for future generations? How can it be certain there will be enough, without knowing the future? Over the course of the last decade, we've all had stark reminders of how unpredictable our world can be, and how transient money is.

Gaining insight into its shared financial responsibilities can help a family shift from simply owning a business to being concerned with return on investment. Preservation of wealth doesn't lead to sustainability. Families usually have to commit to a policy of growing their wealth or agree to settle for the alternative, namely, taking less and less over the years. The shared economy benefits when individual members see themselves as co-creators of wealth, embracing an entrepreneurial attitude that asks, "How can I contribute to the family's productivity and development?" Without this focus, family expansion can risk exceeding the growth of family assets.

Adopting a focus on the future is critical. Many factors are involved: spending rates of family members; how current spending rates affect the ability to provide for the next generation; what assets should be provided for the next generation; options for growing assets; when and how to diversify; and the difference between diversification and dividends. Those families who adopt this perspective are sure to become sustainable. Involving the next generation is instrumental to this effort.

Human Capital

If we command our wealth, we shall be rich and free. If our wealth commands us, we are poor indeed.

—Edmund Burke

Family wealth is more than its financial wealth. It's the total of a family's well being and the balance of its economic capital and its intellectual, emotional and social capital, that is, its human capital. Families that have wedded their financial and emotional worlds face both increased risks and opportunities. Without acute and diligent attention to their human dimension, they're further increasing their risks and impeding their financial prospects.

In developing human capital, a family strives to assure that each individual has a concern for himself, for others in the family and for the generations to come. How a family approaches development of its human capital can determine its long-term sustainability—enabling each generation to address its own needs while also equipping future generations to provide for themselves. When there's a commitment to the development of human capital, and it's viewed as an enduring value among family members who share assets, sustainability of the enterprise is virtually assured.

Family enterprise is a human laboratory for the development of young people. They can learn about a variety of areas related to family, relationships, business and the global nature of our world. The trick for families is to define what's important for their sustainability. For example, they should consider:

- What personal and professional competencies to develop to ensure longevity and prosperity of its enterprise
- How to measure their effectiveness in developing their human capital and selecting their leadership

Considering such factors well in advance of major family transitions will allow for orderly succession planning and smooth change.

Landmark new research is showing that relationship-based competencies may be among the most important for those who lead family enterprises successfully.[1] In what may be the largest research pool surveyed among family enterprises, more than 550 individuals—working family members, non-working family members, peers, subordinates and senior leaders—were queried using a 360-degree assessment process.[2] Relative Solutions developed this process, called the "Family Enterprise Leadership System." The 550 raters evaluated the 6-year performance of more than 40 next-generation family business executives. Their ratings of the most important competencies showed that factors related to emotional intelligence skills were more important than the organizational, business or technical competencies traditionally used as leadership measures.

Generosity and Gratitude

Sustainability of self also infers sustainability of others. Being internally focused on one's own continuity without doing the same with regard to the social compact is a losing proposition. Families don't attain their sustainability without being grateful for the contribution of others, such as employees, vendors and even advisors. Being aware of your place in the world and your responsibility to bring others along as your circumstances improve is an equation for making the world a better (more sustainable) place for all.

For families, this means connecting young family members to a sense of "a rising tide lifting all boats." Creating experiences that connect the younger and older generations to the life experiences of others and to the notions of conservation and environmentalism are often starting points. Having the experience of working with others of different economic means keeps families connected to their place in a community and underscores the mutual responsibility the members of a community share. Many families do joint service projects as they prepare their family members for the experience of philanthropy.

When we first developed this 5-dimension model and the concomitant index, "The Family Wealth Sustainability Index," which assists families to assess where they are in terms of the five dimensions, some suggested that the generosity and gratitude dimension was a value judgment on our part. That didn't fit with our experience of families, and recently, we decided to incorporate the ideas of generosity and gratitude as reciprocal ideas in the context of living in a community, whether local or global.

Without a sense of looking outward, families can develop a more narrow sense of the obstacles that others face in being sustainable and how that might impinge on their own continuity. We're a global planet with global connections, and how one part is doing impacts the other parts.

Sustainability and Resilience

Families who've attended to the necessary ingredients of sustainability are those that have or are developing the basis for continuity by providing the foundation for a steady state and for examining the need for course corrections. Resilience is defined as "the ability to recover readily from illness, depression, adversity or the like; buoyancy."[3] This definition and the research on resilience suggest that people not only recover and return to their previous state but also seem to do so in an improved or better way; they actually gain something in the process of dealing with adversity, which is the ability to deal with other instances of adversity. For our purposes, resilience seems to be a necessary ingredient for making the course adjustments for sustainability.

There have been arguments over whether resilience can be innate or developed. Are there certain types of families that are more resilient? Can advisors do anything to assist families in developing resilience? Is there such a thing as too much resilience?

It's been my experience that the very nature of family enterprises makes them less resilient. They tend to be focused inward, protecting their external boundaries so that their private data isn't open to public view. Making mistakes carries a big weight in terms of personal and enterprise risks. The economic future of family members and branches are tied together, increasing the risk to both the family relationships as well as the family enterprise. That shared risk may inhibit the family members from making big decisions and may blind them to inherent obstacles. In addition, the focus on continuity often prevents them from looking closely at the choices they have in the industries of which they're a part or may

be of interest.

At least two decades ago, family therapist Dr. Froma Walsh focused her work on understanding individuals and families that managed to be resilient in the face of disruptive life challenges. Over all, what she and her colleagues found is that individuals and families that demonstrated resilience were those that shared some key interrelated aspects to their lives, which, built upon each other, created resiliency.[4]

These key aspects centered on a family's belief systems, its organization as a family and its communication and problem solving. It seemed that families that were able to assist their members to favorably weather a crisis or untoward situation were those that had a world view that anticipated situations that demanded more of a reach to master and that, by their nature, were growth enhancing. They believed that it was possible to master a situation and get to a positive outcome. They viewed the "crisis" as a meaningful challenge. Supporting this approach was a strong belief system that focused on the values of connection and positive outlook and purpose. While believing that change is possible and life enhancing, these families also shared an ability to tolerate uncertainty and accept what can't be changed.

Organizationally, families that bred or fostered the development of resilience were those that demonstrated flexibility in their approach to life tasks. They were able to both rebound and adapt to new conditions but still provide a sense of stability, dependability and predictability to their members. They could be counted on, and their leaders, whether parents or other family members, were able to nurture, guide and protect when necessary. Parents demonstrated an ability to work together as co-parents with mutual respect and encouraged family members to collaborate and not let grievances affect the connectedness and support of each other.

While one might think that financial resources were instrumental to the way families faced adversity, it was more the ability to mobilize resources in terms of kin and community networks, including models and mentors, which seemed to hold them in good stead. The ability to have a good work/life balance and provide family members with a sense that they have resources to draw on went a long way toward ensuring the ability to be organized to meet life's adversities. Of course, one could argue that those families that were less economically secure were more likely to have adversity but that isn't necessarily a direct correlation. Having more economic resources may provide some insulation against the development of the personal processes necessary to deal with adversity itself.

In terms of communication and problem solving, resilient families were those that worked toward providing a variety of opportunities. These families strove for transparency in information sharing as well as the ability to share openly both painful and positive feelings and interactions. Differences among family members tended to be viewed as opportunities for collaboration and problem solving, which tended in general to be very resourceful and creative.

Families tended to focus on goals and take concrete steps to build successes but, most importantly, learn from failure or mistakes. While dreaming and envisioning possibilities and positive outcomes were noteworthy, being proactive in anticipating obstacles in their paths was viewed as a necessity for success. There was an effort to consider dreams and obstacles as a collaborative planning process among family members of different generations and ages. In her book, *Mind in the Making,* Ellen Galinsky also notes the importance of dreams and predicting and planning for obstacles. The recent research on the importance of mistakes in the development of an individual confirms these findings. Furthermore, the impact of personal stories of struggle to overcome obstacles from people of kin and community networks provides further positive support in this area.

Providing a systematic approach to sustainability permits a family enterprise to have structures and policies necessary to make course corrections and demonstrates a family's resilience. However, a family's experience with adversity and mastering obstacles gives a family the tools it needs to better handle these challenges in the future. Advisors who view their roles as providing families with solutions, rather than assisting them to develop their own solutions and deal with challenges, do families a disservice.

Endnotes

1. Dr. Fran Lotery, "A Development Plan for the Next Generation," *Family Business Magazine* (January 2012), *www.familybusinessmagazine.com.*
2. *Ibid.*
3. *dictionary.com*; Merriam Webster.
4. Dr. Froma Walsh, *Normal Family Processes: Growing Diversity and Complexity* (2012).