



The wisdom of elders

Christian Stewart discusses the role of family elders in preserving the wealth of Asian families

The concept of family elders was first discussed in *Family Wealth: Keeping It in the Family*, by US-based family wealth expert James E Hughes Jr. He pointed out that many family governance arrangements were missing a ‘third branch of government’, i.e. the judicial branch, and he suggested this is the role that family elders can play. While its importance was first articulated by an American, the idea also has a natural fit in Asian culture.

Much of the family wealth in Asia is in the hands of families that have a Confucian heritage. In Confucian culture, there is great respect for parents and older-generation family members. Confucian families are very hierarchical. The classic Confucian business founder will be a patriarch who makes all major decisions on his own. There is often a significant generation gap in such families. Confucian families also have great trouble in learning how to work together collaboratively as joint owners of the family wealth once ownership passes to the second generation. Because of this inability to collaborate in the second generation, such families are at great risk of failing by the third generation. Hence the Chinese saying: ‘Wealth does not survive three generations’.

While the wealth creator in many Asian families may be very Confucian in character, Confucianism is not the only cultural influence at play. Another significant influence is Taoism. The archetypal leader of Taoism is the wise old man Lao-Tzu, who is the classic elder. Taoism also gives us the yin-yang symbol, which can imply the need to be able to identify paradoxical solutions.

While Western families should be looking for their third branch of government, Asia’s Confucian families should be seeking their own equivalent of Lao-Tzu.

NATURAL FAMILY ELDER

The common theme in the following four examples is that each of these families has naturally created a role of family elder. In each of these examples, the family elders are not necessarily family members, but they are highly trusted by the family members, especially by the business founder. They are almost family. In these examples, the roles played by the family elders include facilitating family meetings,

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helping to bridge the communication gap between the business founder and the next generation, smoothing over any relationship issues that arise among family members, and resolving conflicts among family members.

Example one

The members of one business-owning family hold a family meeting every six months. The meeting usually lasts two days, and includes the business founder, his wife and their sons. The sons all work in the business along with the founder. In addition to a facilitator, the family meetings are always attended by a retired uncle-in-law, whose business sense and judgment is respected by the founder and the sons.

Example two

The members of a sibling partnership hold an owner’s council meeting once every month. As well as the siblings, the meetings are always attended by a very trusted and wise non-family executive who used to work for their father. The trusted executive helps facilitate discussions at the meetings and provides wise counsel on issues.

Example three

In a third family firm, the father is mentoring his two sons to work together in their investment company, with the expectation that they will ultimately move up to sit on the holding company board. The father expects that his two sons will, as is normal and healthy, have differences between them in the future. Today, the father can play the peacemaker role; for the future, he is preparing a trusted non-family executive director to be the peacemaker whom his sons can go to if they are in disagreement.

Example four

A family firm is wholly owned by a family trust structure. The trust has a protectors committee. The role of the protectors committee has been carefully defined so that it can help to facilitate the necessary flow of information between the board of the business, the beneficiaries of the trust and the independent professional trustee



company. The role includes ensuring that the adult beneficiaries have a voice in relation to the performance and direction of the business. The committee is also responsible for implementing a conflict-resolution process should a dispute arise between any of the parties to the trust. The protectors committee is formed of a majority of highly trusted, non-family former executives.

THE THIRD LEG OF THE STOOL

The concept of a formal, written family constitution is now widely accepted among families with significant financial wealth, as well as business-owning families. A family constitution offers a number of benefits. One benefit is simply that it helps to bring all family members onto the same page. It helps to clarify the different roles that exist within the family enterprise system. A family constitution will normally address the topic of how conflicts among family members are to be dealt with. Having a conflict-resolution process agreed in advance means that a family is much more likely to turn to non-adversarial processes for conflict resolution when disputes invariably arise.

It is common for family constitutions to make reference to both a 'family assembly', which generally means an annual meeting of all the family members, and a 'family council', a smaller committee with authority to represent the whole family. The exact relationship between the family assembly and the family council will differ from family to family.

American thinking on the subject is that the family assembly should be equated to the legislative arm of the family government and the family council to the executive body. However, where is the third branch of government, the judiciary? Who has the role of enforcing the family constitution? In addition to a family assembly and a family council, families that are developing their own family constitution should consider including a committee or council of family elders, which then becomes the judicial arm of the family governance system.

THE ROLE OF FAMILY ELDER

A family elder has to be someone who is deeply trusted by both the older and younger generations. They must be a person who will act in the best interests of the family as a whole. They need to bring wisdom to the family and be able to see the big picture. A family elder should be someone who has the capacity to help bridge the communication gap between generations. If Lao-Tzu is the archetypal family elder, then an elder is also someone who can help to deliver paradoxical solutions for the family.

Family elders can be given the authority in the family constitution to facilitate resolutions when there are disputes among family members, or otherwise have responsibility for ensuring compliance with the family's conflict-resolution processes. They can also be given the authority to enforce the terms of the family constitution and any policies created in accordance with the constitution. Family elders can be allowed to sit in meetings of the family council and to join the family assembly.

ELDER NOT OLDER

When introducing the concept of family elders to a family, it is important to draw a distinction between wise elders, who have the skill to bridge the communication gap between generations, and family members who are older, and therefore demand respect, but who are not necessarily either wise or skilful at

bridging the communication gap. In other words, older family members are not automatically family elders.

A TRAP TO AVOID

A wise advisor to a family will try to avoid the scenario in which the council of family elders becomes the place to which the current generation retires after they have finished their time on the family council. It would also be wise to steer families away from any system under which the council of family elders has the ability to second-guess or veto what would otherwise be valid decisions of the family council.

INCORPORATING ELDERS INTO THE FAMILY CONSTITUTION

The role of family elder – or a committee or council of family elders – will be defined in the family constitution. As with every other element involved in developing a family constitution, it is important to remember that the process is more important than the product. There is little value in off-the-shelf constitutions. Families need to take time to develop their own family constitution.

Specifically on the topic of family elders, a good starting point is simply to educate family members on the importance of the concept and to give them material that they can read about elders.

CORPORATE GOVERNANCE AND FAMILY-OWNED BUSINESSES

Family elders are clearly an important element of a family governance system. However, are they relevant in the context of the ownership and control of a family-owned business? Are they relevant in the context of a corporate governance system? It is suggested the answer is 'yes'.

What is the difference between a family elder and an outside director? While it is very important for family firms to have one or more outside directors on their board, the job description is likely to be focused on the helpful and objective commercial perspective that the director can bring to the board. Most outside directors will not meet the job description for the elder role. However, when looking for family elders, a good place to search will often be among the most trusted of outside directors.

THE TRUST PROTECTORS COMMITTEE

Another possible avenue for institutionalising the role of family elders is through the protectors committee for the family trust or trusts. In this instance, it would still be advisable to think very carefully about the job description for the family elder and how they can help the beneficiaries of the trust. Care clearly needs to be taken to ensure that the definition of the role of the elders or protectors committee is not problematic from the perspective of preserving the integrity of the family trust.

CONCLUSION

Conflicts over values can be a challenge in Asian family firms. The older generation may have a strong belief in the importance of traditional values; the younger is often educated overseas and more Westernised, with a belief in modern management practices. As such, it can be challenging for the younger generation to work for their parents. Family elders can play a key role in helping such families bridge the generational communication gap, and facilitate the gentle evolution of both family and firm. ●



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