Family Meetings

Theory, Practice & the role of the Facilitator

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Joint family decision making is the key to family wealth continuity

The key to continuity of family wealth over the long term is the ability of the family members to make effective joint decisions together. This can be referred to as having effective "family governance" (James E. Hughes Jr.)

"Family Wealth" can be defined as comprising of family human capital, intellectual capital, social capital and financial capital.

With this view it is important for family members who are the joint owners of family wealth together to deliberately consider the question of "what is the best system for the family members to make joint decisions together?"

This applies to families who have joint ownership of a business together, or who jointly own an investment portfolio, and it can also include the concept of a family that is jointly engaged in charitable and philanthropic activities together.

What should the decision making process be? How will decisions be made if the family members become deadlocked? What if there is a conflict? What decisions should be in the hands of the family, what decisions are made at the ownership level, what decisions should be made at the board level, what decisions and authorities lie at the management level? What are the rules governing appointment (or succession) to these different levels of authority? Can decisions that have been made be reviewed or appealed? What if someone does not follow the rules?

Family members that have a common goal of wanting to continue family human, intellectual, social and financial capital need to invest the time together to articulate the joint decision making system that will work best for their family.

The vehicle for articulating the best system for family members to make joint decisions together as a whole, is a series of facilitated family meetings.

Start with a blank sheet of paper

For a family to devise an effective system of joint decision making, a system that is appropriate for their family culture, their generation and their circumstances, the ideal approach is to start with a "blank piece of paper" and to suspend the "natural decision making processes" of the family (Barbara R. Hauser).

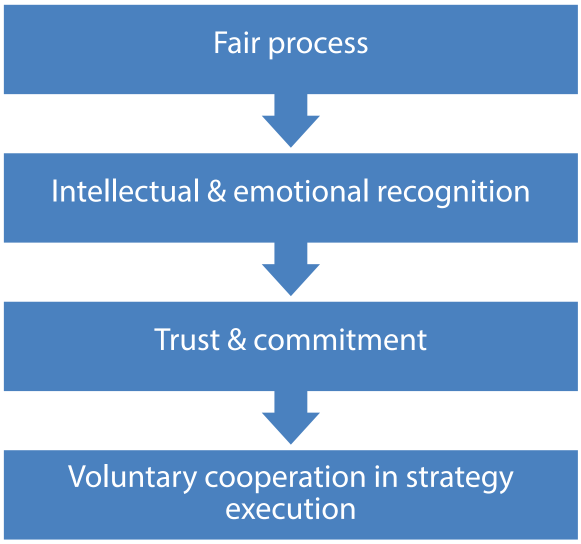
This requires the use of an outside facilitator(s), some-one who is not part of the family system, some-one who can be a neutral and objective party.

The importance of a fair process in decision making

Another very important concept when looking at the question of how families make effective joint decisions together is the concept of fair process in decision making.

When a family are the joint owners together of family wealth:

- On the one hand there is always a family, emotional, system present, which has its own automatic, natural, and usually unconscious rules for communicating, decision-making and conflict resolution, and
- There is also a management system present. The management system might be concerned with the management of a business, or it might be concerned with management of family financial investments, or it might be concerned with the management of a family foundation.



Blue Ocean Strategy, by W. Chan Kim & Renee Mauborgne, HBS Press

It is normal to find that the rules of the family system are in conflict with (or just different from) the rules of the management system. For example, in the family system, the rule might be to treat all family members with equal love and respect, and avoid hurting anyone's feelings. The management system will typically have rules that are based on "merit" and what is the most "commercial approach" and to look at "best practices" that are intended to help achieve the goals of the management system.

What is fair in the family system is always going to be different from the concept of what is fair in the management system. Therefore the only way to achieve decisions that could be acceptable to both the family system as well as to the management system at the same time, is to make decisions that are based on having a "fair process" (Randel S. Carlock).

Where a group of family members jointly own financial wealth together or are jointly responsible for the governance of a family foundation, they should invest the time in designing a decision making system which they regard as being one which involves a fair process.

A fair decision making process is not necessarily a democratic decision-making process. An effective decision making system for a family enterprise that is into the second or third generation of ownership normally requires a system of delegation of authority to management with strategic oversight being provided by a Board, and with a clear understanding on the decisions reserved to the owner or member level.

Designing a fair decision making process might involve finding a way to balance, on the one hand:

- giving a group of affected stakeholders a voice in relation to issues such as mission, values, strategy and goals; and
- delegating to an accountable group of managers the authority they need to run the enterprise.

The stakeholders have to regard the decision making mechanism as being a fair one.

In summary, before any group start working together on a specific task they should first invest the time in agreeing on their decision making process as a group.

This should include deciding how to handle cases where it is not possible to reach a consensus, cases where there is a deadlock, cases where there is a conflict, and cases where someone "does not follow the rules".

The execution consequences of the absence of fair process in strategy making

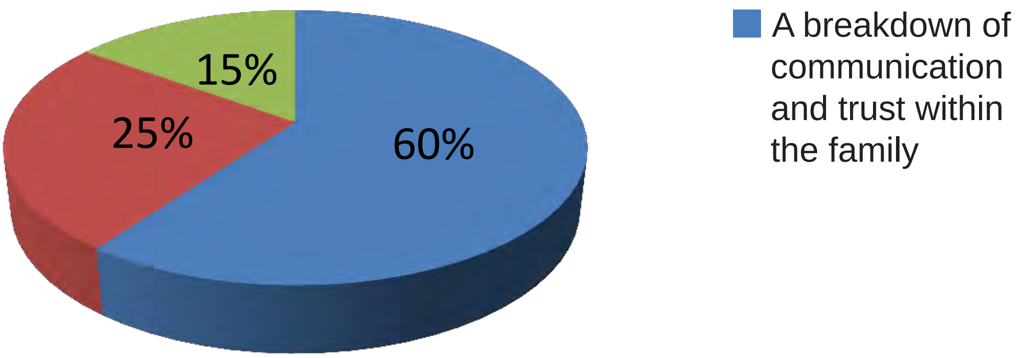
Blue Ocean Strategy, by W. Chan Kim & Renee Mauborgne, HBS Press

The importance of trust and communication

In the US, a study was carried out by Williams and Presser on some 3,250 families that had experienced a transition event, i.e. in which family wealth passed from one generation to the next. In 70% of the cases the family financial wealth failed to transition successfully. The study analysed the reasons why the family financial capital had failed to transition.

- In 60% of the failure cases, there had been a breakdown in trust and communication within the family.
- In 25% of the failure cases, the failure was attributed to failing to prepare the heirs to deal with the family wealth.
- The remaining 15% of the failure cases were attributed to all other causes, including poor investments and failure to do proper legal and tax planning, and lack of an effective mission.

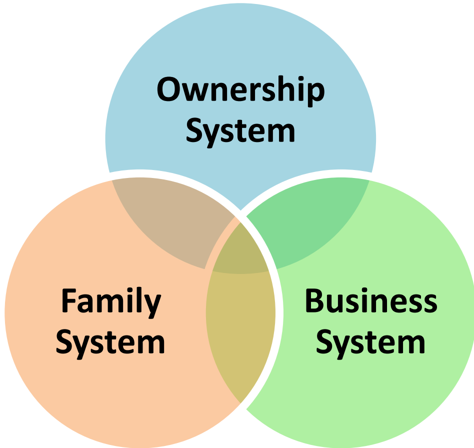
Why does family wealth fail to transition?



One key take away from this study is the critical importance of putting in place structures and processes to promote trust and effective communication among family members who are the joint owners or joint stakeholders of family wealth.

This again points to the critical importance of having periodic formal family meetings so that the family have a structured platform for ensuring ongoing effective communication among family members.

Establishing decision making and communication forums



In the context of families that are the joint owners of a business together, globally recognised best practices for family controlled firms point to the critical importance of having formal communication and decision-making structures established for each of:

- The family system;
- The ownership system; and
- The management system.

This model can also be applied directly to families that jointly own financial investments together and that might be organised around a family office.

For the family system, this again points to the importance of having formal family meetings.

Larger families will create a more formal representative structure called a "family council".

A common arrangement is for the family council to meet four times a year, and for the whole family to come together at least once a year as a "family assembly".

For the ownership system, if there is a family owned business or a family office then, first of all, there needs to be a forum (an "ownership forum") at which the interests of the owners can be discussed.

In addition, the Board of Directors is a second communication and decision-making structure which is responsible for (i) representing the interests of the owners as a whole and (ii) corporate governance of the enterprise.

Often at the time of first generation control, there may be a Board, but it will function as a "rubber stamp" Board with the founder making all key strategic decisions.

As a family transition into the second generation of ownership, it is important for the Board to evolve into a more effective organization that can help bring an objective point of view to the enterprise and can help to provide a buffer between the interests of ownership and management of the enterprise.

Role clarification

Many families struggle to work together effectively because the individual family members each have their own different understanding of the roles, responsibilities, authorities that are involved in their family enterprise. Family members who are involved in a family foundation together, or who are the joint owners of a business or other financial wealth together, often have to struggle with untangling a complex web of family and business relationships, based on their shared ownership together. This complexity results in role confusion and family conflicts.

Many of the conflicts that occur in family enterprises are role conflicts.

An important task to carry out at family meetings is role clarification. This means getting the different family members to agree on the different roles and responsibilities that are present within their family enterprise system. This is an important aspect of developing the overall governance system.

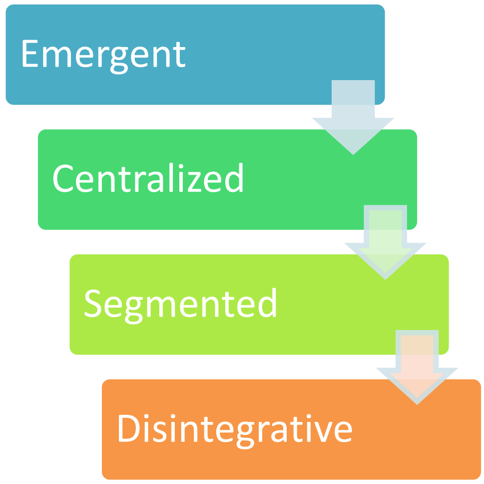
It is not possible to have a good relationship unless the rules of that relationship have been properly clarified. Family meetings are a way to help educate and bring family members on to the same page together.

In a family enterprise, each family member carries around with them at least several different “hats” or roles that they play. Role conflicts can occur when family members are unclear (i) as to which hat they are personally wearing at any given point of time and (ii) as to which hat the family member(s) they are talking to have on at that time.

One helpful exercise at a family meeting is to teach the family members about how to “Manage your Hat Collection” (Hausner & Doud).

A life cycle model of Chinese family firms

Specifically in the context of Chinese families, research carried out by a Hong Kong academic (see The Chinese Family Firm: A Model, by Wong Siu Lun, Family Business Review, Vol VI, No. 3, Fall 1993) has pointed to the inability of family members at the ownership level to make joint decisions together concerning the enterprise as being a key factor in the inability of Chinese family firms to last for three generations.



This research leads to the conclusion that family ownership is more important over the long run than family management. In other words, if you want to help preserve the wealth of an ethnic Chinese family here in Asia it is very important to ensure that the family members have the ability to make joint decisions together at the ownership level.

- This includes having clarity on what decisions are to be made at the ownership level (decision making authority).
- It also includes having clarity on which are decisions with respect to which the owners should have a voice (the right to be heard, but not the right to decide.)
- It includes ensuring that there is a way for the owners to communicate with the Board.
- All of these matters are aspects of designing an effective governance or decision making system.

This also points to the importance of the topic of ownership education.

Ownership education is another item that can go on the agenda for family meetings.

A related factor in the failure of Chinese family firms to last for three generations (coming from the same research) is that by the second generation and definitely by the third generation, family member stakeholders who are only in the ownership role [this refers to family members who are owners but who are not involved in the management of the family enterprise] cease to be emotionally committed to the family enterprise.

Maintaining the emotional commitment of family member stakeholders who are not involved in a management role, is another critical element in ensuring continuity of Asian family wealth.

Emotional commitment can be cultivated by giving stakeholders a voice in key issues and also by "planning for family participation" (Carlock & Ward). Finding different ways in which family members can contribute to the overall family enterprise or family governance system (which might include participation at either a governance (Board) level or management/operational level in a family foundation) builds emotional commitment to the family enterprise.

Planning for family participation is another activity for a family meeting.

Family members need collaborative skills

Another significant challenge for many Asian families, as the family transitions into the second generation, is that the family members need to be able to develop the capabilities of working together as a collaborative group. The first generation wealth creator often fails to develop collaborative skills among siblings while he (or she) is alive and in control. It is a task that falls onto the sibling generation.

Sibling teams often need help to change from having a hierarchical set of relationships, to becoming a group of siblings who are able to work together collaboratively.

Change & communication

When any family goes from the first generation of control to the second generation of control, or from the second generation to the third generation, there is a change within the family. These are times of transition. The old decision making and leadership model will no longer work. Families have a natural tendency to try to ignore the pressure for change. Times of transition are also times of increased anxiety within a family. However one of the ways in which a group of family members change is through communication. Again this comes back to the important role of the family meeting, especially for families that are facing a transition.

For a family that are learning to work together on a collaborative basis, the family meeting provides a formal forum for family members to communicate together & make plans for the change.

This points to the importance of having the family members to look at the question of what are the communication patterns within the family, and how flexible the family is when it comes to change.

There are exercises that can be done to get the family members to jointly explore these issues together.

Developing communication skills

Family meetings can also be used as an opportunity to jointly work on new skills together, with one critical skill being listening skills. Another important skill is the skill of having difficult conversations. These are part of the skills of being able to collaborate together.

See the book Difficult Conversations, How to discuss what matters most, by Doug Stone, Bruce Patton, Shiela Heen and Roger Fisher.

Another important communication skill for family members is to be aware of the concept of emotional "triangles". This includes being aware of the concept of scapegoating, of finding someone in the family to put the blame onto.

As a rule of thumb, if one family member has an issue they need to take up with another family member, they need to go direct, and not "triangle in" a third party.

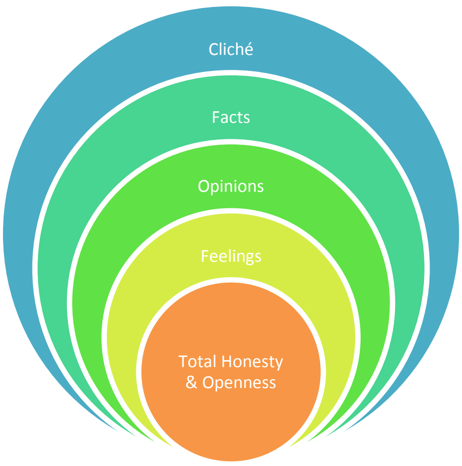
Safety & honesty

Family members who work together or who jointly own assets together often have a difficult time in expressing themselves honestly – for fear of hurting other family member's feelings or of triggering conflicts. Yet change within a family depends on honest communication. Therefore family meetings need to occur in a safe environment.

One of the roles of the meeting facilitator is to help build up this safe environment.

A safe environment means an environment in which family members are safe to have difficult but important conversations together.

Levels of communication



From Jane Gunn How to beat Bedlam in the Boardroom and Boredom in the Bedroom

A second key role of the family meeting facilitator is to encourage the family members to communicate at a deeper level (i.e. to be more honest).

Family meeting rules

When starting a series of family meetings it is common for a family to look at developing a series of "family meeting rules" and discussing the question of confidentiality. Family meeting rules are an aspect of agreeing on the process by which the meeting is to be conducted. Family meeting rules are intended to expressly articulate how family members are expected to conduct themselves in the family meeting and to encourage good communication, respect and effective listening skills, and to create a safe environment. One of the simplest ways to develop family meeting rules is for the family members to look at examples from other families.

A third key role of the meeting facilitator is to enforce the family meeting rules.

The family meeting as a transitional environment

It has been mentioned above that (a) the way a family work together in the second generation has to be different from the way they worked in the first generation; (b) families change through communication; and (c) an ideal family meeting is one which takes place in a safe environment where the family members are helped to communicate together honestly.

Expanding on these themes, another view on how enterprising families go through a transition together is that the family members need to go through the process of (i) disengaging from the way they have worked together or done things in the past (ii) the family need to explore new alternative ideas of how things could be done differently in the future; (iii) the family then decide on one course of action to take and then (iv) implement that decision (Ivan Lansberg).

The family meeting becomes the vehicle through which the family members (i) disengage from the current situation and (ii) explore new possible options together before (iii) deciding.

Therefore the family meeting becomes a "transitional space" for the family and the role of the meeting facilitator includes helping the family members (i) handle the discomfort and uncertainty of the exploration stage and (ii) explore together the pros and cons of different alternative scenarios that they can generate when exploring what the future might hold.

Another family meeting task: developing a shared dream

The foundation of a successful transition for a family enterprise is to develop a shared vision or a shared dream for the future (Ivan Lansberg). Developing a shared dream for the future can be part of the exploration stage mentioned above.

The creation of a shared dream or a vision of the future should be more of a right brain exercise than a left brain exercise. Therefore the facilitator has to work with exercises intended to activate the right brain.

However an important part of the process of developing a shared dream for the family includes "reality testing" the dream (Ivan Lansberg) which includes being realistic about the inherent capabilities of the family members. This comes back to the point of the importance of honesty of communication and the facilitator helping the family members to make an honest assessment of their relationships and their circumstances.

Family groups that are not voluntary groups

One of the advantages of holding formal family meetings is that it can help a group of family members come to the realisation that they have been put into a situation (e.g. by the first generation business founder) where they are forced to work together to carry out the wishes or dreams of the business founder, and that individually they are not really free to simply take their share of the family financial capital and exit.

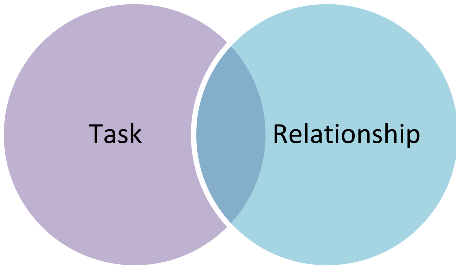
This is a common scenario in families and coming to the realisation that they are in such a situation can help the family members settle on a more effective way of working together.

Family meetings need to look at both task and relationship issues

It is a paradox of an effective team that attention has to be paid to both (i) the task which the team is faced with, as well as paying attention to (ii) the relationships amongst the members of the team.

Ideally, formal family meetings will include a mix of both:

- Discussion of specific tasks that the family members have to decide on as a group; as well as
- Engaging in exercises that are intended to look at, and help develop, the relationships among the family members.



Family meeting task issues

It is important not to confuse family meetings with other kinds of communication or decision making platforms. A family meeting is usually not the same thing as a shareholders meeting. A family meeting is not a board meeting. A family meeting is not a management meeting. Developing an effective family governance system is not the same thing as saying that the family members should all have an equal say in the management of the family enterprise.

Therefore what are the kinds of task issues which may need to be worked on at a family meeting?

The family meetings might have the task of agreeing on a shared dream or shared vision for the future. There might be the task of determining the mission, vision, values and goals of the family enterprise. The task might be agreeing on roles and responsibilities and developing the overall governance system for the family and its enterprise. The task might be to develop policies and agreements. The task might be ownership education, or the task might simply be to communicate information about the business or the family investments.

Attending to relationships in family meetings

The relationship issues that might be worked on in a family meeting could include a discussion of trust and communication patterns within the family; it might include discussing the topic of family hierarchy and family roles (e.g. the role of the "black sheep" in the family).

Addressing relationship issues can include looking at topics such as respect and empathy and being curios about other family members.

It includes the concept of being able to have "adult – adult" conversations, where family members are able to listen to each other as mature adults, rather than to look at them through the filter of long out of date family roles and relationships (James E. Hughes Jr.).

Deciding to work together as a family – the social compact question

A key relationship issue for a family group is to explore whether the family members can form a "social compact" together. This refers to a decision by the family members that in order for each individual family member to have the greatest possible personal freedom (but not total freedom) they are willing to give up some personal freedom to the group.

It means arriving at the conclusion that the family are stronger by being united and working jointly together and that there are going to be times when a family member has to be willing to subvert his or her own personal freedom/ interests, for the good of the group. It means accepting that "we" should be greater than "I".

There are limits to this however, and the group also have to negotiate those limits. There should be some areas where the individual agrees to be governed by the group and some areas where the individual has their own freedom.

Reaching this decision (like learning how to collaborate) can be a process. It can often take time. Again the role of the facilitator is to help the family members to explore this important question and to help them go through the stages of the process.

Building connections by exploring both shared & individual values

Family values are often referred to as part of the glue that help to keep a family united, and agreeing on a set of shared family values is often one of the first tasks that family members will undertake in a family meeting.

Different approaches will involve looking at the question of values at different levels or depths. However from experience, even a relatively light hearted look at the topic of individual and shared family values can be a fun exercise for family members to do, and one that can help improve relationships among family members, even if only in the meeting setting.

There are various different approaches and exercises that can be used to look at the question of family values. However, before a family can look at shared family values the first step is to look at the individual values of the different family members (Dennis T. Jaffe).

One of the paradoxes of a healthy family is that it can accept at the same time that there are both unique individual values as well as a set of shared family values.

Therefore the process of looking at the topic of family values actually helps with the relationships amongst the family members present at the meeting. Looking at the topic of individual values helps reinforce the unique character of each individual family member present at the meeting. It leads to a better understanding of and respect for individual differences. Then, looking at the topic of shared family values can help to build a sense of family connection.

Family values are not static and can change over time. Again the way to change and update family values is for the family members to communicate about their values. Therefore the topic of family values can be a theme that is revisited from time to time by the family over the years in its family meetings.

Building connections through family stories

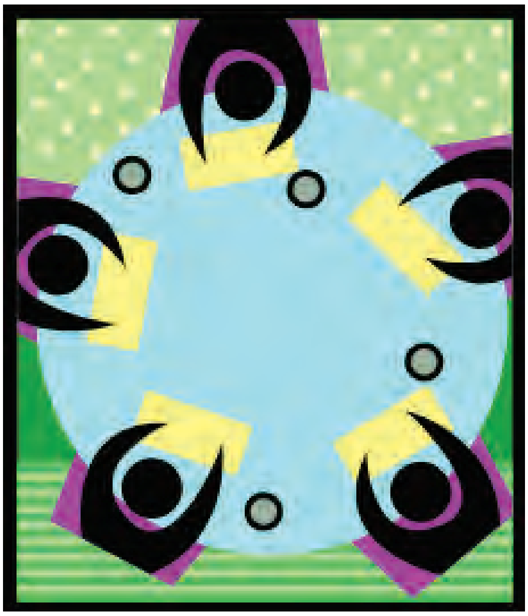
Another very important exercise that should always be carried out at family meetings and that helps to build connections between family members, and is therefore part of the relationship aspect of the family meeting, is the sharing of family stories. Perhaps family stories are an even stronger source of family glue than family values. Therefore it is always advisable to plan time for family storytelling at a family meeting.

These stories should be about the family as a whole. They should go for beyond the usually well-known story of the founder of the family wealth.

What is a family meeting?

By way of a summary, ongoing family meetings are a critical activity for family members who have to make joint decisions together. However not every meeting of family members should be regarded as a family meeting in this sense. Family members coming together for Sunday lunch or Sunday dinner should not be regarded as amounting to a family meeting. Family members who are part of the management team of the family enterprise or who are members of the Board of Directors of the enterprise are not having a "family meeting" every time they meet to discuss management or board issues.

A family meeting is a meeting of family members:



- that has been carefully planned for and arranged so that there will be a safe environment;
- in which family members are committed to listening to each other with empathy;
- where family members treat each other with respect and curiosity;
- where there will be a focus on good communication;
- where family members can communicate more honestly;
- where an effort is made to ensure that there is role clarity in any discussions;
- at which the relationship among family members is, as far as possible, a horizontal one, not a hierarchical one;
- where each individual family member has a voice;
- where each family member is given time to think (Nancy Klein).

One-on-one conversations before the first family meeting

When working with a family for the first time it is common for the facilitator to spend one-on-one time interviewing each of the key family member stakeholders to help build up a picture of the specific issues facing the family, to get an understanding of the unique culture and characteristics of the family, and to start to see the big picture of the family enterprise. This is like a doctor carrying out a diagnosis before making a prescription.

It is important that these one-on-one conversations are confidential.

Preparing for each family meeting

If there is a series of family meetings, in practice it is also highly effective for the facilitator to have some one on one contact time with each of the key family members before each of the meetings.

This helps to build up the trust and connection between the facilitator and each key family member. It allows the facilitator to understand the thoughts and concerns and position of each key family member going into the meeting. It gives the family members individually a chance to think out loud and get themselves mentally prepared for that meeting.

Sometimes it gives them a chance to get things off their chest before the meeting. It is often very helpful for individual family members just to have the experience of being listened to by the facilitator. The facilitator might be able to help reframe, or normalize, concerns that individual family members have before going into the meeting.

A final note on the role of the facilitator

The ideal family meeting facilitator will be one who helps the family members to communicate and make their own decisions together and not somebody who tells the family what those decisions should be. The family meeting facilitator can help to advise on process issues but it really helps the family the most if the facilitator leaves the family members to think through their own options and to generate their own solutions.

The relationship among the facilitator and the family members should be a "helping relationship".

In this regard, the facilitator role is not an "expert advisor role". An expert advisor would typically make an assessment of the family enterprise and then give an opinion advice or assessment on what the expert, based on their profession, believes the family should do. The expert gives the family answers which the expert has generated. A facilitator does not do this. Instead the facilitator role is to advise on process and to help the family generate their own answers.

Expert advisors tend to focus on content. A facilitator that works with family enterprises will tend to focus more on process.

ABOUT THE AUTHOR

Originally a tax and trust lawyer from South Australia, Christian Stewart moved to Hong Kong in 1994. In July 2008, he formed Family Legacy Asia to provide independent advice to Asian families on family governance. In this role he acts as a process consultant to help family businesses in Asia work together, through facilitating family meetings and helping the family to prepare their own family policies and family constitution. He also advises several Asian Family Offices on trust and succession matters. He acts as an advisor on several Private Trust Company structures.

Prior to founding Family Legacy Asia Christian was a Managing Director and the Head of Wealth Advisory in Asia for JPMorgan Private Bank for 6 years. In that capacity he was responsible for representing JPMorgan's trust business in Asia.

Prior to joining JPMorgan, Christian was with PricewaterhouseCoopers in Hong Kong for 7 ½ years. At PwC he became a Partner in their Tax Practice specializing in Hong Kong estate duty planning and trust structuring, and he ran their Trust & Private Client team.

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ABOUT FAMILY LEGACY ASIA

We work with successful Asian families to help them establish communication platforms and decision making structures for both the family and the family enterprise.

We facilitate family meetings to help the family talk about their vision and values and the relationship between the family and the family enterprise. We help them to create the “rules of the road” so that family members know what to expect in the future.

We believe that the key to passing on a successful family enterprise that will flourish for at least five generations comes down to the way in which the family members make joint decisions together, and this is called family governance.

While our approach is tailored for every family, we often use the process of creating a family council and family constitution to help build the “family team”, to strengthen family unity, and to help the family resolve the specific issues that they have been unable to resolve on their own.

The process of creating family governance is a problem solving process.

Our process can help simplify the challenges of planning for family succession.
One of the benefits of our process is that it helps to build a bridge between the older generation of the family and the next generation.

Another benefit is that we help create tools for the family to balance doing what is good for the family with doing what is good for the business.

In many family controlled enterprises, family conflicts arise because of confusion between family roles and values on the one hand, and business roles and values on the other hand. We help families avoid these kinds of conflicts.

Family Legacy Asia

Transforming the relationship between Family & Enterprise

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