



TRUSTED FAMILY

IMPORTANCE OF COMMUNICATION AND EDUCATION FOR LONG TERM SUCCESS.

INTRODUCTION

Most of the families and advisors around the world are familiar with the saying “Shirtsleeves to shirtsleeves in three generations”. The first generation builds the wealth, the second generation preserves it and the third generation enjoys it.

Extensive research and statistics show that rather than just being a mere expression, ‘shirtsleeves to shirtsleeves’ is in fact a very real and widespread problem in many family businesses today.

Only 10% of business families manage to maintain the family business and/or the family wealth for more than 3 generations. If you take the 100 wealthiest families in the USA 100 years ago, you will see that most of them have disappeared from the rankings or have been replaced by new more successful families. These findings beg the question: why is it so difficult to stay successful as a family in the long run?

When you ask a family what they hope to achieve in the long term, most families tend to answer that they want to keep the family together and aligned with their business interests, and that they hope to maintain their shared wealth.

So why is it that even if the ambition is there, most families fail?

THE CAUSE OF THE PROBLEM

The Family Office Exchange, a Chicago-based organization, conducted research to find out what most families thought was the cause of the problem. A survey to their members outlined the following conclusions:

- 37% of families thought that failure was due to Investment Specific Risks (Portfolio risk, manager risk, timing risks, business risks...)
- 26% of families thought it was due to Cyclical and Financial Markets Risk (Economic downturn, inflation, deflation, energy costs...)
- 16% of families thought it was due to Political and Tax Risks (Higher taxes, government intervention...)
- Only 7% of families thought it was due to bad family dynamics (poor family communication, lack of education of Next Gen, governance issues, lack of trust)

But the researchers Williams and Pressier have shown that in reality

- 60% of failure is due to a lack of communication in the family (either between members from one generation (brothers and sisters or cousins), or between members from different generations (daughter/son and parents/uncles) and
- 25% of failure is due to a lack of education and preparation of the next generation
- Only 3% of failure is due to issues with financial planning, taxes and investments.

The above research shows that most families think that the problem occurs mostly on the business side, even though in most cases the tension and cause of failure stems from a lack of trust, communication and education on the family side.

Most families tend to have very good advisors to help them structure, grow, and better manage their business affairs, but often families forget how important it is to invest time and resources into the family dynamics.

If the root of the problem is so often found on the family side, why are families not addressing it more actively? The answer is simple: because it's not easy. Family issues are very personal by nature, involve a lot of emotions, and tend to be quite complex. Many families often do not want to talk about them – resulting in family « taboos ».

POTENTIAL SOLUTIONS

At Trusted Family, our view is that if communication and education are so important for a business family, the first thing every business family should do is to nominate a responsible person for it - be it a family member or a close advisor. By assigning someone to be in charge, families will make sure that they think about interaction and education strategically. This role happens to be a great opportunity for family and next generation members who want to get more involved and to play an active and crucial role in the family.

Once a family has identified somebody, they should start by carrying out a check of how they rank in terms of communication and education today. They can easily do this by answering these few simple questions:

- Is there transparency within the family?
- Are family members satisfied about the information they receive and their role in the family?
- Are there any taboos or unapproachable topics?
- Is the next generation well prepared / educated (on family business matters)?

You can find that out by making a family survey, organizing family brainstorming sessions with different family members or even 1 to 1 meetings with everyone in the family. Depending on the size of the family, one method will be more adapted than the other.

By going through such a process, every family will discover underlying issues and be confronted with surprises. But rest assured: it is totally normal. Communication and education are things that can be continuously improved and so there will always be something left to achieve before reaching an 'ideal' situation.

Depending on the size of the family, we often advise to surround the responsible person with a communication and education committee, as an additional support. This committee can then develop a yearly communication plan and education plan specifically designed to suit the family's needs.

Your communication plan should include:

- What should you communicate about? What are the sensitive topics and issues that should be addressed and discussed?
- To whom and with whom?
- When and how often?
- Through which channels and tools?
- How will you measure success?

Your education plan should include:

- Which attitudes, skills, values and behaviours should your ideal family member acquire?
- At what age?
- How can you, as a family, help each family member to develop and adopt the right attitudes, skills, values and behaviours? Which education initiatives and programmes can we develop internally or with partners to foster a better learning environment?
- How will you measure success?

Once you know what you want to achieve, you will also of course need a budget, which will depend on the challenges you have identified and the ambitions of the family.

Families are often not used to spending money or investing time in the family relationship. An easy way to start the process is to simply state as a family that you want to invest 0.05 to 0.01 % of the net worth of the family on a yearly basis to enhance communication and education.

We recommend that you have the communication plan and education plan presented to the entire family to ensure alignment and commitment in your goals – this is the first step to better cohesion.

The next key thing is to make it happen! The best way to do that is to have regular meetings with the communication and education committee (for example every month or 2 months) and to make a yearly report to the entire family on progress, for example during an annual family gathering.

If you agree with us that communication and education is the key for long-term family business success, we recommend that you start to identify who can be responsible for this within your family! You should always have one project lead, but you can have different 'advocates' from different branches of the family (and generations).



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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