

Beyond structure: Planning for a future – and a family – you can't predict

Structures are useful and necessary, but merely having them in place won't ensure continuity.

By Debbie Bing

RECENTLY, I BEGAN helping a fourth-generation family plan an ownership and leadership transition in their 100-year-old manufacturing business. While many families at this stage are playing catch-up to establish long-overdue practices and structures, this family had done everything “right.” They had pored over the studies on how hard it is to make generational transitions, they had read the books on how to avoid the pitfalls and worked with many experts over the years to help them through some of the inevitable challenges. They had multiple binders documenting the expansive structures they had created to plan for a growing family: elegant estate plans, complex ownership and trust agreements, comprehensive family constitutions, charters and governance bodies laying out the answer to questions about purpose, decision-making rights and inclusion rules. Yet they felt the challenges they now faced were unlike those they had contemplated. Their binders somehow didn't contain the answers they needed.

What is it about today's growing families that stretch the limits of even the best-conceived structures and plans? Our field has become so expert at defining structures to manage complexity—of wealth, family and business—that we now find a disproportionate amount of effort and energy going into their creation. Yet we also find that many fall into the trap of believing that structure is an answer to everything: how to include members of the family you never knew you would have, how to distribute and protect wealth, how to ensure (or prevent) inclusion, how

to contend with all possible differences, and more.

Here's the catch: Structures are no doubt useful and necessary, but they are not sufficient to get the full job done. They don't substitute for knowing your family and spending the time together that is needed to build common ground and resilience. And how could structure alone plan for a future in your family and business that you can't predict?

An evolutionary perspective

Twenty years ago, many of the structures we now see in place for families were not widely implemented. “Governance” was not the buzzword it is today, and financial planners had far fewer tools and alternatives. As families and their planning needs grew more complex, advisers innovated appropriately, and we now see an unprecedented level of sophistication in the structures available to manage the future. Families have heeded the sound advice now available, and the results have been good. But as with any evolving system, nothing stays static, and we now are beginning to see the natural limits of structure appear. Here are some of the reasons.

- ***It's a numbers game... and chances are you can't keep up.*** As families enter the third and fourth generations and beyond, there are more stakeholders in all roles. Some families have hundreds of shareholders and/or hundreds of family members with some connection to the business. There are those who work in the business and those who don't. There are those who are owners and those who are not. There are those who are closely connected to the family history and legacy and those who are not. And the list goes on.

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As family members and roles proliferate, so does confusion about the rights, responsibilities and expectations of those across different roles. It becomes increasingly difficult for structures to stretch far enough to provide what is needed across exponentially growing numbers of interests and needs.

• **Interests and circumstances diverge.** As families grow, so do their interests and circumstances. It is harder to sustain “glue” that keeps family together. What are “shared values” across a group of 500? Consider the example of a family that had grown from 50 to 200 family members over three generations, and now faced the question of whether they should continue to bring people together each year to celebrate their shared history. “We barely have anything in common anymore, and we don’t even know each other,” one family member said. “It’s hard to get people to come!”

In some cases, household wealth, connection to the business and views about the world vary so significantly that it is hard to imagine what could possibly tie everyone together. Political coalition building becomes an important skill for those interested in fostering glue. Different life stages add to the force of diffusion. When family meeting time roles around, organizers begin to hear excuses like “I can’t take time away from my job/kids,” or “I live 5,000 miles away; I don’t want to use my time off to come back for family gatherings.”

What good are family governance structures if they can’t get people interested in coming together *in some way*? Keeping a growing family connected and interested *enough* in what binds them together requires a different kind of thinking and work. Structure is the starting point, but this works only as a vehicle for the ongoing dialogue and interaction that are truly needed to enable continuity for future generations. Developing structures is hard work, but the hard work doesn’t stop there.

• **Families look—and are—different than you imagined.** All the creative planning cannot predict the size and shape a family takes over time. A family’s story might include divorces, unmarried partners living together, religious intermarriage, blended families, geographic dispersal, lots of family members and branches, decreased interest in the business and/or connection to the past, and more.

This raises at least two challenges: (1) There is no structure in the world that can accommodate every possible scenario, and when a structure doesn’t contemplate any one person’s circumstances, it begins to lose its validity. (2) Even if there were such a structure, these differences are not just details to manage; they raise important questions about the commitments families choose to make and the goals they decide to set. Structure can’t substitute for the discussion that is needed among families about what there are trying to achieve—minimally at each generation, but hopefully more than every 25 years.

• **Structures are created for specific purposes, but they can’t possibly account for all purposes.** A family

business has many planning needs, so many structures are available to achieve that planning. But what works to advance one set of goals may work at cross-purposes for others. For example, over the last decade, there has been amazing innovation in the kinds of tax planning and financial structures you can put in place to manage wealth in the best way possible for future inheritors, and many have rightly availed themselves of these. But fast-forward a couple of decades, and we see subsequent generations confused about their rights and responsibilities in regard to these structures. Trusts are not meant to be business tools, yet they often get confused with them.

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Consider the 100-year-old family business we began with. The family received great advice about trusts and beneficiaries and were able to create a system that parsed multiple parts of entities and assets in 10 different ways, protecting inheritors and their parents from tax liabilities and other risks. Similarly, their family constitution had guided the inclusion of a whole generation of children. At a major generational shift, however, they suddenly weren’t sure how to manage the difference between financial ownership and control, and the size and shape of their family was testing the limits of their constitutional mandates. There is a potential structural resolution to every dilemma, but they had hit the wall. They realized that the structure had become overly mechanistic, obscuring the need for a conversation that could deliver solutions, but also enable them to achieve their ultimate goal: continuity.

Thinking beyond structure

If you can’t predict the future, what *can* you do? While each family must travel their own unique path to reach the destination they choose, here are a few ideas about where to start.

• **Think foreground/background and ensure good integration of structures, practice and process.** Don’t throw out the structure, but do think beyond it. Estate plans, governance bodies, employment policies and other structures facilitate the “softer” elements of longevity. Take the example of a family assembly, which has a specific charter and often is part of a larger set of governance structures (board of directors, family council etc.). Getting a family assembly in place for the first time is hard enough, and families spend abundant energy mapping

out the purpose, convincing people to get on board, determining funding mechanisms and participation rules, and more. But this is just the starting point. Then the work begins on a myriad of issues that will actually have the structure successfully advance the goals it is meant to serve. After the family assembly is created, for example, the family must design a focus and experience for assembly meetings, ensure that the right topics are being discussed and the optimal level of participation is achieved, and plan for the most effective ways to enable voices to be heard, among other tasks.

Defining the *right* structures for a family's needs at any given time is also necessary. With more members and many more differences among them (which is what happens when families stay together long enough), even more attention should go to how the parts fit together. I recently talked with a family member who couldn't remember the different missions of the three committees his family had established in their governance plans, or who served on any of the committees. He did, however, remember that his cousin had called him several times to get his input on an upcoming meeting, and that had made him interested in coming.

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• **Cultivate people, not structures.** In growing families, you will never get everyone engaged in the same way—or even engaged at all, though this is a great aspiration. Having enough leadership in every generation is a minimum starting point. In every family (even in very large family groups), there are a few people who are central to continuity and connection. They may or may not have “official roles” in the business or the family, but they are real leaders who use the glue that has been created to keep others engaged in some way. They are often people who are magnets, fun to be with and sensitive to others' feelings. They're ones whom many identify as connectors.

In one third-generation family enterprise, for example, the cousins were drifting away from their connections to

their family's shared endeavors. While many were busy with their lives, jobs and individual interests, two of the cousins, who had been close to their grandfather, emerged as leaders of their generation. With little support and nothing beyond legal trust structures to tie them together, they launched a family survey. They called more than 25 family members to determine the range of interests across the group and explore how to unite the family around a joint vision and a set of activities to continue their legacy into the fourth generation. A few years later, many of their cousins mentioned that initial phone call as a turning point. One of them reflected, “If Susan was taking time out of her job and family to talk with so many distant family members about what was important to them, the least I could do was carve out time for a call. And after talking with her, I knew that she would actually do something with my input!”

Sometimes these leaders emerge naturally, but more often, they have to be actively cultivated. Many families have created leadership training opportunities (structures) to support the professional development of family members in order to spot—and then cultivate (practices)—talent in the family.

• **No matter what, plan to adapt!** The one thing families can count on is that whatever structures they agree to in this generation will not be sufficient to contend with the full set of issues that are likely to crop up in the next. Rather than feeling defeated by this fact, use it to your advantage.

Structures must be revisited in every generation. The process of doing so can help achieve the goals that structures are intended to advance. Some families have begun to build into the structures they create “mandatory review” periods, putting in writing that after a certain number of years, the structures will be reviewed against current needs and interests and adapted accordingly. This accomplishes two things: It builds in an expectation that things will change and a mechanism for facing those changes when they come; and it sends a clear message to each generation that continuity and connection are more important goals than any other “rule” or arrangement put in place for specific reasons.

I applaud the families who have done the hard work of building structures of all kinds to make it easier for future generations. They are guided by the best intentions, and it takes hard work and compromise to create these entities. At the same time, it is important—if sobering—to realize that structure is a starting point for, and not the culmination of, the work that is needed to ensure continuity. And while no family can predict the future for their family, they can build the processes and practices that prepare them to continually adapt. FB