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GENERATIONAL WEALTH PLANNING

The Family Governance Table & Chairs: *Function Driving Form*



BY TIMOTHY J. BELBER, JD AEP®

THOUGHTS ON FUNCTION

There are a large number of books and sources on the structure of family governance. Several have been listed at the end of this paper. For the greatest part, all deal with structure and form. Family Councils, Family Boards, Boards of Advisors etc... are common topics. Our purpose is to look at function in light of preserving family harmony over multiple generations and the roles of both the individual and the family as a collective. Webster defines governance as the rules, processes or laws by which businesses are operated, regulated and controlled.



Webster defines governance as the rules, processes or laws by which businesses are operated, regulated and controlled. There is a simpler way to look at it. In *Family Wealth*, James Hughes describes governance as the way we make joint decisions. For our purposes governance means the way we make joint decisions while striving to maintain family harmony and nurture the family's human and intellectual capital.

This then requires two conditions:

- Individuals who are prepared and able to 'show-up' effectively; and
- A process which those individuals trust and are willing to honor.



SECTION ONE

Showing up Effectively

Showing-up only means how prepared is a family member to sit at the decision-making table. Effectively showing up requires both physical and emotional readiness. We won't spend time on the physical component other than to say that an individual's diet, exercise and sleep habits can either positively or negatively impact the quality of their decision making work. When a family articulates and supports health as a core value, the odds improve that their governance strategy will be more effective. The emotional component principally involves the mindset individual members bring to the table. There are six major components (tools for the individual) that go into having a healthy mental mindset to work on family governance issues:

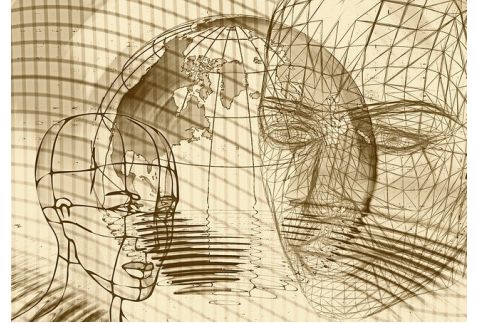
1. An understanding of the **five capitals found in every family**
2. An understanding of **roles**
3. An understanding of **ownership versus management**
4. An understanding of the **value of differences**
5. The ability to adopt a **beginner's mind**
6. An understanding of the **impact change has on an individual**

Each of these six is a subject for further discussion. We will overview the key concepts and ideas associated with each one.

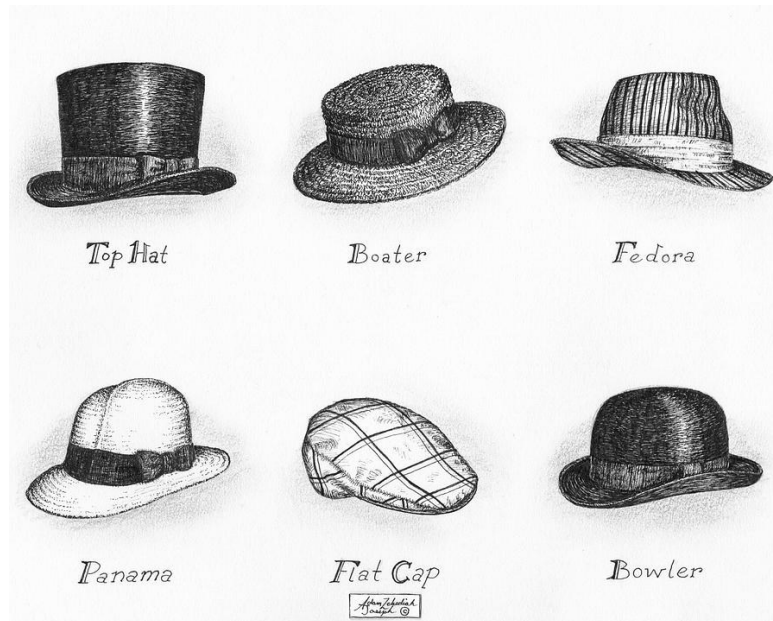
The Five Capitals of Family Wealth

Family Wealth is made up of five distinct capitals:

1. **Human Capital** – Who we are as individuals and as a family unit. Attending to physical and emotional health is what keeps this strong.
2. **Intellectual Capital** – What do we collectively know from our own unique individual experiences. Diversity of experiences, both actual and generational, is what enriches a family's Intellectual Capital..
3. **Social Capital** – How do we connect with the larger community outside ourselves? What do we protect and stand up for? As a family, how do we respond to society? What do we do to help sustain the larger community?
4. **Spiritual Capital** – What is the spirit of the family? What do we, as a family, stand for? What does it mean to be a member of the family?
5. **Financial Capital** – The resources we have to further the human, intellectual, social capital and spiritual capitals of the family for multiple generations.



Clarity around the five capitals and the importance of each to the family provides the basis for thinking about many family decisions.



Roles, Roles and more Roles

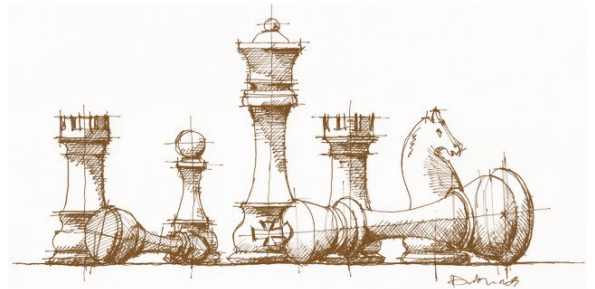
Every individual in a family has numerous roles that touch the family. Father, son, son-in-law, brother, brother-in-law, shareholder, board member, friend, uncle, employee etc. can all belong to one male member of a multi generational family. Similarly one female member could be mother, aunt, friend, sister, shareholder, board member, daughter-in-law, employee etc. all in the same family weekend. Absent an understanding of this, role confusion can be a serious threat to successful decision making. It is critically important that each person know:

1. What role should I be speaking from?
2. What role should I be listening from?
3. What role do I wish to speak to?

For example, in a board meeting, a mother and daughter need to relate to each other as co-board members. Conversely, at dinner they should be mother and daughter or, maybe friends. At a shareholder meeting brothers and sisters need to engage as co-shareholders rather than as older sister/little brother. Once an awareness of the importance of roles is created, many negative interactions can be stopped before they become fatal to the discussion. In many families, part of the opening ritual of a gathering is to review the roles for each participant.

Ownership and Management

In *Family Wealth* James Hughes raises this as critically important in the business family. By virtue of being in the family every member is an owner of some aspect of the family business. Management however should be left for those who are called to that work. Enterprises fail more often for lack of good owners rather than a lack of good managers.



Ownership skills are unique and learning effective governance is only one. Good owners know how to employ and interact with good managers. They know how to hire, interact with, evaluate and fire advisors. They take a more long-term look at the role of any family investment and review it based on its contribution to the Five Capitals of Family Wealth. Unfortunately, the distinction between great owners and competent management is often blurred. Contributions to the family enterprise, whether it be a business or a portfolio, are only measured by management ability. Great owners who have experienced their own calling add more to any enterprise or undertaking than the most talented manager.

Value the Differences

In the simplest terms, the more diverse the group of people looking at a question, the better the chance of an unbelievably good solution. As an example, imagine you could have Leonardo DaVinci, Bill Gates, William James, and Lao-Tzu evaluate the value and potential of an idea. Each is seen for who they are and not for whom they aren't. In family settings, who the members are is often overshadowed by thoughts around whom they aren't. The unique value of each individual is lost. The musician, the teacher, the business person, the stay at home parent and the graphic artist all belong in the conversation contributing to thinking based on their unique perspectives. This is not to suggest that uninformed opinions should be promoted. It means that a point of view should not be diminished solely because it is not given by an 'expert in the field'.

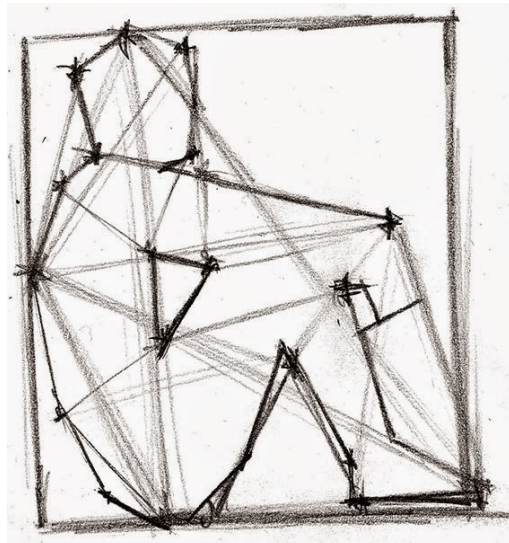
The Beginner's Mind

“In the beginner's mind there are many possibilities, but in the expert's there are few.”

—Shunryo Suzuki-Roshi

Individuals participating in decision making need to ‘show-up’ open to new possibilities. The more ideas that are given consideration the greater the possibility of a unique outcome. Showing up with a mindset about what won't work tends to promote the status quo rather than lead to innovations.

Albert Einstein said two things of great relevance to this idea ‘Imagination is more important than knowledge’ and ‘The only thing that interferes with my learning is my education.’ To think outside the box, you must first understand that there is a box and you have built it yourself. Learning to ask “what if” instead of saying “we can't” will start a discussion of new possibilities.



The Impact of Change

The final big picture awareness that can contribute to better decision-making meetings is an understanding of homeostasis. In general, homeostasis is the resistance any organism has to changes from the status quo. Family Homeostasis was described by Dr. Donald Jackson as how families resist change and seek to maintain redundant patterns of behavior. In a family decision making meeting, the minute the interactions change there will be a feeling of great discomfort and uncertainty. Having a brother listen and respond as a peer instead of as an older brother can very disconcerting as it is not 'the norm' to date. Having all the participants aware of this will give the best chance for continuing on the 'new path' toward a healthier decision making process.

These six skills/tools will not happen naturally. There has to be commitment by the family to intentionally assist all the individual members in acquiring them. When the family takes a long term multi generational view of itself, the time spent to promote this understanding is small compared to the benefits that can be derived.



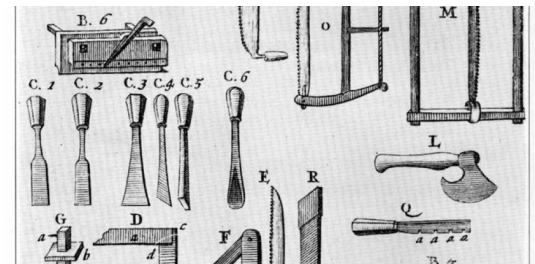
SECTION TWO

A Process that can be Trusted and Honored

Unless it is a very unique group, most decisions that say yes to one thing are saying no to something else. Absent a Trusted Process, this can lead to divisiveness that will appear in statements like “Dad always get his way.” There is no one correct way but there are several elements that most successful processes have in common:

1. They recognize the importance of every participant’s voice.
2. They clearly identify the issue to be decided.
3. They keep the discussion on topic.
4. They ultimately lead to a decision which everyone understands, even if they don’t agree with it. In *Time to Think*, Nancy Kline outlines a thinking meeting which can be adapted to family decision making. As a starting point for structuring a process here are the key elements:
 - A. The issue to be decided should be expressed as a question that can be voted upon.
 - B. There is a chair designated to ‘run’ the meeting. The chair has no special decision-making power but is acknowledged as the meeting leader and facilitator.

- C. In advance each participant has received the background information necessary to have an informed opinion. This will vary from question to question and may require a presentation from an expert.
 - D. A written agenda based on the question to be considered is prepared for the meeting.
 - E. The meeting opens with a presentation of the question and the ground rules.
5. Next everyone is given an uninterrupted period of time (typically 2 to 3 minutes) to say whatever they think about the question. This is referred to as a Round. In return for not being interrupted, speakers agree to be succinct. (The chair stops any interruptions and rambling speakers.)
 6. Once everyone has spoken, the chair asks if anyone has questions that need to be addressed before a vote can be taken. Each question is addressed with the same process of no interruptions as each member speaks.
 7. Depending on the number of questions, the chair may do another Round to capture everyone's thinking.
 8. The chair will then call for a vote and the question will be decided.
 9. The chair will then call for an 'appreciation' round and ask everyone to make a comment about which member impacted their thinking the most.



Variations on this theme have been practiced successfully by many families. Again, it represents a change and will trigger homeostasis. An awareness of this and practice on small decisions (or even non decisions) is very helpful in implementing this or any process. Finally, the process should be based on principles not rules. This will allow it to be re-evaluated periodically as to its usefulness to the particular family.



Final Thoughts

The ability of a family to meet, discuss and decide on questions and issues is a critical component to long term harmony and thriving. It begins with the individual members learning the skills to show up in a positive way and is carried through in a process that can be trusted and honored.

Suggested Resources

Family Wealth: Keeping it in the Family by James E. Hughes

Strategic Planning for the Family Business by Randel S. Carlock and John L. Ward

Time to Think by Nancy Kline

Family Wealth Transition Planning by Bonnie Brown Hartley and Gwendolyn Griffith

TIMOTHY J. BELBER, JD AEP®

Growing up in a family of extremely limited financial resources, Tim experienced first-hand the impact that messages about financial capital can have on your development. Learning gratitude in an environment of financial scarcity has allowed him to help self-made families align the power of their intangible assets with the use of their tangible financial assets.

During six years of military school, Tim learned the importance of showing up ready in life. He learned the core leadership, planning and execution skills it takes to succeed in a military school environment – one in which excuses and lack of preparedness were intolerable.

Tim earned a business degree from the Wharton School at the University of Pennsylvania. Later he earned a law degree at night from Seton Hall University. His commitment to law school was led by the belief that it would make him a better advisor to established families.

Tim is a member of The Society of Financial Service Professionals (1983), The Legacy Wealth Coach Network (2000), The Copper Beech Tree Society (2004), a founding member of The Collaboration for Family Flourishing (2006) and a Dean for The Purposeful Planning Institute. He speaks frequently on the subject of incorporating ethics and values into long term generational wealth plans and family governance structures.

Tim is the author of the book *The Middle Way: Using Balance to Create Successful Generational Wealth Transition Plans* (2015) and has been published in numerous periodicals including The Journal of Practical Estate Planning and Trusts & Estates Magazine.

Tim has been married to Donna since 1979 and together they have been friend and guardian to numerous dogs. Tim is an avid photographer, writer, cyclist, reader and traveler. He speaks passable Italian.

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