

Trusts & Estates®

The Journal of Wealth Management for Estate-Planning Professionals—Since 1904



Budding Relationships—This Douglass Crockwell *Saturday Evening Post* cover (28 in. by 24 in.) from April 4, 1942 sold for \$60,000 at the Heritage Auctions Signature Illustration Art auction in Beverly Hills, Calif. on Feb. 11, 2011, p. 4.

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Collaboration From the Family Office Perspective

Sharing knowledge, learning and building consensus are the keys to success

“The new leaders in innovation will be those who can understand how to design collaboration networks and how to tap their potential.”

—Harvard Business Review, December 2008

For those of us in the business of providing client services, success is heavily dependent on our ability to offer the most comprehensive, cutting-edge information available. No matter how good we may be individually, we can always be better by collaborating with those who have specialized knowledge of a given field, subject or industry. Quite simply, greater resources, recognition and rewards are available to those who can effectively employ a collaborative network for the benefit of their clients.

While unique factors impact how different industries collaborate, the concept of collaboration is generally the process in which two or more people or organizations that may not be immediately connected work together in an intersection of common goals by sharing knowledge, learning and building consensus. The family office is no different from any other business—without collaboration, we would be unable to provide the comprehensive advisory services our clients require.

Why Collaborate?

Some of the most common reasons that drive collaborative efforts include:

- broadening the breadth and depth of a firm’s resources;

- gaining exposure to fresh, new ideas;
- gaining exposure to professional talent;
- helping one another (no one person or company can do everything without help); and
- increasing our network to access new prospective business and generate new contacts.

In a May 2009 global study of more than 3,500 business and IT leaders, the research consulting firm of Frost & Sullivan observed the most profound effect in the areas of the business in which the largest numbers of people interact in many-to-many relationships that accelerate productivity and create value.¹

As more people interact, the organization—across the board—enjoys more of the benefits of collaboration. Human resources teams found collaboration tools useful in recruitment, retention and training activities. Investor relations and public relationship staff reported that collaboration helped them increase shareholder value and shape corporate reputations. Sales and marketing professionals saw improvements across sales performance, customer retention and their ability to respond to competitive threats. Engineers improved product development and lowered costs associated with innovation.

Frost & Sullivan’s research makes clear that teams that work collaboratively can obtain greater resources, recognition and rewards when facing competition for finite resources. As shown in “Great Returns,” next page, even a minimal collaboration effort yields modest results.

The more you put into collaboration, the more you—and by extension, your clients—will benefit.



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With Whom to Collaborate?

The core structure of the family office has its foundation in collaboration; in fact, family offices were created specifically to collaborate for the benefit of wealthy families. As you can see in “Family Office Functions” next page, each of the five functional areas of the family office relies on collaboration with those who are knowledgeable about a given subject. For example, the investment management team can’t create a solid investment plan for a family without knowing the tax consequences and the family’s spending and liquidity needs, as well as their long-range goals. The family office works together to provide “one-stop shopping” for its clients. Families rely on the family office to manage their personal business so that they can focus on running their business.

Collaboration for the family office isn’t just internal. The ability to provide comprehensive advisory services

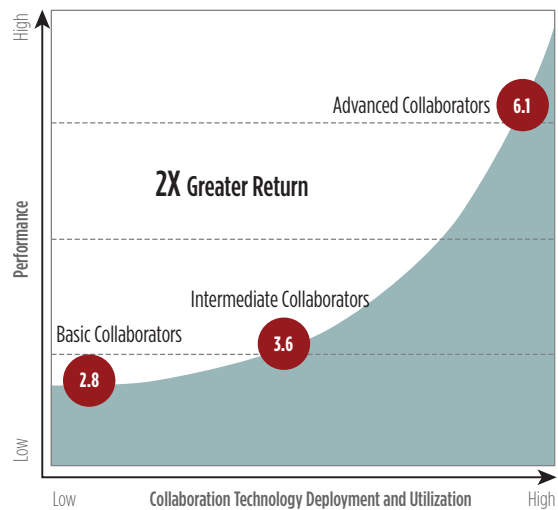
Background checks are advisable, especially if you’re collaborating on behalf of, or to provide a service for, a client.

depends heavily on the external network of resources available. While the family office maintains a core staff that’s well-versed in the most common areas of wealth management, it often looks to external sources to deepen the knowledge base. The family office taps into the typical resources one might imagine, including bankers, insurance brokers, investment bankers, trustees, investment managers and custodians, to name a few, but it also reaches out to other sources as needed. In a nutshell, the family office taps into whatever resource it deems necessary to provide the best possible advisory services for its clients. It’s unrealistic to think that any office could maintain a staff to cover every possible situation—collaboration is a vital part of a family office’s ability to do business. To put it succinctly, the family office accesses what it needs when it needs it. This is the essence of collaboration.

Family offices also benefit from the collective knowledge of educational associations and research organiza-

Great Returns

Even minimal collaboration effort yields modest results



— Frost & Sullivan

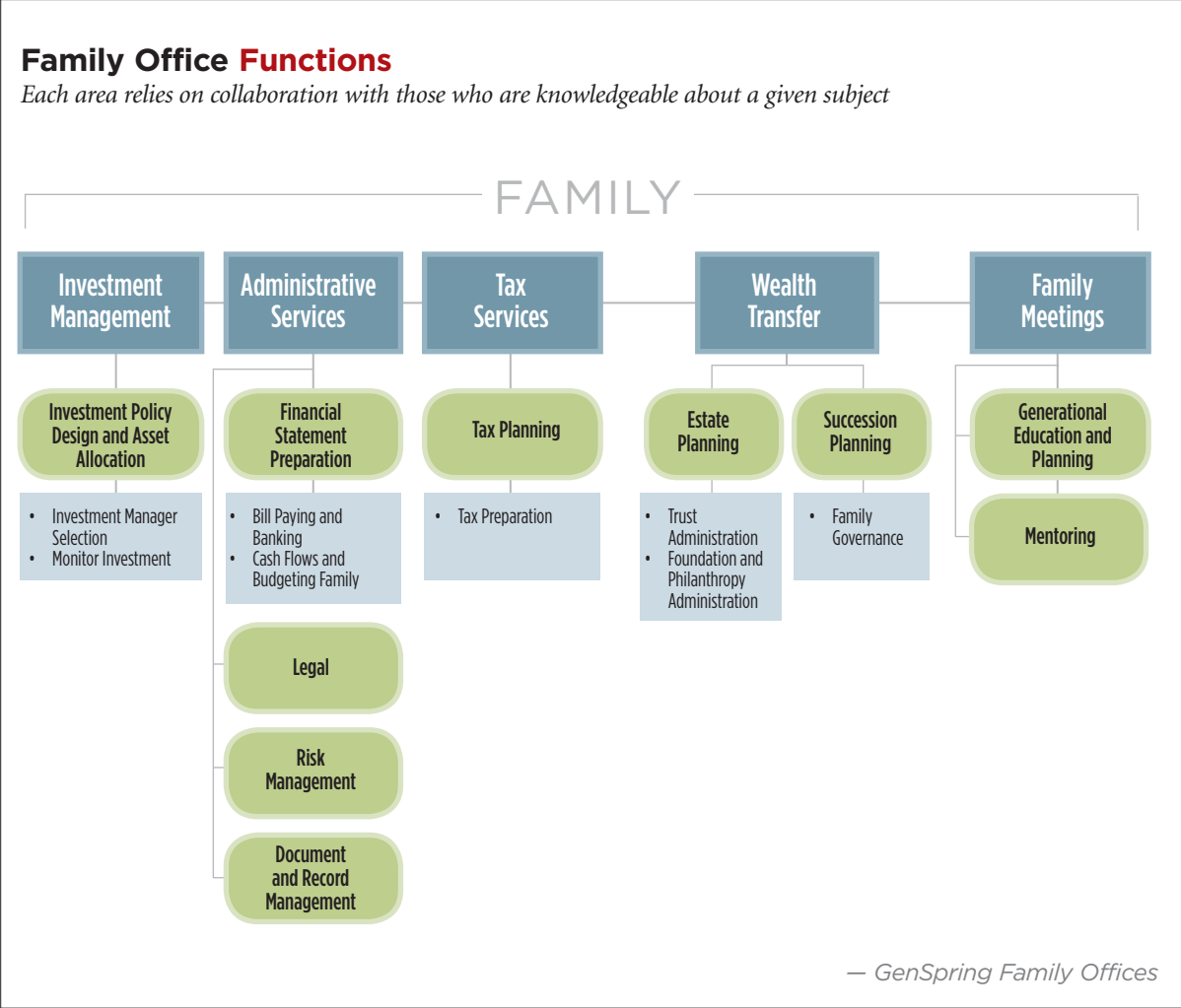
tions. Some of these are the Family Office Exchange, the Institute for Private Investors, the Family Wealth Alliance and the Family Firm Institute. Each of these organizations exists to provide consulting, data and resources to families.

Collaboration Risks

While the benefits of collaboration are significant, there are also risks involved. It’s up to you to develop a system to monitor and follow up with those with whom you collaborate. You can’t assume that they’ll do what’s needed for your client. Nearly all collaboration requires leadership, although the form of leadership can be social within a decentralized and egalitarian group.

Before you hire or consult with anyone for advice or to perform services on behalf of your clients, you need to do your homework. Just as you check a potential employee’s education, job history and references, it’s your responsibility to verify the credibility of your potential collaborators. Check the references of the firm and delve deeper than the simple, “were you happy with their performance?” type of questions. Be specific. Do your research on the principals of the organization as well—the individual values and ethics of corporate leaders are usually reflected throughout the company. Use the technology at your disposal—Internet searches

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are a fantastic source of information, but be sure to look beyond the first page of hits. Use different search phrases, both positive and negative, with the company or individual's name. You'll be amazed by the variety of information you'll find if you look for more than just the corporation name. Background checks are advisable, especially if you're collaborating on behalf of, or to provide a service for, a client.

In some cases, your client may not want you to share any personal information or may allow you to share only the most basic information necessary to perform the collaboration. In these situations, your first priority must always be to protect your client, even when you're collaborating with others for the client's benefit. A non-disclosure agreement is a valuable tool that, when detailed properly, can go a long way to protect your client's interests. Don't

share any information that goes beyond the scope of the collaboration. If your clients insist on privacy and don't want you to share any information, you'll need to act as the intermediary. Make any identifying factors generic and operate on a no-name basis. You'll still be able to obtain what you need for your clients without compromising their privacy needs.

Types of Collaboration

With this solid understanding of the positive impact collaboration can have for you, your colleagues and your clients, the biggest question becomes: Which kind of collaboration is right for you?

Collaboration innovation isn't a single approach but takes a wide variety of forms. As companies increasingly team up with outsiders to innovate, they confront criti-

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Four Modes to Choose From

Each type is characterized by distinct trade-offs

<p>INNOVATION MALL</p> <p>A place where a company can post a problem, anyone can propose solutions and the company chooses the solutions it likes best.</p> <p><i>Example: InnoCentive.com website, where companies can post scientific problems.</i></p>	<p>INNOVATION COMMUNITY</p> <p>A network where anyone can propose problems, offer solutions and decide which solutions to use.</p> <p><i>Example: Linux open-source software community.</i></p>	<div style="background-color: #76923c; color: white; padding: 5px; writing-mode: vertical-rl; transform: rotate(180deg);">PARTICIPATION</div> <div style="background-color: #4f81bd; color: white; padding: 5px; writing-mode: vertical-rl; transform: rotate(180deg);">Open</div> <div style="background-color: #4f81bd; color: white; padding: 5px; writing-mode: vertical-rl; transform: rotate(180deg);">Closed</div>
<p>ELITE CIRCLE</p> <p>A select group of participants chosen by a company that also defines the problem and picks the solutions.</p> <p><i>Example: Alessi's hand-picked group of 200-plus design experts who develop new concepts for home products.</i></p>	<p>CONSORTIUM</p> <p>A private group of participants who jointly select problems, decide how to conduct work and choose solutions.</p> <p><i>Example: IBM's partnerships with select companies to jointly develop semiconductor technologies.</i></p>	
GOVERNANCE		
Hierarchal	Flat	

— “Which Kind of Collaboration Is Right for You?” Harvard Business Review, December 2008

The fourth and final mode of collaboration—“Consortium”—operates like a private club.

cal and complex choices about whom to join forces with and how to share power with them. Executives should consider two core questions when deciding how to collaborate on a given innovation project:

(1) Should membership in a network be open or closed? The advantage of an open network is its potential to attract a large number of problem solvers and a corresponding vast number of ideas. A closed option is more limiting. When you choose the closed option, you’re making two assumptions: first, that you’ve

identified the knowledge domain from which the best solution to your problem will come and second, that you can pick the right collaborators in that field.

(2) Should the network’s governance structure for selecting problems and solutions be flat or hierarchical? The primary distinction is who gets to define the problem and choose the solution. In the hierarchal form, a specific organization has this authority and can control the direction of the efforts and capture more of the value. In the flat form, decisions are either decentralized or made jointly by some or all collaborators and the costs, risks and challenges are shared.

The answer to these two questions will help determine which of the four basic modes of collaboration is most appropriate for a given situation. Each is characterized by distinct trade-offs. Selecting the optimal form (or forms) can’t be a one-time event. To stay ahead in the race to develop and offer new technologies, designs

and services, companies must revisit their approach to collaborative innovation as their strategies evolve.


The following discussion provides an overview of the four modes of communication and identifies the situations in which each mode would be appropriate.² (See “Four Modes to Choose From,” previous page)

The first mode of collaboration is the “Elite Circle,” in which **one company selects the participants, defines the problem and chooses the solutions.** It’s best applied when you know the knowledge domain from which the best solution to your problem is likely to emerge and can define the problem and evaluate the proposed solutions. The Elite Circle is **ideal when having the best experts is important, and you have the capability to pick them.**

The second type of collaboration is the “Innovation Mall”—**one company posts a problem, anyone can propose solutions and the company chooses the solutions it likes best.** It’s most applicable when you need ideas from many different parties; the best ideas may come from unexpected sources. The problem can be small, or if large, can be broken into modular parts. The many proposed solutions can be easily and inexpensively evaluated, and participation for the collaborators is easy.

“Innovation Community,” the third mode of collaboration, is in use **when literally anyone can propose problems, offer solutions and decide which solutions to use.** Just as with the Innovation Mall concept,

Innovation Community collaboration is appropriate when you need ideas from many parties and anticipate that the best ideas may come from unexpected sources. Participation in the network should be easy, and the problem, if large, is easily divided into modular parts. Innovation Community differs from Innovation Mall in that you don’t know all possible user requirements, you want to share the costs and risks of innovation with outsiders and you don’t need to own the intellectual property underlying the solution to come to the answer.

The final mode of collaboration—“Consortium”—operates like a private club, with **participants jointly selecting problems, deciding how to conduct work and choosing solutions.** It’s best applied when you know the knowledge domain from which the best solutions are likely to emerge; the problem is large and can’t be broken into modular parts; having the best experts is important, and you have the capability to pick them; the contributors won’t participate unless they share power; the expertise of all participants is needed; and you can share the resulting intellectual property with the other participants. 

Endnotes

1. www.myciscocommunity.com/docs/DOC-16566.
2. Gary P. Pisano, and Robert Verganti, “Which Kind of Collaboration is Right for You?” *Harvard Business Review* (December 2008).



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