

## Family Accord: Best Practices for the Family Enterprise Start with the Family

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It is difficult to overstate the importance of the family business to the U.S. and world economy. The cumulative impact of the family business is extraordinary—both for the family itself and the macroeconomics of the global business landscape.

Family businesses are a significant driver for employment. Approximately 80-90% of all business enterprises in the United States are family firms.<sup>1</sup> In real numbers, that adds up to more than 24 million companies. These businesses provide employment to as much as 60+% of the U.S. workforce and represent as much as 64% of the national GDP.<sup>2</sup> Recognizing their tremendous significance to global economic stability, this paper highlights some of the core best practices that help families incorporate the family enterprise into their family legacy.

In one sense, all closely-held businesses are “family businesses.” The relationship between an owner and key staff may come to resemble a family, with all the complicated loyalties and rivalries that come with that relationship. Similarly, the owner views the business through the prism of “how” and “how much” it provides for his or her family.

However, a small subset of family businesses falls into the category of “Family Enterprise.” In certain cases, managing the wealth constitutes the Family Enterprise while in others the operating family business takes center stage. In both instances, the Family Enterprise:

- constitutes an important focal point for the family as a whole, providing much of the family’s purpose, passion, and fulfillment;
- occupies a role and identity for the family that far transcends mere employment or revenue in importance;
- is a potential source of unity and friction, both within and across generations, precisely because the emotional significance to the family far exceeds the business’ simple economic contribution;
- is intended by the family to be multi-generational in nature. This attribute drives complex issues of present and future ownership, management, control, and employment for family and nonfamily members alike;
- is considered by the family to be far more than just support for the financial needs of the family. The Family Enterprise is a key element in the family legacy.

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<sup>1</sup> Astrachan, J. H. & Shanker, M. C., “Family Businesses’ Contribution to the U.S. Economy: A Closer Look,” *Family Business Review*, September 2003).

<sup>2</sup> *Ibid.*

## Challenges for Succession

The odds against a family successfully transferring its Family Enterprise to following generations are daunting. Approximately one-third of family businesses fail to reach the second generation; of those, only 12% reach the third generation. Of that reduced number, only a few, (3%), survive to the fourth generation.<sup>3</sup>

The survival of the Family Enterprise across generations requires not only negotiating business risks in an increasingly competitive global landscape, but also managing the possible rifts attributable to shared ownership and identity by a single family. Even the most successful Family Enterprises can be devastated by the complexities and challenges that arise at the dynamic but turbulent interface between the family and the business.

## Improving the Odds

How can families improve the odds for successfully perpetuating the Family Enterprise to future generations? There is no shortage of advice. A number of family business scholars and experts such as John Ward, Ivan Lansberg, Leon Danco, Craig Arnoff, John Davis, Dennis Jaffe, Fredda Herz Brown, and Joseph Astrachan, among many others, have studied and written extensively on the attributes of the family business.

Often with an emphasis on business and management aspects, scholars have identified important characteristics and practices that are instrumental in successfully growing and managing a Family Enterprise. In recent years, however, the focus has

*A family that owns a business . . . is at the intersection of several complex systems and serves a multitude of masters, purposes, and constituencies. Facing continual change from the business environment and from internal pressures as people develop, in order to thrive, the family must develop a clear infrastructure to manage the interrelationships of people, business, and investment. It must regulate and integrate the interests and concerns of the many people in many ways.*

**“Sustaining A Family Dynasty”,  
Dennis T. Jaffe, Ph.D., & S.H. Lane, Ph.D.,  
Family Business Review, 2005**

widened to include a more family-centric view of the Family Enterprise and its impact.<sup>4</sup>

Since its founding in 1989, GenSpring has worked with many enterprising families who own and manage “shared assets.” For some families the shared assets are financial in nature. For others, however, the shared assets include or primarily consist of one or more “flagship” operating businesses. Regardless of the nature of the shared asset, GenSpring takes a family-centric approach. Over time, GenSpring has identified 25 best practices that can aid families in sustaining their wealth across generations.<sup>5</sup> Many of these best practices are equally instrumental for the long-term success of the Family Enterprise.

<sup>3</sup> Ward, J. L., (1987). *Keeping the Family Business Healthy*. San Francisco: Jossey-Bass.

<sup>4</sup> Gersick, K., Davis, J., McCollom, M., & Lansberg, I. (1997). *Generation to Generation: Life Cycles of the Family Business*. Boston, MA: Harvard Business School Press.

<sup>5</sup> Barimo, S., Rosplock, K. & Shipley, J. “The 25 Best Practices of Multi-Generational Families,” *GenSpring Family Offices*.

## Family Enterprise Best Practices

Specifically, there are a number of best practices that we have observed and implemented for families to increase the likelihood of sustainability for the Family Enterprise. These include best practices identified not only by GenSpring, but by many respected scholars and business advisors, such as:

- Crafting a family mission statement that reflects the guiding principles and values of the family
- A conflict resolution policy to mitigate and manage family disagreements
- Procedures for attracting and retaining key nonfamily managers and business leaders
- Understanding and budgeting for strategic expenses
- Utilizing independent directors on the board or senior advisors
- Encouraging apprenticeships and outside skill building for next-generation family business leaders
- Emphasizing merit over nepotism in personnel and compensation decisions
- Encouraging strategic thinking and innovation and promoting deliberate experimentation within the firm
- Providing opportunities for career advancement and personal wealth accumulation by key managers
- Encouraging family dialogue and *responsible ownership*<sup>6</sup>
- Creating a flexible, innovative organization that shares business information openly
- Championing change and celebrating new ideas in the Family Enterprise and the family itself
- Role modeling stewardship in the family and the Family Enterprise
- Creating and conserving capital to fund enterprise growth or to pass on to future generations
- Establishing a share redemption plan or dividend policy where feasible
- Communicating estate planning intentions early
- Preparing successors for leadership opportunities
- Promoting mentoring and apprenticeship for successor(s)
- Outlining a succession plan and timeline to transition responsibility and control to the next generation or nonfamily management
- Taking advantage of the unique opportunities and competitive advantages of family ownership<sup>7</sup>
- Holding regular family meetings
- Adopting a clear decision-making structure for the Family Enterprise

*Planning is not the only key to survival, of course. How plans are implemented also counts.*

**- John Ward, *Keeping the Family Business Healthy*. Jossey-Bass 1987**

<sup>6</sup> *Responsible Ownership is defined as those ownership behaviors that contribute to the collective group of owners, as opposed to the owner's own (selfish) interest. Definition from a research study entitled, "Responsible Ownership of the Family Enterprise: How to Enhance Success for Business and Family" (2006), Researcher: Lorraine Uhlaner.*

<sup>7</sup> *Leenders, Mark A.A.M. & Waarts, Eric, Competitiveness of Family Businesses (20 2001; 09). ERIM Report Series.*

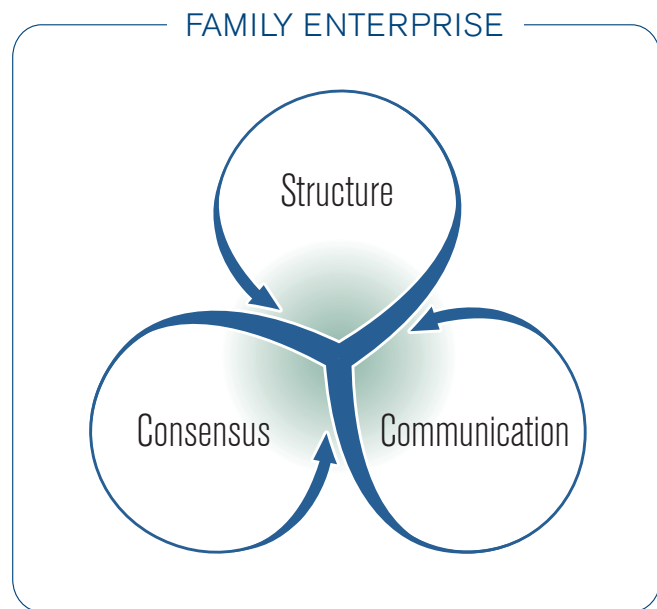
Family Enterprises that not only take a proactive stance to planning but also have a keen understanding and respect for the opportunities and limitations of the Family Enterprise enjoy far greater odds for long-term success.<sup>8</sup> We believe that Family Enterprise owners should ask themselves, “Do we learn from the best practices of other successful Family Enterprises, or do we go it alone?” If the decision is to apply the best thinking available, then the next question is, “*What will we do to implement these techniques today and over succeeding years?*” The benefits of best practices only accrue to Family Enterprises that enthusiastically embrace and implement them. This is what will make all the difference in the end.

### The Family Accord Model<sup>SM</sup>

GenSpring has devised a tailored approach for business-owning families: The Family Accord Model<sup>SM</sup>. This model incorporates many of the best practices discussed above in the context of three distinct but interlocking disciplines: **Structure**, **Communication**, and **Consensus**.

**Structure** involves the legal and formal context for ownership and control and a deep understanding of their implications. For many Family Enterprises, owners consider the business’ structure the totality of succession planning. In practice, however, no structure unsupported by other disciplines can avoid becoming rigid and ultimately poorly adapted to a constantly changing world.

Exhibit 1: Family Accord Model<sup>SM</sup>



Structure without Communication or Consensus may be authoritarian and fragile.  
Communication without Consensus and implementing Structure is fruitless.  
Consensus without ongoing Communication and evolving Structure is, at best, temporary.

Structure that allows for both continuity and flexibility permits family owners to adapt to ever-changing conditions. Adaptation is the essential tool for survival in an unpredictable environment.

<sup>8</sup> Ward, J. L., (1987). *Keeping the Family Business Healthy*. Jossey-Bass: San Francisco.

Personal estate planning must mesh seamlessly with Family Enterprise strategic planning. The coordination of personal and business planning proceeds from a deep understanding of the underlying legal and tax constraints that will provide the contours for the future. The family requires a clear understanding of Structure: who, what, when, and how family owners and the Family Enterprise will be impacted by change.

**Communication** is a critical component to the success of the Family Enterprise and directly correlates to whether families grow united or struggle to remain connected. Communication is the life-long discipline of respectful dialogue—learning and sharing that builds trust, competence, and unity.

Through disciplined communication, families pass on core values, instill character, and impart the sense of shared purpose that transforms the Family Enterprise into the family legacy. The family's history, shared values, and purpose are the emotional DNA that carries the family's ethos forward to future generations.

Further, thoughtful communication practices between generations regarding planning and expectations have a huge impact on the chances for success. Combining clear channels of communication with the proper training, education, and mentoring, will enable family members to meet the challenges and opportunities of the future for the Family Enterprise.

**Consensus** is the discipline of deep mutual respect, tied to the resolve and foresight to manage the conflict that will inevitably arise. Consensus requires family

members to embrace responsible ownership—having an appreciation and commitment for the whole of the family and the Family Enterprise equal to that which they hold for their own individual interests.

It is a (somewhat ironic) reality that there exists within families the possibility of ferocious discord as well as abiding unity. A family that instills values, celebrates diversity, recognizes rituals, and embraces its history and family story helps to solidify its unique culture.<sup>9</sup> Family culture then becomes both the shock absorber when conflict arises and the forum for its resolution.

Family consensus must reinforce the relationship with the Family Enterprise as one of stewardship rather than entitlement. To achieve that goal, Consensus depends on Communication and simultaneously provides the capacity for change in Structure as adaptation is required. Through the Family Accord Model<sup>SM</sup>, Family Enterprises are equipped to adopt a thoughtful approach to seizing opportunities and successfully tackling the challenges of the future.

*By creating and living by a mission statement, families are gradually able to build moral authority into the family itself. In other words, principles get built right into the very structure and cultures of the family.*

**- Stephen Covey, 7 Habits of Highly Effective Families. Franklin Covey Company, 1997**

<sup>9</sup> Dyer, G., "Culture and the Continuity in Family Firms." *Family Business Review*. Spring, 1996.

## Concluding Thought

When the only tie that binds a family together is sharing business ownership, chances are the Family Enterprise will struggle to remain family-owned and intact for successive generations. However, when the family and the Family Enterprise are mutually supportive, the opportunity for sustainability is greatly enhanced.

The Family Accord Model<sup>SM</sup> is a practical framework and process that can help families as they approach the future. After all is said and done, the key best practice is foresight in action. Foresight permits the challenges of change to be managed rather than endured.

In closing, as Kelin Gersick and his coauthors note, “the basic goals of family business owners are not mysterious . . . They want the business and the family to be mutually supportive, not destructive, capitalizing on each other’s strengths, and more successful together than either could be alone.”<sup>10</sup> The Family Enterprise is a unique entity: it represents a core element of the global economy and is simultaneously at the individual economic and emotional heart of many families.

***The basic goals of family business owners are not mysterious.*** They want their businesses to be profitable, providing a good standard of living for their family members and appreciating in value . . . But many business families fear that the accomplishment of one of those goals will come at the expense of the other. They worry that family conflict, indifference, or unprofessionalism will undermine the ability of the business to thrive, undoing financial support for the family and eroding the legacy and the institution they have worked so hard to build. At the same time, they are concerned that the pressure of the business will create tension, jealousy, or resentments that will split apart the family and make the company’s success meaningless. Underneath all the problems that family businesses bring to professionals—succession planning, intergenerational and intragenerational relations, governance dilemmas, dividends and inheritance, career planning—there is a common desire. ***They want the business and the family to be mutually supportive, not destructive, capitalizing on each other’s strengths, and more successful together than either could be alone.***

- Gersick, Kelin E., et. al. *Generation to Generation: Life Cycles of the Family Business*. Harvard Business School Press, 1997.

<sup>10</sup> Gersick, K., Davis, J., McCollom Hampton, M., and Lansberg, I. (1997). *Generation to Generation: Life Cycles of the Family Business*. Boston: Harvard Business School Press.



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