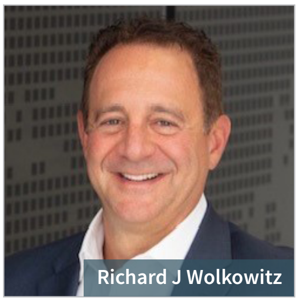
Family Wealth Report
North American Family Office Intelligence

Unconventional Thinking Leads To NextGen Success: Three Different Scenarios



Richard J Wolkowitz
September 24, 2024

Casting an eye across governance and family dynamics, the author of this essay shows what happened with families that chose to go against the grain and took risks.

The following article, exploring business management and family dynamics, comes from Richard J Wolkowitz, founder of Xylogenesis | Family Office Advisory. The editors are pleased to share these ideas and views; the usual editorial disclaimers apply to opinions of outside contributors. Email tom.burroughes@wealthbriefing.com

Too often in the family enterprise arena there is a strict way of thinking that "this is the 'only' way."

Warren Buffett famously said, "People will always try to stop you from doing the right thing if it is unconventional."

For decades, experts have planted seeds of doubt, fear, anxiety, and skepticism into the minds and souls of some of the greatest family entrepreneurs, family business builders, and family enterprise/office leaders.

Wealth 3.0 (Jim Grubman, Dennis Jaffe, and Kristin Keffeler) points out that this negative and fear-based thinking is flawed, outdated, and must be abandoned in favor of a positive and practical "glass half full approach." While this thinking may seem unconventional and risky, it has paid off and continues to change the paradigm.

How did we get here?

Many of those fear-based, authoritative "experts" never built or owned a family enterprise, never scaled a business or series of businesses, never risked their homes and assets to personally guarantee and secure bank debt/capital, never had the responsibility of making payroll, never experienced a "bet the farm" reality as they were simultaneously told "you are going to fail," and never had to balance (and sacrifice) family needs vs. business needs.

While innovative, contrarian-thinking combined with significant, calculated risk-taking made these enterprising leaders prolifically successful in business, they often veered away from extending that same calculated risk-taking approach to their own families. Hence, a duality can exist within the same family office of two wholly different worlds – unconventional-thinking with calculated significant risk in business/wealth/investment matters, but with acceptance of status quo or paralysis and conventional-thinking with respect to family dynamics and family planning matters.

Research and data suggest that today's family offices/enterprises remain significantly compromised, struggling with family dynamics, succession-continuity planning and implementation, governance design and implementation, meeting facilitation, family education, financial literacy, wealth navigation and dynamics, and lacking durable family harmony. This seems odd given the plethora of firms, associations, peer groups, professionals, advisors, consultants, educational and academic programming, and other resources dedicated to family offices/enterprises.

Perhaps this acceptance of the status quo can be attributed to a lack of innovation and originality in the field, plus a dearth of understanding the needs of complex and sophisticated families. A lack of challenging or provocative advice and the ability to have "difficult conversations" often results in toxic loyalty between everyone in the family enterprise ecosystem – among family and non-family members, internal employees, and external professional advisors. Imagine if enterprising families approached their family matters with candor and the same thoughtful innovation with which they operate their business matters?

Let's consider three different scenarios in which families were contrarians to conventional thinking – taking the path least traveled, bucking conformity, and taking calculated risks. These families won, finding durable family harmony, financial prosperity, and operational excellence with respect to their NextGen.

1. NextGen working Inside the family office prior to gaining outside experience

A well-established, accepted principle is that the NextGen must work outside the family office/enterprise before working inside the family office/enterprise. Some families have a time requirement of three to five years and many also express "achieving success" (usually, an undefined benchmark) as a requirement.

The reasons are logical:
- soft skills/qualitative
- gaining maturity;
- building external credibility;
- obtaining confidence;
- legacy preservation;
- broadening perspective;
- developing independence;
- achieving one's own success; and
- learning how to navigate in an unknown environment.

Hard skills/quantitative:
- learning a transferrable skillset;
- gaining diverse tangible expertise and experience;
- making and learning from oneself and others' mistakes elsewhere; and
- understanding and learning by working for a third-party boss and colleagues.

That said, a family I serve took the contrarian approach after thoughtful discussion as an "experiment" to have NextGen work in the family enterprise first for up to two years post-college graduation. This particular NextGen had no interest in the family enterprise and felt he would never want to work in or be engaged in the family enterprise.

Both the LeadingGen and NextGen believed that working in the family business first would offer the following positives:
- first-hand experience from the inside, as opposed to anecdotal experience;
- active engagement to learn and explore if there could be a purposeful and professional path within the enterprise;
- active employee role, as opposed to being an observer or non-working family bystander;
- learning what may or may not be the NextGen's individual purpose and begin to develop it;
- adding value, contributing, and helping to innovate based upon NextGen's ideas and perspective;
- direct, contextual experience to have meaningful and substantive family conversations;
- providing input to expose LeadingGen blind spots;
- perspective to learn what external skill set is needed prior to returning to the family enterprise to eventually contribute helpful and necessary knowledge; and
- development, training, and gaining a (new) skill to transfer externally – and to help the NextGen succeed outside of the family enterprise.

In this instance, the "experiment" worked. All those goals and objectives were met and the NextGen matured exponentially and now has "real life" experience, appreciation, and context for what is happening in the family's enterprise. To his and everyone else's surprise, the NextGen now actually likes the business of the enterprise and is set to work elsewhere as a more mature employee and more informed future family leader.

Through thoughtful governance, open, honest, and direct conversations provided a pathway and set of expectations to address this scenario and help implement necessary changes. The path less followed turned out to be the correct path for this individual and family. Perhaps it can be for others too.

2. Shared leadership co-equal presidents

Another well-established, accepted principle is that a family enterprise needs “A” leader, and that co-leadership is fraught with problems and may lead to absolute dysfunction and conflict. We have been taught to believe that “co-anything” must be avoided at all costs.

This strict doctrine, however, also has significant risks and down-sides:
- resentment;
- disenfranchisement;
- unhealthy competition;
- implosion of family legacy;
- power and control struggles;
- birth order entitlement and gender bias;
- manipulation of family and non-family members;
- generational and branch rivalry which leads to toxic tribalism;
- discounting or minimization of a family member’s role if they are not “THE” leader;
- unnecessary jockeying for a position that may not even be the family member’s passion; and
- great disappointment leading to a family member’s exit from both the family constellation and/or family enterprise.

So, what should a family do if they have two or more capable children/family members that are all qualified to be “THE” leader and collectively the enterprise might be even better if they are all “THE LEADERS”?

This frequently recurring scenario is one with which many families struggle. In religious liturgy dating back thousands of years to the Old Testament, there are a plethora of lessons and outcomes emanating from these age-old parent-child, sibling-sibling, and cousin-cousin rivalries.

Today’s conventional wisdom and dogma has not evolved much further and pushes families to the difficult and often divisive decisions to select “THE ONE.”

In one such modern case, I serve a family where the LeadingGen made the decision to sell the family enterprise without telling his three adult children until after the purchase-sale agreement was executed. In this case, the LeadingGen did not want to address the issue and be forced to make “THE” decision about who would be “THE” next leader. Unfortunately, this decision caused tremendous family conflict. To further complicate matters, the LeadingGen learned that the three adult NextGen – who all worked in the business – had developed their own succession-continuity plan and not shared it with him because they did not want to appear entitled or have their plan seem like a control grab or coup.

I serve another family who took the contrarian approach to appoint NextGen co-presidents, each of whom were equally capable and competent but with different skill sets and personalities. This LeadingGen and NextGen believed leveraging everyone’s talents and expertise in a combined manner was the correct approach and the purest definition of “stewardship” – an important goal of multigenerational legacy planning.

Hence, in this engagement the family designed and implemented:
- clearly defined roles, responsibilities, and reporting
- a policy for family “perks”;
- an employment hiring policy;
- an employment compensation policy;
- a distribution policy;
- a system for communications;
- a system of conflict resolution; and
- a curriculum of leadership development and training
- a leadership tenure and rotation policy.

Creating governance through thoughtful open, honest, and direct conversation proactively addresses most scenarios. Governance can and should provide a pathway and set expectations, so all may know how to handle and implement different scenarios. This example proves that the path less followed is sometimes the correct path for individuals and families. Perhaps others now too.

3. Ownership of the family office/enterprise but not working in the office/enterprise

A well-established, accepted principle is that a family enterprise cannot be a "family" enterprise unless "family" works in the enterprise.

Often family members are shamed or pressured to work in the family enterprise, even if they lack interest or capability. Sometimes punitive measures are exacted to withhold annual gifting, modify estate planning, and to strip away "ownership" from family members who do not work in the family enterprise.

Further still, family owners may decide to sell the family enterprise or unwind the family office if they do not have family members who want to work in and operate the family office/enterprise, despite the outstanding performance, positive cash flow, and ROI that is the proverbial "golden goose" that feeds the family.

Over the last several decades, however, thought leadership has evolved to recognize that a "family" enterprise can remain a "family" legacy asset even if "family" members do not work in the enterprise.

Owning a family office / enterprise when no family members actively work in it can present unique challenges. Here are some tips to help manage and grow the office/enterprise successfully:

- hire competent professionals, qualified staff, and professional leadership/management;
- establish great governance – (1) create a board with a blend of family, non-family employees, and independent directors and (2) set clear roles, responsibilities, and reporting;
- develop a strong organizational culture;
- maintain an excellent, inclusive, and performance-driven organizational culture;
- communication amongst all stakeholders to foster open, honest, and timely information-sharing and engagement with transparent decision-making;
- implement strong financial controls and annual audits;
- create a succession-continuity planning process that identifies and develops future leaders;
- develop a strategic plan; review and update it annually;
- use external advisors to provide their expertise and third-party, fiduciary perspective;
- leverage technology to report and manage systems, processes, and procedures that ensure sustainability and oversight;
- encourage and reward innovation;
- consider long-term investor plans to motivate and incentivize specific behaviors and outcomes;
- build relationships with key stakeholder communities – board, officers, management, customers, vendors, suppliers, bankers and other professional advisors;
- conduct an annual risk assessment and build in time to discuss it; and
- engagement – stay involved with regular check-ins, board engagement, committee work and be a supportive owner without undermining your professional leadership and management teams.

Creating governance through thoughtful open, honest, and direct conversation proactively addresses these scenarios. Governance can and should provide a pathway and set expectations, so all may know how to handle and implement a range of scenarios. This example proves that the path less followed is the correct path for these individuals and families. Perhaps others now too.

Conclusion:

Every family and family office/enterprise situation is unique, so decisions should be made based on thorough consideration of all these enumerated factors. That said, do not be stymied by what is considered the conventional approach or by advisors who lack your vision and have not walked in your shoes. As you consider each of these scenarios, the common themes are: (1) proactive, not reactive, planning, (2) open, transparent, continuous communication, and (3) excellent governance design and implementation.