Guidelines for

Effective Family Governance

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Foreword

Most inheritance plans ultimately fail because the inheritors are not prepared for the responsibilities that come with their emotional and financial inheritances. The most technically complex, artfully crafted Family Governance structures in the world will not keep the family and its fortune together or help the family to achieve their vision over time. To thrive, the family must learn how to work together, and how to equip succeeding generations to deal with the responsibilities and opportunities of inherited wealth.

The goal of Family Governance is to create a high-performance, multi-generational team in which the succeeding generations are participating in decision-making, leadership activities and hands-on money management long before their parents pass on. The successful family governance process:

1. *Focuses on teaching the family to communicate and work together effectively; and,*
2. *Mentors the children through real-world experiences under the guidance of other family members and advisors— which equips them to succeed.*

The governance process is not just a science, but an art as well. This is an important distinction, because if there is any arena in which families do not want a transactional relationship, family governance is it.

We believe that families must address the family governance issue via a flexible, tested, and proven process (whether The Heritage Process® or another process) because there is no 'one-size-fits-all' family governance structure solution. Pre-packaged structures should not be 'imposed' upon the family in lieu of a process that allows the family to discover what matters most to them. Packaged solutions won't help the parents to gradually 'let go,' or guide the children to discover that it is worth it to participate, and that they can do it.

The purpose of this paper is to illustrate the ways in which effective multi-generational family governance structures are created, implemented and operated over time. It describes the most important aspects of the professional advisor's role, highlights some of the stumbling blocks in establishing and maintaining effective governance, and distills the most important lessons we have learned by working with hundreds of families over two decades through The Heritage Process.™

We have drawn upon the best research available from disciplines as diverse as psychology, law, financial planning, counseling, and adult learning methodologies. Our most significant conclusions, as well as the actual procedures by which we work with families to create, operate, and successfully develop multi-generational family governance, are products of our original experience and observation.

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Effective Family Governance

Introduction

We know from history that 90 percent of families fail to keep both their unity and their assets together for more than three generations. The reason that wealth seldom survives is that heirs are usually not equipped to handle wealth that they had no role in creating. Nor do they have a full appreciation for the responsibilities that come with wealth.

The purpose of family governance is to create and manage structures that will become the children's 'classroom' to prepare them for the inheritance they will receive. Here they will learn by doing. They gain hands-on experience in wealth management by working with limited amounts of money and control, guided by mentors from inside the family as well as by the family's professional advisors.

In this process, the children learn the importance of responsibility and high-level, peer-to-peer communication. Our experience is that this is a progression; as they learn skills and demonstrate increasing levels of competency, and as the parents become more comfortable, the children can manage larger amounts of money and take on more significant leadership roles. The advisor's primary goal is to facilitate this process.

When we examined what the 10 percent of families who have succeeded throughout history have in common, we discovered that they consciously prepared their heirs for their inheritance, typically using ongoing family governance structures. It is from within the environment fostered by these structures that successful families plan for and weather even the toughest times. Whatever may be happening in the world around them, they rely on their family governance structures as a vehicle for mentoring the next generation, for passing leadership, and for clarifying and enhancing the family's vision for the future.

Of this we are certain: family governance structures are integral to multi-generational family success.

The reason that wealth seldom survives three generations is that heirs are usually not equipped to handle wealth that they had no role in creating.

In this paper we will examine the key components to successful family governance, including:

1. Each family member must decide to participate for his or her own reasons.

2. The amount of money matters.

3. Communication is the key.

4. The focus must first be on Process, which will lead to Performance.

Through the successful implementation of these components (typically through the facilitation of a skilled advisor), the children and grandchildren discover that they can participate in family governance in a meaningful way. When the succeeding generations decide that it is worth their investment of time and effort, the likelihood that their family will enjoy success across generations takes a quantum leap.

And, as the parents come to realize that 'letting-go' and passing leadership is not really about the amount of money, or about giving up too much control, they can focus on their roles as mentors. This means they can enjoy the all-too-rare luxury of seeing their hopes for their children and grandchildren begin to come to fruition while they are still alive. Through this structured learning experience, the succeeding generations will be prepared for the wealth they will receive. This is the gift of effective family governance.

Definitions

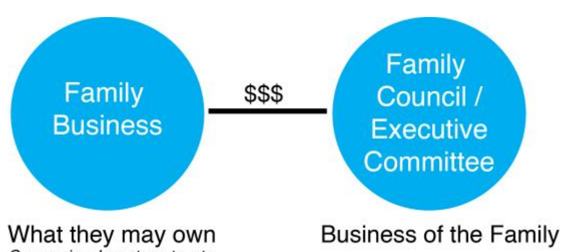
Throughout this paper we will be using certain terms with which you are probably familiar, but which we should define in the context of the family governance process. They include:

Advisor

Any professional who works with families on issues related to wealth transfer and / or family governance. This includes attorneys, financial advisors, family office professionals, trustees, etc.

Family Governance

The goal of Family Governance is to create a high-performance, multi-generational team. It is a structured process within which the business of the family (as differentiated from any investments, or business entities the family may own) can be conducted for multiple generations. Effective family governance often includes structures like a Family Council/Executive Committee, Family Bank (both of which are defined below), Family Philanthropy and Family University. The structures utilized by the family to operate and implement their governance objectives may or may not be legal entities, but they will be unique to that family's circumstances, and they will be built upon high-level communication, active mentoring, and encouragement of individual and collective family member achievement.



Family Council/Executive Committee:

The Family Council/Executive Committee is the children/grandchildren's hands-on classroom to prepare them for the inheritance they will receive. Through the Ongoing Family Council/Executive Committee, each succeeding generation is mentored and prepared by the previous generation. The Council/ Executive Committee is the structure created to accomplish the family's objectives. While there will be some formality to the organization of the Family Council/Executive Committee (i.e., agendas, minutes, committees, and reports), the actual structure will vary from family to family. In general, though, the purpose of the meeting will be threefold:

- *Family Fun*
- *Family Development*
- *Business of the Family* (Again, not any actual business the family may own or operate.)

Who participates in the Family Council/Executive Committee? It can include the entire family, extended family, and in-laws.

Family Fund (Sometimes known as the Family Bank):

Financial structure(s) established for the purpose of helping the family to develop a healthy relationship with money through real-world money management exercises. Initially, the creation and operation of the Family Fund/Family Bank is a Pre-Inheritance Experience designed to allow the children/grandchildren to talk about money together, invest money together, and make decisions about money they cannot consume.

Later, as the assets grow, this may be used for any purpose to support the family, including support for family vacations and reunions, education and college funding, investments, philanthropy, business start-up loans, home down payments, etc. Because the initial focus of the fund is to serve as an educational tool, the initial funding amount need only be enough to accomplish the educational objectives identified by the parents. In form, family fund structures can be as simple as a small joint checking account or as complex as some sort of corporate entity. No matter its initial funding level (which can be quite small), at some point it can be funded at a level sufficient for it to serve as an important family financial tool, while maintaining entry-level educational instruments for the children and grandchildren.

Participation in and leadership of the Family Fund or Bank is often limited to lineal (blood) descendants in the family. At some point, when the children demonstrate competency in the kinds of educational tasks they complete through the fund, and when the parent's comfort level increases, the funding can be increased substantially.

Guided Discovery

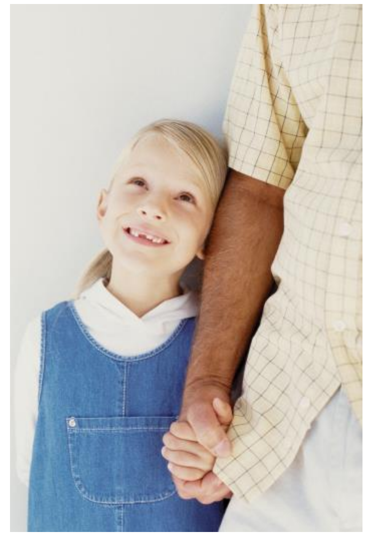
A process of learning in which you are guided by another to learn from your own experiences. Guided Discovery goes far beyond the traditional fact-finding process to capture stories, values, life lessons and other information. With the guidance of a trained advisor, this process helps clients identify and articulate what matters most to them, and then to make those 'discoveries' the basis for the planning and family governance activities they will undertake. Guided Discovery, as utilized during The Heritage Process, is not therapy. While there may be some instances in which the services of a family counselor may be useful to facilitate family communication, the important thing to note is that if family governance is going to work for multiple generations, it cannot be dependent on outside advisors.

The Heritage Process™

A proprietary six-step process for working with families. Financial Planning prepares and protects the assets for the client, Estate Planning prepares the assets for the client's family, and Heritage Design, through The Heritage Process,™ prepares the heirs to receive their inheritance.

Inheritance

We receive and pass on two kinds of inheritances, not one. The first, the *financial* inheritance, includes valuables such as property, money, business holdings etc. It is the one around which advisors have built their practices for centuries. But multiple studies and practical experience confirm that there is a second, even more important inheritance that each of us also receives and passes on. This is the *familial* inheritance, the sum of the values, stories, life lessons, and family traditions that comprise our family story. Understanding and acknowledging the emotional inheritance within a family is an important component of establishing effective family governance structures.



You will be remembered for what you believed in, not for what you owned.
This is the essence of the emotional inheritance.

Ongoing Heritage Days

Studies, history, and our experiences all show that regular Ongoing Heritage Days are the key to keeping families together for multiple generations. One of the functions of the Family Council/Executive Team is to organize and facilitate the family's Ongoing Heritage Days.

Ongoing Heritage Days need three key components:

- *Family Fun*
- *Family Development*
- *The Business of Being a Family* (Again, not any actual business the family may own or operate.)

Although we encourage participation by everyone, the reality is that each family's dynamics and relationships are unique, and the family will encourage and invite the participation of everyone with whom they are comfortable. It is vital that the family business – – or any business venture that all or part of the family may own or operate – be kept separate from Ongoing Heritage Day.

However, there is frequently a nexus between the Ongoing Heritage Day and family business: money. Often, it is the family business that funds the Ongoing Heritage Day.

Pre-inheritance Experiences

Pre-inheritance experiences help to prepare the children to receive both their financial inheritance (and responsibilities) and their emotional inheritance, which independent research and our own work have proven to be equally significant when it comes to the success of the family across multiple generations.

Adults and children learn differently. Adults learn through their own experiences. Pre-inheritance experiences (so called because the parents are still alive) are hands-on activities designed to:

- Develop and maintain effective patterns of communication within the family.
- Provide an opportunity for succeeding generations to experience and learn skills, values, and life lessons.
- Prepare succeeding generations for the responsibilities of life, wealth management and stewardship.
- Begin the transfer of leadership within the family, and,
- Provide a forum to share and preserve the family's unique stories, life-lessons, and values from one generation to the next.

"People are usually more convinced by reasons they discover themselves than by those found by others."
Blaise Pascal, 1657

Underlying Principles of the Successful Family Council/Executive Committee

Principle 1: Each family member must decide to participate for his or her own reasons. Ultimately, each family member who decides to participate (or, 'buy-into') the family governance process makes their decision to stay the course based upon two factors:

Is it worth it?

Can I do it?

It will be "worth it" for everyone to participate if the family establishes a governance structure in which:

• Each voice within the family is valued.

• Everyone finds a meaningful and productive outlet within the governance structure for their core passions.

In all candor, 'Is it worth it' also brings the subject of the money to mind among the children. In the successful governance process, every family member finds a role where they feel valued. Simply assigning tasks or busy-work to family members around the governance process will not achieve the level of high-performance teamwork that is the hallmark of strong family governance. Finding out what is right for them in this process can be hard work.

"For family governance to be successful, the senior generation must transition from being the monarch to being the mentor."

Warren Buffett made a comment about inheritance that is applicable to the setup of family governance structures. *"The perfect inheritance,"* he said,*" is enough money so that they feel they can do anything, but not so much that they could do nothing."* There is great wisdom in that quote as it applies to the family governance process.

Based on our experience with the buy-in process for family governance, we would re-phrase Buffet's quote this way:

"In the family governance process, the senior generation must release enough money and control to succeeding generations to empower and enroll the next generations, but not so much that the senior generation can't comfortably let go."

Example

In one family, there were two teenage daughters who had not been involved in the family business in any way. Before working with us, they had each been given investment accounts to manage, but they paid little attention to them. In fact, they acknowledged that they only paid attention when their father reached a 'boiling point.'

We explained that the purpose of the Family Council /Executive Committee was to conduct the business of the family for multiple generations. We also decided to form the council together after the girls had some education and experience so that they could contribute substantive input to the meetings. We started by creating a pre-inheritance experience in which the girls received a check for doing well managing their investment accounts (if they beat the quarterly targets we set). THEN, we set up the quarterly educational forums. After all of that, then the girls proposed the structure and investment policy statement for the Family Fund. That was followed by instruction in basic finance and basic legal structures (corporations, partnerships, LLC's, etc.). Given that this family had some 32 separate legal entities (including at least one each of those listed above), this education was critical.

The girls then proposed both a structure and investment policy statement for the Family Council. When their proposal was accepted by their parents the girls were given a check for $10,000 in consideration of the 'consulting' they had done during the educational process. In addition, from that point forward, the parents set an investment return benchmark for the girls' investment accounts, and the girls received a bonus every quarter that was a percentage of the amount by which their investment accounts beat the benchmark. The family reset the benchmark every quarter, so if they had a bad quarter they didn't get thrown out of the game. This bonus made it "worth it" for the girls to actively manage (and learn from) their investment accounts.

This activity is a good example of how "Is it worth it, Can I do it?" questions can be addressed. To ensure the participation of the next generation in family governance activities, there must be incentives of one kind or another that have meaning to the children, and those are not necessarily financial incentives.

It takes time

The gestation period towards the implementation of a fully functioning family council can take a couple of years. This is not a problem; in fact, it is an extremely positive thing. The 'grow-slow' approach isn't just about the immediate family either; we have had cases where the parents invited (read 'insisted') that the fiancés of their children come to family meetings so that they could have a deeper understanding of the family they were marrying into-and what they would be expected to be a part of.

Another example of 'Is it Worth It? Can I do it?'

In another family, an adult daughter was a reluctant participant in family meetings because her dynamic, hard-charging parents wanted her to be a leader. But she was not a leader, and had no desire to be one. When her parents were going through their Guided Discovery and reflecting upon the values and passions that drove their own lives, her mother asked, "When are we going to accept our daughter for her values and passions, for who she is, and not what we want her to be?"

In fact, the daughter wanted to be the 'safe' Aunt to whom anyone in the family could come to share their stories, joys, and problems. When her parents realized that and helped her to assume the role that most suited her, everyone in the family benefited from the decision, and everyone elected to fully participate in the Family Council.

Strong personalities should not dominate family governance. When thinking about 'who goes where' and 'who fits best' in the context of family governance responsibilities, the answers must benefit the family as well as the individual family members. In our experience, this kind of perspective and realization only comes through a skillfully conducted Guided Discovery process.

The result is that individual family members discover what's truly important to them, which provides the solution to the 'Is it worth it and can I do it' question. This, in turn, allows them to make significant, long-term contributions to the family governance process for their own reasons.

Supporting individual family members to find and pursue their true passions is where family leaders will make their greatest contributions. "Find your passion and do it," rather than "be plugged into a position because there is a need," is a hallmark characteristic of strong family leadership.

Principle 2**:** Communication is the key

Developing and maintaining effective patterns of communication is the key to long-term success. It is in the process of working together that the results of greatest importance and lasting benefit to the family are achieved. Part of the family governance structure is to create experiences and opportunities for communication to develop over time.

When family communication and mentoring are functioning at a high level, the performance results desired by the family will follow. This is the key to successful, multi-generational family governance.

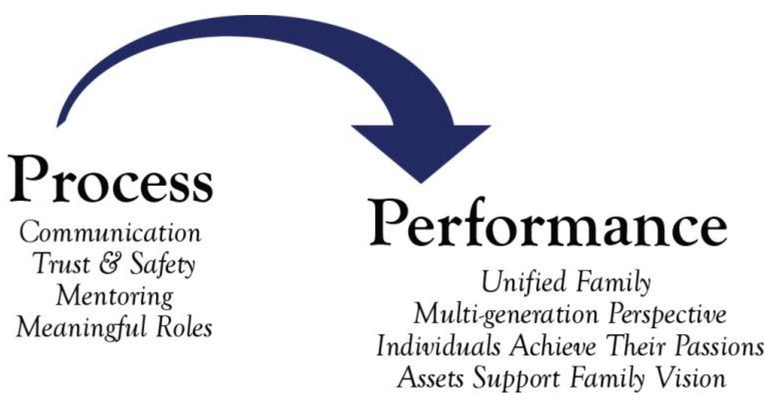
The senior generation needs to be assured up front that this doesn't take a lot of money or require them to give up too much control. That means that the 'release costs,' including things like concerns about diminished authority, easing away from active management, and the money it will cost them to set up the structures, cannot be too great.

Principle 3: The amount of money matters, but not in the way you might think. Some families are surprised to discover that there is no correlation between the size of estate and the amount of money with which the parents ultimately fund family structures, including the Family Fund/Bank, which is a structure used by many families to both educate the children as well as to fund family activities. One family with whom we worked had a billion dollar + estate and could have funded the Family Fund/Bank with just about any amount.

What they discovered was that to achieve their objectives of getting the adult children to work together, $25,000 was enough to motivate the children and fund the Family Fund/Bank.

In another instance, the parents were prepared to place up to $1million in the Family Fund/Bank. This was money the children would invest, but not spend. They presented the concept of the Family Fund to their children and asked the children to propose an adequate amount of funding to achieve the fund's objectives. After their initial discussions, the children proposed that the Fund be launched with $300,000. Then, after meeting with professionals and learning about gifting and tax issues, the children determined that they could accomplish their goals, and avoid any tax issues, with just $72,000.

In both cases, the children were able to learn valuable communication, planning, and teamwork skills–all within the context of an amount of money that the parents were willing to let go of. In each case, the guiding principle of the exercise was that the children learn specific skills while working together for the benefit of the entire family.



Principle 4: The focus must first be on Process, which will lead to Performance. We have found that heirs are seldom equipped to handle the wealth that will come their way. Effective family governance should focus first and foremost on creating and managing structures that give the heirs information, education, and training that is as real-world as possible.

With that in mind, it's easy to understand how conflict can occur if the initial expectation of the parents is that the primary purpose of family governance should be results, rather than hands-on learning. Performance objectives will typically be a part of the process, even with those activities we would consider to be mostly educational in scope. The more 'Type A' the patriarch and / or matriarch of the family may be, the more performance will matter. What is important to emphasize with the parents (and it will have to be addressed many times), is that the performance they wish to see will come about as a natural by-product of a successful governance process.

The amount of money with which they may fund an initial Family Fund/Bank structure, for example, is insignificant to the outcome of siblings (and cousins, nephews, nieces, grandchildren, etc.) learning to work together in a respectful, productive fashion. The ripple effect set in motion as the family works together in an increasingly unified manner will have untold impact on individual family members, the family as a group, and the goals and objectives they set for generations.

The key notion here is impact over time. If the first question a parent asks of the finance committee at a family meeting is "What rate of return did you earn on the Family Fund money that we entrusted to you last year?", it reinforces the idea that they are still relatively powerless children. In that case, the likelihood that some of the children will abandon their participation in the family council goes up dramatically. Focusing on the bottom line in this context does nothing to further the transfer of leadership from one generation to the next. Nor does it create the opportunity for developing mentoring relationships and stronger family communication.

But, replace the 'how much did you make?' question with: "So, what have you learned from this experience?" and see what can happen. This kind of question opens the door to transformational conversations.

With one question– "what did you learn?"– as opposed to, "what did you make?"
a parent can eliminate fears and concerns, and open the door
to transformational conversations.

Prepare the Parents

The importance of preparing the parents in the early stages of the governance experience cannot be overemphasized. If family meetings dealing with ongoing projects tend to focus on the results rather than on the lessons learned, the meetings will be dominated by strong personalities, which is opposite of the desired outcome of making sure that every member of the family understands that their voice and their participation have value equal to everyone else's.

To be effective, the family must establish mechanisms by which zones of safety and trust can be created within the family governance process. The family must also create attitudes and structures where individual family members will feel empowered. There are three keys to doing this successfully. They involve educating family members on the importance of the "3 P's", as described by Buchholz and Roth in their book, *Creating the High-Performance Team*:

• **Permission**. Individuals need to be given permission to assert themselves and take the first step.

• **Protection**. They need to feel safe in asserting themselves.

• **Potency**. They also need to feel that what they contribute will make a difference.

"I have found the best way to give advice to your children is to find out what they want-and then advise them to do it."
Harry S. Truman

One family has allowed us to use video from some of their Family Council/Executive Committee meetings for advisor training. They happen to be a high-net worth family, but the issues they faced as they went through our process and began to operate their governance structures were more about inter-family communication than about money. (And that is true with most families.)

The patriarch of this family made an interesting comment after the last day the family was together for this event:

"The success of this event wasn't due so much to the fact that the Heritage advisor did everything perfectly; it's that he created an environment of safety and trust within which every member of the family felt they could contribute what they wished without concern."

Setting Up Family Governance Structures

We noted earlier that the goal of effective family governance is to create a high-performance, multi-generational team. This objective comes to the forefront when creating family governance structures. This is where basic decisions are made, including who will be involved, and who will be able to vote.

Setting up governance structures can raise delicate issues; do in-laws vote, for example? Will votes on key decisions be made by count of total family members or by 'tribes,' where each family unit shares a single vote? How long will officers serve in their positions, how will change and growth be accommodated as the Family Council/ Executive Committee moves ahead and learns what works and doesn't work, etc. Before the family governance structures are designed and before the first meetings are held, though, there are some questions the family must answer:

1. *What is our purpose in setting these structures in place?*
2. *What are our goals as a family?*

Each family will approach these questions differently. A key responsibility of the advisor is to see that the answers are clearly expressed through conversation and in writing. Under the advisor's guidance, the formation of these structures sets in motion a process in which the children will learn to work together in

'pre-inheritance' experiences. This encompasses much more than setting up financial, legal, or family management structures. The pre-inheritance experience is also about passing stories and life lessons, as well as values, standards, and principles to the next generation. [1] Making sure those stories are passed on requires high-level communication. This part of the governance process is fundamental to the objective of preparing the next generation for the emotional as well as the financial inheritance they will receive.

We encourage the use of a qualified facilitator who is trained in communication techniques for family meetings for the first few years. The old family norms may have everyone expecting that the parents or grandparents will dominate the meetings, which can suppress participation by the children. Under the guidance of the facilitator, all generations in attendance can focus on the issues of the family and participate fully in adult-to-adult conversation.

Effective family governance entails much more than the creation of structures.
It also means passing what really matters to the next generations.

What will the governance structures look like?

As to what the family governance structures look like, the truth is that they end up looking like the family. No two families are alike, and so no two Family Council/Executive Committees look alike once they are in motion, even if they start from the same set of rules and ideas. Ultimately, all forms of Family Governance must resolve two primary issues:

- How do we make decisions together, and,
- How do we resolve disputes and upsets.

[1] When the life insurance company Allianz conducted a study of baby boomers and their parents in 2012, 86% of those polled said it was very important to keep family history, values, and lessons about life alive from generation to generation.

We often see families in which any family member over age 15 or 18 can attend, but only those 21 and older can vote. Although the Family Fund/Bank may be a legal entity, for example, the other committees may have no legal authority. The idea is most often that those who are 15-18 are beginning to learn by observing and participating in discussion. By the time they are 21, they have some 'seasoning,' and are ready to participate at the next levels.

It is not unusual for families to divide the family governance via the Family Council/Executive Committee, which is all the family, from the Family Fund/Bank, which may just be the blood relatives, or a small group of them. In these cases, financial decisions are made by blood relations only, which tends to stave off the many complications that pop up in the real world, like divorce, separation, re-marriage, etc. Each of the structures the family creates will have at least an annual meeting—sometimes more than one. Typically, the main meeting will be set up for:

- *Family Fun*
- *Family Development*
- *Business of the Family*

Again, this is not the time or the place to be talking about the business or investments that may be owned by the family. We have been told by family members who are not in the business that while most family get-togethers tend to be dominated by conversations about the family business, it is in the Family Council / Executive Committee where they feel—often for the first time— that they are really a contributing member of the family.

The way these family meetings are structured and operated will create new family norms, including the value and enjoyment of working together, of maintaining family harmony, and of always working on something as a family.

The First Few Years

During the set-up years, the parents' role (in active consultation with the professional advisor) is to make it possible for the children, grandchildren, nieces, and nephews, etc., to work together. That means the parents are not actively involved in many of the activities. This is, in large part, because the roles and norms of the 'old' family don't apply here and cannot be allowed to carry too much weight.

Hard for mom and dad? Absolutely. But, also an absolute pre-condition for the successful establishment of viable family structures, and the most effective way to get the children / grandchildren to buy into the process. (As the parents come to understand that their support for these activities may require small amounts of money and handing over low levels of control, the process of leadership transfer becomes much easier, too!)

Ongoing, Multi-Generational Operations

Here, the focus becomes maintaining the integrity of the family council, making sure that it remains flexible enough to change as it is warranted, and embracing the diversity of people and ideas within the family.

The reality is that spouses are going to be involved even if they aren't voting or participating members of committees (there are plenty of sparkling conversations between spouses at night during family meetings, we can assure you of that), and, when you add into the mix children, ex-spouses and step-kids, you can be sure that you will need mechanisms in place to ensure that each and every one of them has true permission, protection and potency.

It's one thing to get siblings to work together, for example, and quite another to get cousins worked successfully into the mix. If one of the goals for these structures is ongoing, multi-year productivity, the diversity within the family must be recognized and maximized.

"Here is a test to find whether your work with your family is finished: If you're alive, it isn't." Ryan Zeeb

What are the best structures?

We are often asked about the kinds of technical structures that may be used to accomplish family governance goals. The simple answer is that it depends upon the many financial, tax and legal entity factors unique to a particular family's situation. A family limited partnership may be best, or an LLC, a family fund or family foundation, a donor-advised fund, a dynasty trust, and /or any combination of the above.

The truth is many entities can accommodate the family's unique circumstances and accomplish its objectives. What is most important to remember is that for the family to achieve what truly matters to them for multiple generations, the over-riding goal is that the family work together in the context of whatever entities best suit their situation.

Family Fund / Bank

One structure that is often used for a host of mentoring, training, and ongoing family support purposes (including things like scholarships, vacations, home down-payments and inter-family business start-up loans) is the Family Fund, sometimes known as a Family Bank. Its structure may be quite formal, or as casual as the family council decides

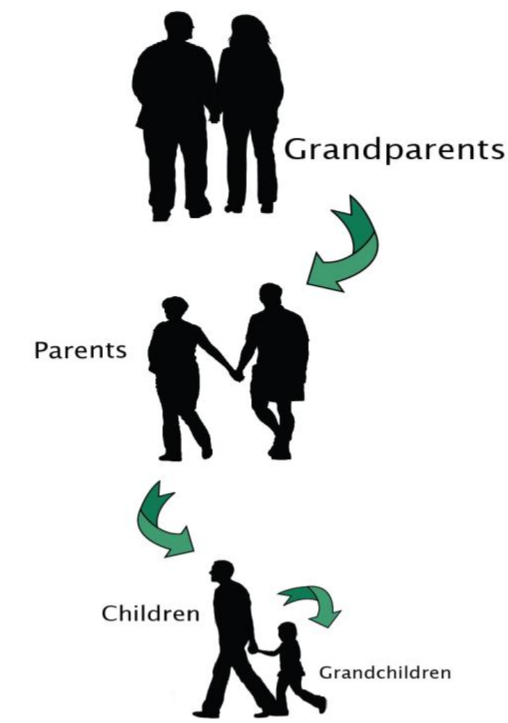
Mentoring

To facilitate the 'working together' process, we employ one of the most important tools in the multi-generational family governance process: mentoring. Mentoring within the family is an activity that pays tremendous dividends; it is also one in which an understanding of family dynamics is critical. For example, in our experience, children may have a more positive and productive mentoring experience with aunts, uncles and grandparents than they do with their parents. In part that's because for mentoring to be effective, it must be based as much as possible on adult-to-adult communication. This can be a very difficult thing to establish between a parent and their child.

There is another value to mentoring. If you think of the typical family structure in a graphical sense, you usually envision it as a vertical structure, with the youngest child on the bottom and the parents or grandparents at the top-literally and figuratively.

Vertical Family Leadership Structure

Leadership& Decision-Making Typically Flow Top-to-Bottom



Through the family governance setup within The Heritage Process™ that we use, the more the family becomes integrated into the mentoring process, the more that graphic representation changes: it becomes horizontal, rather than vertical. What that means is that everyone in the family is connected on an even plane, no matter who their parents are.

To 'be the strongest and last the longest,' the more horizontal the family orientation becomes, the better. So, the faster the advisor and the family can break the generational lines, put the talents of all the family to work (even if it is outside their immediate nuclear family), and foster a 'horizontal' mentality, the better it is for the family's multi-generational prospects. The best way to accomplish this is through an active program of mentoring within the family.

In the family governance process, there is a special opportunity for grandparents (and aunts & uncles, too) to mentor succeeding generations. These powerful relationships create lasting bonds and add immensely to the effectiveness and multi--generational impact of governance structures.

In the Appendix, 'A Tale of Two Families' contrasts the experience of the European Rothschild family with the American Vanderbilt family and provides a real historical example of what mentoring can accomplish–and the price to be paid when it is not provided.

"Tell me and I forget. Teach me and I remember.
Involve me and I learn."
Benjamin Franklin

Leadership

The creation, operation, and continuing development of successful multi-generational family governance structures is predicated upon building and sharpening strong leadership skills within the family. In family structures, what Jim Collins described as 'Level 5 Leadership' in his book, *Good to Great*, is the ideal leadership model. He describes the level 5 leader as one whose ambition is "first and foremost for the institution (family), not themselves."

This style is particularly important when you consider that, unlike the corporate world where the bus driver gets to select the passengers who will join him on the bus, in a family, the bus comes already filled! Effective leadership within the family governance structure is leadership that helps to make it possible for every family member at every level to be able to participate and contribute in a manner with which they feel comfortable, up to and including NOT having to assume leadership positions if they don't wish to.

Learning Experience

In one case, we worked with an affluent family that included the stereotype of a well-meaning but on-another-planet surfer dude. Somehow, this young man had made it to age 35 without ever taking upon himself any of the burdens of traditional adulthood. His older brother ran his own company in another state, and had a lot of business acumen, so naturally the parents preferred that he take on the role of family treasurer.

Our advice? Don't even think about making the responsible, business-smart brother the treasurer. He didn't need to learn any skills. So, the parents bravely consented to making surfer dude the treasurer. They funded the initial bank with $25,000. (Given that the family had a net worth of over $500 million, the parents weren't risking too much, no matter what happened.) When he accepted his new responsibility, surfer-dude said, "So I guess I have to open a bank account? And, I guess to do that I probably have to get some ID?"

In this case, the parents told the brothers that if they did well (particularly in the 'working together' department), they would exponentially increase the funding in the bank each year during the learning curve period. However, the parents made it very clear that if the brothers could not find a way to work together successfully, this was the ONLY inheritance they would receive!

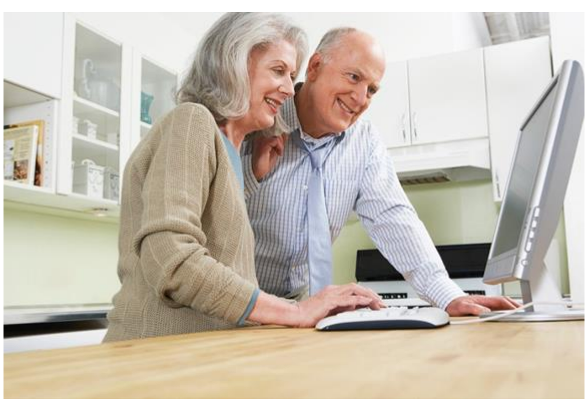
Going back to the "Is it worth it?" and "Can I do it?" propositions we stated earlier, you can see that the rewards for working well together more than satisfied the 'Is it worth it?' side of the equation in this instance. As for the 'Can I do it?' question, that is where a skillful advisor, well-prepared parents and a willing child (yes, even one who is 35!) must all do their part. Effective family governance leadership makes it possible for each family member to be able to participate and contribute.

The moral is that you never know what leadership-teaching opportunities are going to arise during this process - and that means for the parents just as much as for the kids. Had the father and mother not been willing to suck in their breath and just let go, this young man might never have been given the opportunity to take on a responsible, contributory role in the family's governance process. Sometimes you pick a person for a particular position because they want - or need to - develop skills in each area. Other times, a natural leader emerges in the family who everybody feels is just right for the job.

Deciding who, why and when they're ready is a serious responsibility, and can lead to some very lively conversations within the family and with the advisor. These are important considerations during the setup of family governance structures.

The advisor must be diligent and observant not only to set up structures that reflect family principles, but also to 'catch' things going on during family meetings where those principles can be highlighted and reinforced. For those parents who just can't 'let go' of their traditional parental role and begin the transfer of leadership to the children, the advisor must be prepared to intervene, remind, and reinforce the 'big-picture' objectives time and again. This is a learning experience for everyone in the family, and that is every bit as true for the parents (in some cases, more true!) as for the children.

Getting mom and dad to let go doesn't happen by accident, of course. It can be one of the hardest things a parent is ever asked to do. (Even though the advisor frequently reminds the parents that 'letting go' in this exercise may only be letting go of a small amount of money and control.) But, based on our experience, until they do let go the children won't be willing to step up to the



plate; after all, why should the children invest their energy and expectations into this if they know that whatever decisions they make might be overridden by the parents?

The presence of a trained advisor is critical to facilitating the governance process at this stage. When everyone involved works in common purpose for the benefit of the family, the transformation of parents and grandparents from 'monarchs into mentors' helps to strengthen every aspect of family life.

Examples

Note: some facts have been changed to protect the privacy of our clients.

#1

In this family, the parents controlled everything on the investment side, but gave responsibility and authority to the children within the family council and committees. For example, one of the parents is on the Philanthropy committee, which is chaired by his grandchild, to whom he is subordinate in this role. The grandson is 22 and has been participating in the meetings since he was 18. He was prepared to chair the committee and make substantive decisions at a young age because:

- *He had been mentored.*
- *He knew he had the support of the family.*
- *He knew he wasn't out there on an island on his own.*

This is an example of giving everyone in the family opportunities for meaningful participation in the activities of the family.

#2

In case 2, the client had a biological son and daughter, and a stepson and stepdaughter (ranging in age from 15 to 38) with three different mothers. The children had very little contact with one another. (Blended families are not just common by the way–they are pretty much the norm, especially when you include grown children and grandchildren in the mix.) His biological children were 38 (and in business) and 26 (and in graduate school).

They were each beneficiaries of large trusts established by their grandfather. The stepchildren were 28 (and working) and 15 (in high school), and neither were beneficiaries of a trust. All three of these children/stepchildren were included in the client's estate planning. Our purpose here was to work with the client to help create a structure within which these half-siblings, and their offspring, could work together successfully for generations.

As part of their family council duties, the children were charged with looking for a financial advisor with whom they felt they could work. We asked them to list what they wanted to from an advisor, and they responded with a short list. They wanted one who:

- *Knew what he or she was doing;*
- *Would be able to work with them;*
- *Who would answer all of their questions, and,*
- *Who would help to mentor them.*

They first interviewed their father's financial advisor. When we asked how that went, they acknowledged that he was brilliant, no doubt. But their overall impression was that dealing with them was the rather unpleasant price that the advisor felt he had to pay to get 'through' them and to their father's money. In response to their questions, the advisor would simply shoot back, 'just give me information, and I'll tell you what to do.'

There would be no opportunity for mentoring in his office. So, they went elsewhere to find a financial advisor who could meet their criteria. This is a great example of both working together and the learning process that occurs within the context of family governance.

Smooth seas do not make skillful sailors.
African proverb

3

We had a case that involved a mother who owned a successful business. Her four biological children (two daughters and two sons) did not get along with one another and showed little interest in working in the family business. They were all living off generous allowances from the parents.

This client funded her Family Fund with $350,000 and provided the children with a very clear incentive: show me that you can figure out how to manage this money successfully, and get along with one another in the process, or this is the only inheritance you will receive, and I will give the $300+million dollar company I own to the employees!

Mom knew that if her children couldn't figure it out, and they inherited the company, it would fail, and some 1,500 people would be out of work. That was quite an incentive for the children to learn to be cordial and to work on issues that affected the entire family.

The children concluded they didn't want to (and couldn't) run the company, so they developed a plan to keep key management in place with equity incentives. And, although they have had their ups and downs, the children are still working together and still making real progress.

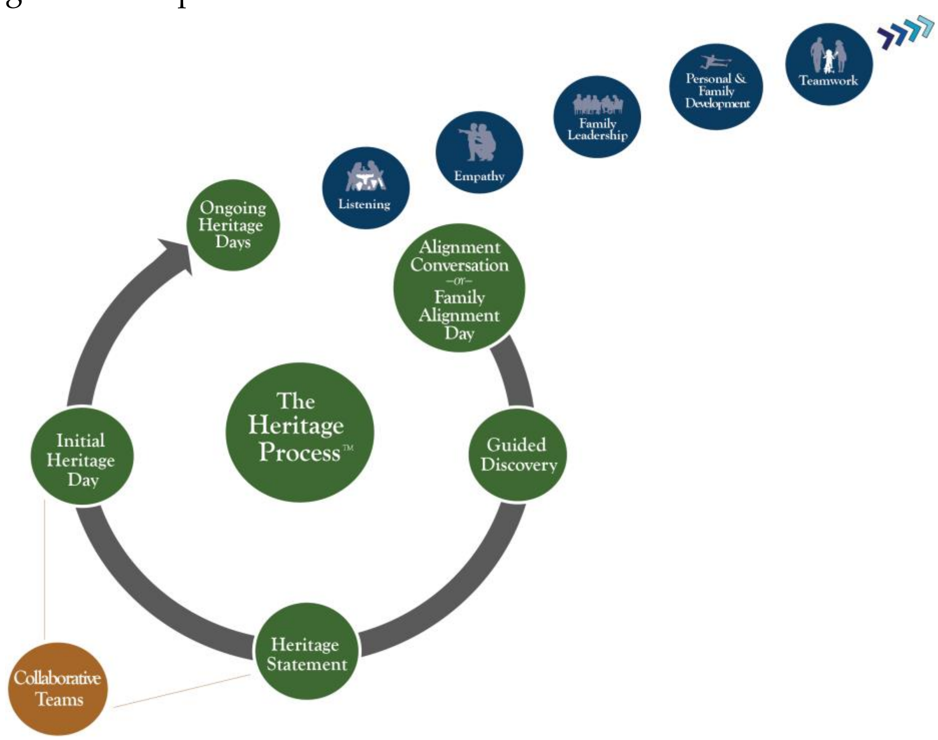
"Others may help us, teach us, and guide us along our path, but, at the end of the day, the lesson learned is always ours". Rod Zeeb

Conclusion

For the family, and for the advisor who is helping them through the set-up, launch and ongoing facilitation of their family governance structures, it is important to understand that this process is not just a science, but an art as well. We believe that the advisor must address the family governance issue via a flexible, tested, and proven process (whether The Heritage Process™ or another process) because there is no 'one-size-fits-all' family governance structure solution.

Pre-packaged structures should not be 'imposed' upon the family in lieu of a process that allows the family to discover what matters most to them. Packaged solutions will not help the parents to 'let go,' or guide the children to discover that it is worth it and that they can do it. If there is any arena in which families do not want a transactional relationship, family governance is it.

In the case of The Heritage Process™ our experience has been that its six steps 'spill over' into every aspect of the advisor's relationship with the client, their family, and their other advisors. There is no one automatic place where the process is suddenly 'injected' into the advisor-client relationship. It's more accurate to say that the process touches upon all aspects of that relationship in such a way as to make the client's decision to engage the advisor for the family governance process a natural one.



Clients who choose to make The Heritage Process™ a part of their planning start thinking about the family governance process early on. That's because from the outset, the process puts the client in a multi-generational frame of mind. They learn about the 90% inheritance plan failure rate. They want to be part of the 10% of families who thrive across generations, and they understand that successful families have used governance structures to survive the most difficult economic and political upheavals that the world has known.

Most inheritance plans ultimately fail because the inheritors are not prepared for the responsibilities that come with their emotional and financial inheritances. The most technically complex, artfully crafted structures in the world will not help the family to achieve their vision if they haven't learned how to work together.

Families who establish and maintain effective family governance structures can experience greater unity, individual family member achievement, and the accomplishment of the goals and objectives that matter most to them–for generations. Facilitating this process is the task that we believe advisors should set above all others.

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