

TRUSTED FAMILY

# CREATING A FAMILY COMMUNICATION BUDGET

Best practices and examples in setting a budget for family communication

# THE FAMILY COMMUNICATION BUDGET

Having a specific budget is important for implementing communication efforts. Without this, a lack of executive power will hold back your efforts to communicate effectively with your family, which in turn will directly affect the value your family and your company can generate.

This document is based on extensive experience we have obtained in working with our clients. It will assist you with proven best practices and examples for an effective transition.

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# 1. WHERE DOES VALUE RESIDE IN A FAMILY?

The question of where value resides is critical to understanding how value can be preserved. Most families that have businesses behind them, especially in the first or second generation where the influence of the original entrepreneur is still strong, would answer that value derives primarily from the business. This makes sense, and is easily measurable either in the form of the share price of the firm, or in the form of the dividend that the family members receive.

However, just as a business has intangible assets (e.g. goodwill), so does the family behind the company. Without understanding what these non-financial assets are, and how they affect the wealth generation capacity of the family, the risk is high that either the firm or the family fails to maintain the style to which it has striven for so many years. In other words: take care of these assets or you go bankrupt. So what are they?

Shared Financial Assets
<ul style="list-style-type: none"><li>• Cash</li><li>• Investments</li><li>• Equity</li><li>• Fixed Assets (factories, family home and estate, etc.)</li></ul>

Shared Non-Financial Assets
<ul style="list-style-type: none"><li>• Network/Relationships, Alliances/Partnerships</li><li>• Industry/Business Know-How/ Experience</li><li>• Business/Family Reputation</li><li>• Culture &amp; Values</li><li>• Access to Resources Competencies (Nurture/Nature)</li><li>• Business/Educational Practices</li><li>• Family/Business brand (brand value)</li></ul>

With these financial and non-financial assets in mind, it's time to look at how we can actually maintain value in the family.

## 2. BUSINESS PERSPECTIVE: MAINTAINING FINANCIAL VALUE

The firm is one of the most valuable assets a business owning family has. Therefore, it does make sense to start looking there. The key here is intelligent, informed, involved shareholders. Without successive generations of informed shareholders, you will find that the company quickly falls out of the family's control.

There are some key questions you can ask yourself or your family, to see how they view this specific topic, and to see what kind of things you need to work on.

- What is the value of having a well informed educated and committed shareholder group with a long-term view?

- What is the percentage of our sales/yearly profit that we are ready to invest in shareholder engagement?
- For non-listed family businesses: What do companies of our size that are listed on the stock market spend on shareholder communication and engagement?

***“Value destruction comes from poor decision making. Poor decision making comes from being uninformed and uneducated.”***

As is clear from this statement, value destruction will come from a family not educating their members to take good care of the company, and not communicating valuable information about said company well. If, for any of the questions above, you answered “nothing” or “zero”, then you’re wrong. Keep reading though – you’ll find it interesting. If you answered “I don’t know”, then it’s time to get informed and talk to experts about exactly those topics.

### 3. FAMILY PERSPECTIVE: BUILDING NON-FINANCIAL VALUE

Next, we should have a look at the family perspective. Building non-financial value is key, as we outline in the next section. But first, there are some helpful questions that can frame the conversation you need to have in your family about this topic:

- What percentage of our net worth are we ready to invest every year in family cohesion & management?
- How much are we ready to invest in the development and cohesion of our family, knowing it is a very important driver of long-term success? (With 0.05% to 0.5% you can often do a lot!).
- What are the risks for the family of having unhappy/uncommitted family members?

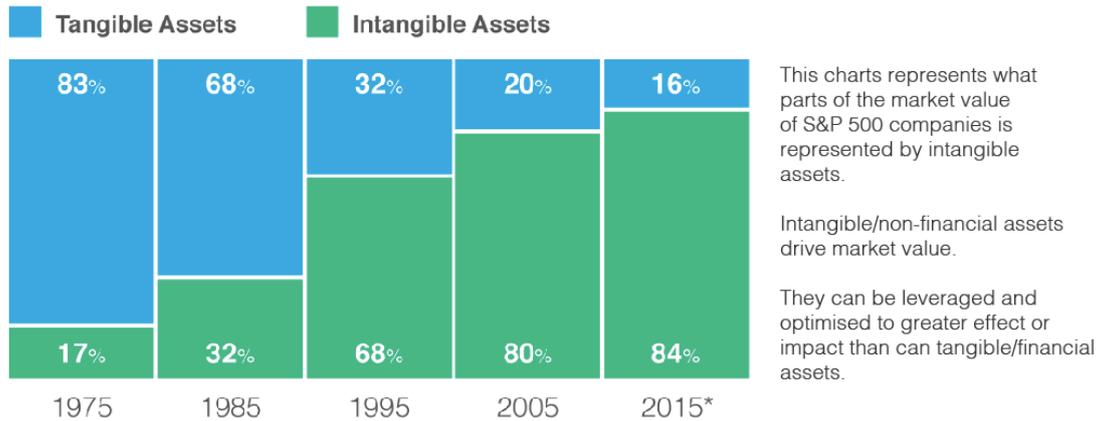
***“Value creation comes from collaborative risk taking and trust. Without communication, neither is possible.”***

The above shows you the kind of things you need to start to think about to have a better understanding of where your family stands on these issues. Again, if the answer to the above questions is “zero” then you should probably have a re-think.

The key thing here is that your intangible assets lie directly in your family’s willingness and ability to take intelligent risks, in the same way that the original founder did. Without this ability, you cannot hope to have the same exponential growth in your family wealth, as you will in your future generation numbers.

## 4 . DO WE REALLY NEED TO INVEST IN NON-FINANCIAL VALUE?

Components of S&P 500 Market Value



Source: Ocean Tomo, LLC, \*January 1, 2015

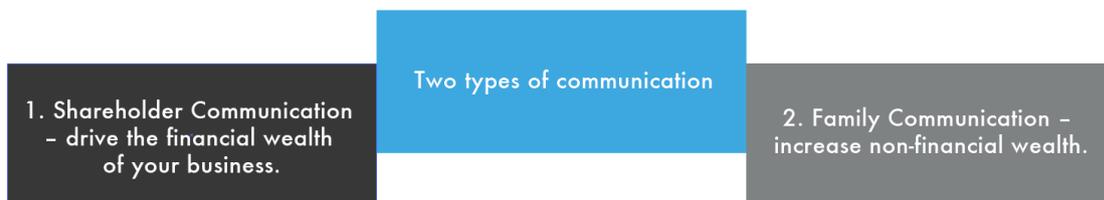
The further away from your founding event you get, the more the intangible assets drive your family value. The founder of the business worked hard, tried and failed repeatedly, and succeeded. And was lucky. To end so far up in the successful part of the bell curve of business success necessarily means that the founder was quite some standard deviations away from the norm.

To be able to carry on such a tradition, a family needs to encourage risk taking, teach the next generation the right values, and connect them to the right networks. The older your family is, the better and wider its network will be, and the better the chances are that the next generation members will find the right guidance for whatever they want to do. If they are doing what they want to do, the bigger the chances will be that they will be successful – and some will even end up as far down the bell-curve tail as the original founder.

## 5. WHY DO YOU NEED A COMMUNICATION BUDGET?

Both types of value described above are important, and working together, mentoring and giving your next generation as many opportunities as possible drives that value higher. To do that, you need effective communications, which means having a communications budget.

- Without a specific budget, there is no executive power to implement better communication.
- Without a specific budget, family members may feel discriminated against if they cannot attend family events etc.



## 6. HOW TO BUILD A FAMILY COMMUNICATION BUDGET

The following section gives you very practical ways in which to implement a family budget.

### 6.1 Getting organized

**Understand who can pay – a central mechanism is key:**

- Family Office
- The Company
- A Holding Company
- Individual Family Members contribute a percentage of their earnings to a family fund.

**Decide who administers the funds?**

- Family council?
- Executive committee in the company?
- Family office general manager?

**Who will be responsible for communication going forward?**

- A communication council, chaired by an executive that sits on the family council is advisable. This should be set up by the family council with a specific remit with an individual assigned responsibility.
- This communication council is the executive that can implement the policies decided and spend the budget.

## 6.2 Getting a handle on the numbers:

### **The communication committee should put together the following:**

- Measure how much you currently spend on family cohesion, shareholder and board communication.
- How much do we spend on family meetings / shareholder meetings/board meetings?
- How much do we spend on director/shareholder education?
- How much do we spend on director/shareholder communication (emails, newsletters, courier service etc.)?
- How much time does it currently take to manage all the above?

### **Define / Agree on a family/shareholder cohesion budget for the future by discussing:**

- Which events should be held or attended?
- What educational programs should be followed?
- Who should deal with shareholder and family communication, and how?

## 6.3 Allocating the money

### **The head of the communication committee can then:**

- Agree on the overall budget required with the committee
- Put together a proposal for the overall family executive committee (e.g. council or board of directors)
- Negotiate the funds allocated
- Manage the funds allocated through the executive committee

## 6.4 How do we engage key stakeholders?

### **Identify the key stakeholders:**

- Who has access to overall family budgets?
- Who is currently in charge of disseminating information?
- Is there anyone on the council or board with a vested interest or reluctance to communicate about either the family or the business?

### **Identify allies before the board meeting:**

- One ally from each generation is ideal.
- Who is interested in, or a front-runner in, family business theory, or new technology?

### **Showcase other family success**

- The more you can show that this has worked with other families, the less the risk that is taken, and the more value is shown. Ensure you have enough evidence.

## **6.5 What do you spend the budget on?**

You have the money, but now you need to ensure it is put to good use. Here are some tips:

1. Regular face-to-face meetings are key. Make sure:
  - That the committees meet at least once a quarter.
  - That the family meets at least once a year formally.
2. Have different family members organize different events and initiatives based on their interests. This will give more people a stake in making the family communications project a success, and appeal to a broader set of interests.
3. Any initiative (e.g. philanthropy, education) that the family drives as a family, should have a budget earmarked to provide family communication and information about it.
4. Keep the memories and discussions alive. A family book, family tree or online family platforms are great ways to make sure that people stay connected between events.
5. Consider paying family business employees or members of the family to work on the communications committee. This will mean that they take the commitment seriously.

## **6.6 How does this create more value for you?**

The process is quite labour intensive, but the results are worth it.

1. It increases the chances of your family working well together, which increases the chances of your business outperforming.
2. It increases the chances of your family finding new and innovative approaches to old and new challenges through more frequent exchanges of ideas.
3. It increases the chances of business survival by making sure that the next gens are prepared for the challenges expected of them.
4. It increases the chances of your next generation finding their right paths in life through better connections between the generations.

## CONCLUSION

A family budget for communication is a critical step to be able to execute on a broader vision on cohesion and value creation. It is only by having money and a strong leadership that a useful project will be executed well, and if such a project is also inclusive – enabling as many stakeholders as reasonable to have their say – then it will also be engaging right from the start.

Many families ask a fundamental question about engagement – we’ve tried a number of things, but people just don’t turn up, aren’t interested or don’t answer. Why? Most of the time, our initial response surprises them: ask the family members. If they don’t turn up, there’s a reason. If you just ask them, then you might be able to uncover some very simple things that you can do to make your family communications far more engaging.

Once you have the family communication budget, and have build the right processes, then you will see engagement increase with the right execution. This, in turn, will have an impact on your family’s cohesion and its ability to generate value in the future.

If you would like to see how your family stacks up against our benchmarks when it comes to communication, education and cohesion, you can take our cohesion self-assessment survey at [www.trustedfamily.net](http://www.trustedfamily.net).

Please don’t hesitate to contact us with thoughts or comments about the above article.



## TRUSTED FAMILY

Trusted Family is based on the belief that families can create greater financial as well as non-financial value through increased cohesion between their members.

Our goal is to help families go beyond merely staying together, and to enable them to systematically identify and leverage their unique family assets.

To accomplish this goal, we have built a set of solutions, which enable families to measure, track and manage towards internal cohesion.

At the heart of our approach is a purpose-built, modular and secure online platform. This, coupled with our family business expertise, equips us to deliver platform based advisory services across communication, education and societal strategies - the three key drivers of cohesion

Trusted Family was created and is majority controlled by some of its client families. Today, more than 90 progressive business families across 25 countries share our vision for the future of the successful family. Should you wish to find out how to join this rapidly growing movement, contact us for a preliminary consultation.

**For any comments or questions on this paper:**

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