FOUR VOICES

Managing love, loyalty, family wealth and succession through the generations

JOHN VAMOS

This book is dedicated to the many families that have embraced, tested and applied the approach described in these pages; families that have evidenced that the formula described in *Four Voices* works.

They have shown, without qualification, that the *Four Voices* approach can successfully bring rigour, accountability, harmony and sustainability to families that share love, loyalty … and wealth.

– John Vamos

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Acknowledgements

I would like to thank the many families that have put their collective future and harmony in my hands.

Our shared learnings have shaped the thoughts and pointed me in the direction of the science that this book promotes.

Their application of the solutions outlined prove the efficacy of the model and will hopefully help many other families that face similar challenges.

This book has come to life over a number of years thanks in large part to my friend, colleague and co-author Karen McCreadie. Her patience, powers of interpretation and sharp filter for what matters and what doesn't has brought both my thoughts, and the Jackson Family, to life. The book would never have seen the light of day without her.

Thanks also to Lesley Vamos for her wonderful illustrations. They truly capture the moment and make the Jackson Family very, very real!

About the Author

John Vamos has worked alongside businesses for over 35 years, including many of Australia's most successful, wealthy and enduring family dynasties. Regarded by many as the father of business coaching in Australia, John was certainly the first to apply 'business coaching' as a professional designation. Over three decades he has also been the lead strategic facilitator for many of Australia's top 200 public and private companies.

A law graduate with 15 years of financial advisory experience overlapping 35 years as a business coach, John has witnessed first-hand the unique and especially complex issues that face family enterprise. He has met countless struggling business leaders inside family enterprise who are confused by the reality they find themselves in – everything from succession issues to business dysfunction to sibling rivalry to family disunity and fracture.

The creator of the highly successful Thinking System suite of tools, John uses these tried-and-tested techniques to address these and other thorny family business issues. The Thinking System can liberate any type of business from any type of challenge, but the rewards of resolution can be especially miraculous in family business.

John is the author of three books. The first, *You Don't Think as Smart as You Are*, explored how our being human challenges productivity. The second, *Elephants and the Business Laws of Nature*, looked more closely at these issues in the context of business management. And this book, *Four Voices* – his magnum opus – is dedicated to unravelling how those same human issues play out in family enterprise. And more importantly, this book explores and explains exactly what to do to defend love, loyalty, family wealth and succession through the generations.

> *Over a number of years, together with colleagues at the Centre for Management and Organisation Studies at the University of Technology, Sydney, I have been researching the field of business coaching. While there are many offers in the marketplace, our findings are that none is as distinctive, nor more useful in terms of business improvement, as the methodology of organisational coaching that John Vamos has pioneered. Having watched his coaching in action, we can see that the questions that have been devised [in the Thinking System] act as prompts to unlock potentials that were already there but otherwise lying dormant.*
>
> – Professor Stewart Clegg

About You

Let me tell you a really quick story. If you relate to it or resonate with it in any way, read the book. If you don't, use it as a door stop and move on …

While attending a family business conference held at a stunning resort I got chatting to an older bloke who had a very successful manufacturing business employing around 2,000 people. After telling me a little about his business, he asked what I did. So, I explained that I work with businesses just like his to help them navigate the additional challenges of family enterprise. He was intrigued and went on to outline some of the challenges he was facing in his own family business. His wife had been instrumental in the business – in fact, she had started it, but he had turned it into something that was scalable. He employed his sister, who worked in operations, as well as his daughter and his son. His son had made a significant contribution, having created a proprietary process that was now the business's main point of difference in the marketplace; and his daughter was also making a positive impact, leading the traditional front end of the business. He also had two other children who were not involved in the business. Although his son and daughter's roles were fairly clear and didn't really cross over, there was unspoken angst around what was going to happen in the future. What he described was the typical Gordian Knot of complexity that weaves through every family business.

It was clear these issues were causing him deep concern. After a few minutes he turned to me and said, ‘So, what do I do?’

By the time we arrived at the new venue for the next session, a walk of about 15 to 20 minutes, I had outlined what he should do and in what order. Essentially, I explained what’s in this book – giving him a snapshot of the importance of eliciting the four voices from the business and family, and why.

He looked shocked. Grabbing my arm, he spun me around so we were no longer walking side by side but facing each other. Clearly, he had thought his question was rhetorical.

‘So, hang on – are you telling me there is a way do to this? For years I’ve been told by accountants, consultants and lawyers that this is just the way it is in family business. Some sort of pecking order would sort itself out eventually. Are you telling me that’s not true? Are you telling me there is a proven way, a system or formulae, that will sort it out?’

‘Yes. That’s exactly what I’m saying. There is always a best way to do anything – including a best way to manage love, loyalty, family wealth and succession. All you need to do is apply “thinking systems” to the Gordian Knot and the challenges unravel.’

This book is that best way.

If you want to know how to unravel that Gordian Knot right now, once you’ve read the introduction and chapters 1 and 2 you could skip forward to part III and read from there. You will get the answers you are looking for. But you won’t fully grasp the problems. This is a little like the parable about giving a man a fish versus teaching him to fish. If you skip to part III, and I fully appreciate your desire to do so, the book will give you the fish. But because you don’t fully understand why the Gordian Knot was created in the first place, you may find yourself repeating patterns and behaviours that made the knot in the first place. As such you may not reap the full benefits of the book.

I get it. You’re busy. Businesses don’t run themselves and family businesses, as this book will attest, bring exponential issues to deal with. But I strongly recommend you learn how to fish. Read part I and part II because they set the scene and allow you to fully appreciate why the answers laid out in part III onwards actually work.

What you will read in these pages, wherever you decide to start, is the story of families in business – including the management of their wealth and effective succession. It is also worth noting that the value in these pages magnifies as the wealth, sustainability and complexity of a family business increases.

Like beauty, most of us recognise that wealth is relative and it can mean different things to different people. Wealth may mean a level of freedom to spend quality time with those you love. For others wealth could simply be measured in dollars and cents. No one version is any better or worse than any other. Just because a family has money does not make them superior to a family with limited resources. This is especially important to remember, should you find yourself marrying into a family with different financial resources than those you grew up with.

This is not opinion and nor is it any type of social commentary. There is no inference or suggestion that wealthy people are better, smarter, more important or happier than those who are not wealthy. In fact, the irony is that the only category of people in the world who know for sure that money doesn't buy happiness is the wealthy!

But for the purposes of this book, let's define wealth in a way that further helps you decide if you will benefit from reading it:

- **Establishment wealth (level 1):** This is the wealth created by the founder of the business. The challenges we explore in these pages are unlikely to derail establishment wealth. But if you're at level 1 and want to make sure you reach level 2 and level 3 then you *should* read this book.
- **Foundational wealth (level 2):** This is the wealth that extends beyond the founder. Typically, this means more than enough has

been made for the founder to live comfortably and have sufficient resources to help their children, parents or siblings. If the foundational wealth is wrapped up in a business you want to pass on to the next generation, then you will almost certainly be subject to some of the challenges in this book. You *must* read it.

- **Generational wealth (level 3):** This is the wealth that extends beyond the family. If you have more money than you or your children could *ever* reasonably use or spend in your lifetimes, you have accumulated generational wealth. If you find yourself in this position, then you face the challenges that inspired me to write this book! And you will be subject to ALL the problems and opportunities we are about to explore. You are also most at risk of the family business curse (more on that shortly). *You can't afford not to read this book.*

Bottom line: financial wealth can be a blessing or a curse. Whether it ends up being a blessing or a curse for you and the people you love is inextricably linked to your understanding of and appreciation for the four voices.

IF YOU HAVE MORE MONEY THAN YOU OR YOUR CHILDREN COULD EVER REASONABLY USE OR SPEND IN YOUR LIFETIMES, YOU ARE AT GREATEST RISK OF THE FAMILY BUSINESS CURSE AND YOU CAN'T AFFORD TO IGNORE THE CONTENTS OF THESE PAGES.

CHAPTER 15

Ungoverned to Governed

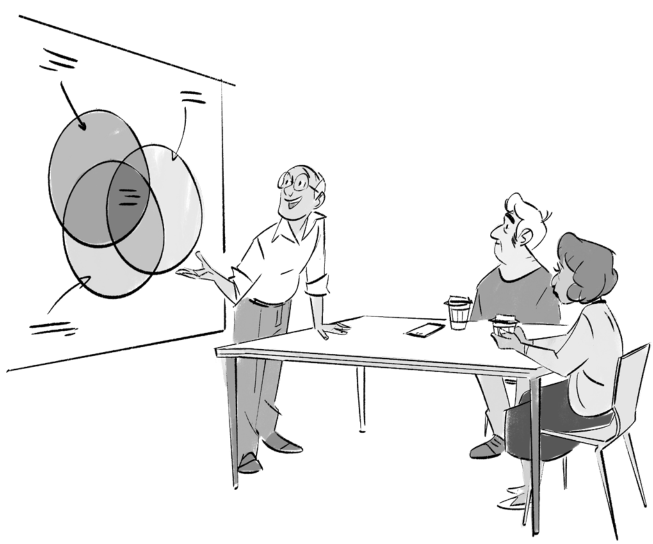
When a family shares their story with me, as much as it is important to listen to the words they say (the content), what is more important is listening for clues (context) regarding the founder profile, the next generation profile, the family dynamics and the trusted advisor framework. In other words, the answers to just four questions:

1. Is the founder motivated to find a solution? (Yes or no.)
2. Is the next generation ready? (Ready and impatient, ready and patient or not ready.)
3. What is the level of family hostility or dysfunction? (Normal levels of family dysfunction or hostile.)
4. Does the family have a history of employing trusted advisors when needed? (Yes or no.)

The answers to these four questions tells me pretty much everything I need to know to figure out the governance sequence best suited to that family and bring about the biggest wins in the shortest time.

Throughout the book I have introduced you to a fictitious family – the Jacksons. The Jacksons are stuck. In terms of the above questions, John is motivated, albeit a little reluctant to step fully away. The next generation are ready and impatient but are unclear of their roles or career progression and opportunities. The level of family dysfunction is pretty normal – the brain limitations cause a typical level of angst. On the bright side, they can all be in the same room as each other without breaking into a cold sweat. The family is used to employing trusted advisors from time to time although they are more familiar with employing a lawyer or accountant rather than a governance advisor. Surprise, surprise: John Jackson 'hates' consultants. On the whole, the Jackson family business is functional but largely ungoverned. There is no formal governance. And what *that* means is that everything will probably tick along pretty well until John dies. If there is no governance in place before that happens then chaos and dysfunction are almost inevitable.

Thankfully, John is smart enough to recognise that he needs some objectivity. The one thing that every family business is always woefully short on is objectivity. So, he decides to take the bull by the horns and ask a trusted advisor to meet with him and Ayesha. He recognises the challenges on the horizon. To be honest many of the challenges are in the here and now. But he wants to know that the trusted advisor has a plan and isn't just going to bamboozle him with industry jargon. Is there a proven process or road map so the whole family can move on together? Is there a way to become unstuck?

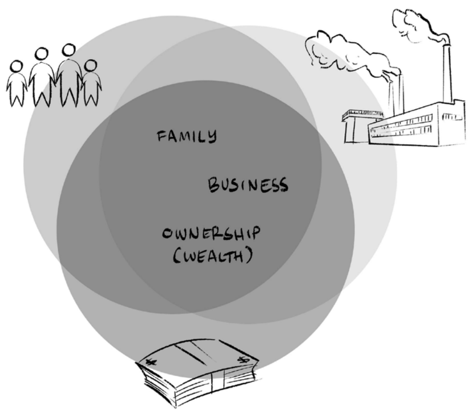


Over coffee in the Jackson Developments & Construction boardroom the advisor opens the discussion with John and Ayesha by reminding them that when it comes to family business there are three domains or circles. The advisor draws the three-circle model from chapter 13.

What follows is the conversation between John, Ayesha and the advisor …

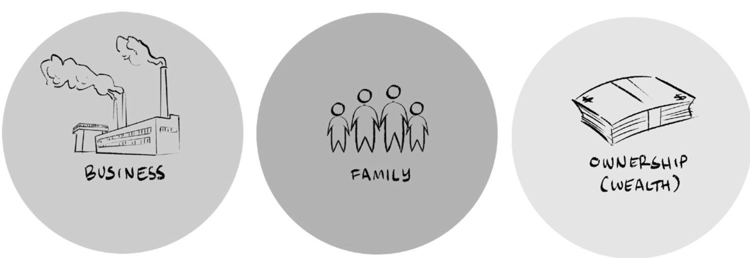
'Right now, the Jacksons' three circles of family, business and ownership (wealth) are virtually indistinguishable from each other …' says the advisor as he draws the circles in figure 15.1 on the whiteboard.

Figure 15.1: Current Jackson Reality



'Your goal is to separate those circles consciously and deliberately using governance and stewardship', the advisor says, as he draws figure 15.2 on the whiteboard.

Figure 15.2: Optimal Jackson Reality



John and Ayesha are interested, but wonder, ‘Is there a system to achieve this?’

‘Let me explain,’ says the trusted advisor. ‘First you need to separate the business circle.’

Establishing the Business Circle

‘In order to begin the process of separating the business from the family and the ownership or wealth, Jackson Developments & Construction must be given a personality independent of the two of you as cofounders. Up to this point you are the business. The name of the business is your name. You are also the walking-talking governance system of your business in that you are the decision-making protocol. Engineered by you both, imposed in large part by John.’

John laughs and Ayesha rolls her eyes. They both know that what the advisor is saying is true.

‘So, I’m right about that then!’ says the advisor. ‘John, you make all the key decisions and everyone knows it. You may include Christopher, Nathan and Priya in the decision-making process along with key non-family staff, but you have the final say and everyone is clear about that. And hey – that’s totally understandable, and probably works pretty well.

‘But, for the business to take on its own identity it must be separated from your identity. This is achieved via the preparation of a strategic plan.[68] The strategic plan speaks for the business. It’s not the ambitions of the individuals in the business, in this case you, Christopher, Nathan and Priya. It is the ambitions of a business that is fully realising its potential, understands the marketplace and delivers a meaningful, credible service or function within that community for profit. All the employed family members and key non-family employees are encouraged to contribute to that strategic plan, but the resulting agreed plan speaks only for the business.’

'We have a strategic plan, we're not that backward!' says John, a little indignantly.

'I'm sure you do, but does your strategic plan go into enough detail to allow you to assess the agreed direction against the current capability in the business?' the advisor asks. John doesn't answer.

Further investigation uncovers that the 'strategic plan' John is confident he has is a mental spreadsheet that defines scale, profitability, preferred markets and strengths to play to. It is clearly written – in his head. It is the expression of his experience, largely undocumented, and his learnt capabilities. Having avoided the discipline of documenting the corporate (his own) memory, John retains the mystery around his genius. It hardwires the rocky road ahead without governance.

Remember, the degree of pain endured by a wealthy family in the absence of the founder reflects the founder's failure to respond to the consequences of having been successful. It is not a reflection on the family.

The advisor continues, 'Without a clear and rigorous strategy, it's really hard to determine whether you have the right people in the business to deliver on that strategy. Instead, you rely on filling gaps or moving people sideways to cover shortfalls or try to shoehorn family members into those gaps. This strategic assessment will include employed family members and non-family members alike and is seeking to answer the question, "Does the business currently have the experience, capability and skill set necessary to deliver on the strategy?" With a well-articulated strategy that considers the landscape inside and outside the business, it becomes possible to assess family members' employed relationships with the business.

'One of the reasons that you are stuck is because you are probably unsure if any of your children should or could take over the business. From what you've told me they each have their own strengths and weaknesses, making that decision difficult. Is that right?'

'Well, yes,' says John. 'Christopher is the oldest and if he was more interested in the actual building side of things, rather than just the design, he would be the logical choice, but I just don't think his heart is in it. Plus, he and Nathan don't get on. Priya is smart as a whip but construction is no place for a woman. Ayesha disagrees with me on this but I've been on building sites. I don't want her having to deal with that nonsense. And Nathan is gung-ho and really enthusiastic but he leads with his gut. He's not got the brains of the other two to step back and see the bigger picture. His decision-making is too rash for the top job – certainly just now.'

'Okay, I totally understand that,' says the advisor. 'But remember, this is your impression. You don't actually know. And without a detailed strategy the business is revolving around your skills, knowledge and experience. It does not have a voice of its own. You talk of Nathan leading with his gut – does that remind you of anyone? To what extent is that the characteristic that has brought the business to this point? What's useful is an objective measure of capabilities assessed against what is needed in the business now as opposed to what was needed at start-up. To deliver on the Jackson Developments & Construction strategy, does the business need the types of skills and experience that Christopher, Nathan and Priya have? Only when the strategic plan is clearly spelt out can that question be asked and answered. If they do have the needed skills, then the next stage would be to define the commercial relationship between each family member who is employed in the business, and the business itself.

'I'm wondering, how do you currently pay Christopher, Nathan and Priya?' asks the advisor.

'They get a decent salary. Chris's architecture practice bills me the same amount as I pay Nathan, and Priya gets about $10,000 less, but they are potentially owners so …'

'So what?' enquires the advisor. 'Are you saying you pay them less than you would someone else doing a similar role because they are your children and will, presumably, inherit the business?'

'Well, yes, but there's more to it than that,' stresses John.

'You're not going to like this, John, but there is no justification for paying your children less than what they are worth as a cost saving in lieu of future returns. Having this type of family subsidy and continuing it for as long as possible is a common mistake in family business. Senior leaders with the family surname are routinely underpaid based on the assumption that they are also owners and will eventually inherit the business. So, what? Are you saying that Christopher, a qualified architect, Nathan, a grafter who has worked his way up through the business, and Priya, a qualified engineer, should be happy to compromise their immediate real-world human value for some hypothetical future world value – just to subsidise Jackson Developments & Construction? Surely, you see that's nonsense – right? It's dangerous and it has to stop at the first opportunity. As soon as any business can afford to pay employed family members a commercial going-rate salary, the sooner that family can steer its way out of the murky waters of uneven or unfair distribution.'

'And,' adds the advisor, 'this professional commercialisation of the employment contract between employed family members and the business can now be done accurately because their activities form a part of the structure, which supports the strategy. The strategy is in turn endorsed by the shareholders, who fund it. In other words, having clear strategic objectives for the business allows each employed family member the opportunity to see if and how their current skill set fits into that strategic vision. And of course, it also gives you the same clarity.

'When the strategy is done it will be independent of you or any other employed member of the Jackson family. It will be the independent voice of Jackson Developments & Construction, and that business will finally be able to enter into an arrangement whereby the relationships it has with each employed member of the family and non-family employees is a function of their respective capabilities, skills, knowledge and evidenced performance – rather than their surname. Nothing else is relevant.

'This role clarity and definition is achieved through purposefully and well-drafted position descriptions.[69] The institution of position or job descriptions commercialises the relationship between family members and the business. Commercialising the relationship is done by answering the question, "What would it cost us to employ somebody with this skillset?" There are two forces that need to be governed regarding the commercialisation of each position. First is the evidence test, which is, broadly, "What salary does a person with that experience typically command in this industry?" And the second is the unique test, which is, "Does that individual have any special characteristics that would entitle them to a different compensation arrangement?" And, just to be clear, having 'Jackson' as a surname is not a special characteristic. But Christopher having a separate business with access to a larger team of architects and design professionals might be.

'Once the strategic plan and performance contracts are complete, Jackson Developments & Construction has its own voice, separate from you. It is articulated by the collectively agreed strategic plan. Any family members in the business are now in a role that is needed to achieve that strategic plan, and they are in that role not because they are family members but because they have already demonstrated the capability, experience and skill set to deliver their part towards that strategic objective – or they have used that clarity to make a different choice.

'How do your children feel right now?' asks the advisor.

'They are confused,' says Ayesha. 'Especially Priya. She knows John doesn't believe construction is a suitable profession for women. He's never said it, of course, but he doesn't need to. I think Christopher feels guilty and is trying to make everyone happy, and Nathan is irritated because he thinks he's most "qualified", and that he is "doing all the work"'.

'Exactly,' says the advisor. 'They don't know what's possible or what they want, so they are in this weird limbo waiting for you to make a decision. It may very well be that a great deal of your confusion will disappear when their confusion disappears. The strategic plan is the first part of that puzzle and the personal plans are the second. I'll explain that in more detail in a moment, but in short the personal plans allow everyone in the business to engage with their own capabilities and aspirations. That process may illuminate for Priya that she actually doesn't want to be in the business, and you have one less problem. But, if your children do decide to stay in the business, there must be a genuine role for them – one that supports the strategy and in which they are paid the going market rate for their respective positions. That salary must not be altered in any way (up or down) as a result of their familial connection to you.

'This disregard of familial relationships to position or compensation puts your children on a solid commercial and professional footing that then separates the business circle from the family and ownership or wealth circles. Christopher, Priya and Nathan may still be employed by the family business but if they are, they are treated the same as any other key non-family employee. Their surname becomes irrelevant in the context of the business and working towards the strategic objective. This allows each sibling, including Anika who is not employed in the business, to arrive at the beneficiary or ownership table as an equal. Plus, Nathan can't claim that Christopher is making more because his business is billing Jackson Developments & Construction, and Christopher and Priya can't be irritated because their qualifications aren't being recognised or compensated for. By taking these crucial governance steps, you put an end to any real or perceived family subsidising.

'And, perhaps more importantly, the Jackson business circle has been successfully separated from the family circle and the ownership circle. Does that make sense?'

Both John and Ayesha nod. Finally, there seems to be a glimmer of hope that all is not lost and that something might be able to be done to help the business and the family.

Establishing the Family Circle

‘Okay,’ continues the advisor. ‘Now we need to separate the family circle. To do that you need to understand what the family wants. What are Christopher’s personal dreams and aspirations? Do you know what Priya really wants to achieve in life? Do you have any idea what Nathan is aiming for? And what about Anika? Do you know what your children want? Forget the business for a moment – as individual human beings, what do your children dream of?’

‘I don’t know, we don’t talk about that sort of stuff,’ says John. ‘I know Anika wants to create a successful restaurant, but beyond that they don’t talk much.’

‘Don’t feel bad about it,’ says the advisor. ‘Most people haven’t got a clue. The solution is a personal plan. These personal plans ensure that each family member, regardless of whether they are currently employed in the business or not, is charged with the responsibility of clearly and openly declaring the future they want for themselves.[70] It’s worth pointing out that personal plans are not compulsory – until a family has a business or shared wealth. Even then, it is okay for an individual to step away from the business, family or wealth and divine a private pathway. However, if that individual is to govern their wealth, and if family members intend to influence that wealth, they must declare their hand, otherwise the family is governed by default settings. The resulting plan, which covers personal and professional aspirations, describes what success looks like for each member of the family over a set period of time. Too often these questions are left unasked and unanswered so no one knows what the others want. Personal plans bring those aspirations out into the open so that you can say, as parents, founders and life partners, “This is our plan for our future. It provides a clear basis for understanding what drives our point of view about both the business circle and the ownership circle.” Your children no longer have to wonder; instead, they can figure out if they want to fit into that picture via the business or not. They can then make their aspiration clear to you. You can then guide and support your children on how best to make those aspirations a reality within the strategic direction of the business, or outside the business. Remember, this knowledge of aspirations led to your support of Anika. But that only happened because Anika was clear about what she wanted. Personal plans give that opportunity to your other children, too.

'Once that work is completed, everyone can sit at the table – business or kitchen – with the personality differences between each family member moderated. There is always a louder voice in every family. Sometimes that louder voice might come from the oldest or most domineering child, who is then the most likely to win an argument simply because everyone else gives up or others don't have the ability to put their case forward with clarity. In your family, who has the loudest voice?'

'Oh, that's easy!' laughs Ayesha. 'John. If John isn't there, Nathan. The oldest, Christopher, has always struggled to get his point across without Nathan undermining him or making fun of him. The girls can and do stand up for themselves but they tend to pick their battles.'

'Makes sense', says the advisor. 'The great thing about personal plans is they help nullify these typical family dysfunctions by giving each individual family member a voice while also helping them to gain clarity about what they want in their own future, either inside or outside the business. Never underestimate the influence you both have had on the career choices and life paths of your children. The name of the business is Jackson Developments & Construction. Every conversation at the dinner table for the first 20 or so years of their lives involved Jackson Developments & Construction. Every Saturday job was at Jackson Developments & Construction. Whether deliberate or not you have influenced the path or perceived path for your family. Personal planning presses the pause button on that influence and encourages each of your children to really consider all their options.

What is it they really want? This clarity allows each family member to step into their own journey with authenticity and ensure that they get to the negotiating table equally. This isn't about equal weight of each voice in relation to the business, however; should your voice have any more influence on the lives of your adult children than their own? Only you can decide your shared future. And the same is true for Christopher, Priya, Nathan and Anika along with their partners.

'This process also creates a rational and logical opportunity to include their partners. Again, the mistake that is frequently made in family business is that it's just too complicated to involve the second generation's partners. It's not. Each of your children have one vote. If they are in a relationship, they still have one vote, only now that single vote is shared with their partner 50/50. Assuming they have a rational and reasonable partner, 50 percent of their vote then belongs to their partner. That partner's voice is therefore heard in the preparation of the personal ambition of each of your children.

'For example, when Christopher prepares his personal plan, he will do so with his wife Rya. They might talk about where they want to live, where they want their children to grow up, what schools they want their children to go to and what opportunities they want their children to have, what career path Christopher wants for himself and what career path Rya wants. These are likely to be issues they have already discussed, and all of them can be accounted for and taken into consideration when thinking about the future pathways for them both. The same is true for each sibling. Their plan will include their partner and their partner will have shared influence regarding anything that impacts their unique family.

'Once this work is complete all four children are well represented. Instead of waiting and wondering if or how they might fit into the family business at some point in the future, they step back and assess what they really want to achieve individually. Those aspirations may or may not involve the business and they may or may not be possible, but at least the individual is setting the agenda. They have stepped out of the shadow of the business, if only for an afternoon, to genuinely consider their own future and what they want that future to entail. That clarity can be liberating and energising for both the individuals themselves and likewise for you as the founders of the business.

'Each family member has their own voice irrespective of their role in the business and their partner's voice is represented in that plan. And each of your children knows what they want to achieve in the years ahead and has a plan to deliver that outcome.

'It's important to reiterate at this point that the personal plans are personal. They are used to empower the planner, the individual. When each person presents their personal plans to the family, they do not share the information verbatim. They don't include any judgements or comments they have made about other family members. This means that, instead of hearing, "This is what I think of you all", the family hears, "This is what is important to me, what I want to achieve, and how I intend to go about it."

'The next step in the process to separate the family from the business and wealth is to create a structure around the way Jackson Developments & Construction makes decisions moving forward. John, you've said you want to step back, but you're worried that if you do, Christopher and Nathan will just argue endlessly. The personal planning process will allow you to see a way forward for the first time. The information from these personal plans allows you to be cognisant of everybody's individual points of view which, in turn, allows you to move away from the founder role to a stewardship role. As steward your role is to help the family define a destination that everyone can get behind, which will take the whole family on the journey together where each family member feels valued. The direction of travel and making sure the family stays intact during that journey is much more important than the eventual destination. Stewardship therefore begins with individual wellbeing; transitions into team effectiveness; and ultimately leads to larger family business considerations such as ensuring that family values and missions remain relevant and contemporary.'

Augmenting Governance through a Family Charter

The advisor continues: 'John, if you, as the current walking-talking governance framework, are to step back effectively and with confidence, a replacement governance framework needs to be installed so that everyone in the business, family member or non-family member, knows how decisions are made: by whom, when and in what forum. What belongs at the dinner table, what belongs at the board table and so on. These decisions might include things like how you endorse the strategy of the business, which family members might be appointed to hold board seats and what to do with the shared family assets. These and countless other decisions will be documented in a Family Charter. The Family Charter also affords the whole family an opportunity to create a culturally competent set of family values that are agreed and implemented as an institution through the family and the business, that will live on through the charter to inspire generations to come.'

STEWARDSHIP THEREFORE BEGINS WITH INDIVIDUAL WELLBEING; TRANSITIONS INTO TEAM EFFECTIVENESS; AND ULTIMATELY LEADS TO LARGER FAMILY BUSINESS CONSIDERATIONS SUCH AS ENSURING THAT FAMILY VALUES AND MISSIONS REMAIN RELEVANT AND CONTEMPORARY.

'So, hang on, the Family Charter is different from the personal plans?' asks Ayesha.

'Yes,' says the advisor. 'Think of the strategic plan as giving the business a voice, the personal plans as giving individuals a voice, and the Family Charter as giving the family a voice. All are necessary to separate the circles. A Family Charter needs to be authored to document values and how the family makes decisions. This will include how the Jacksons make decisions about personal assets and the expectations your children may place on those assets while you are both alive and after you're gone. Sorry to be so blunt. For example, I understand you own a ski lodge. Do you have any expectations or hopes around that asset?'

'Well, yes actually,' says John. 'We have always had such great family holidays there, so we would like that property to be the place the family comes together at least once a year to ski and enjoy each other's company – no shop talk.'

'Okay, well, that would go in the charter. You are not saying the family must do that after you die, but right now, as the asset exists, you would like this wish to be known to the family. Without this knowledge and its formal expression, the question "what should we do with the lodge?" can become a trigger for default settings.

'The charter should also set out how the family makes decisions about endorsement of the trading business's strategy, and about the career pathways or migration of non-employed family into the business or into and out of positions of influence.

'The Family Council is then the body that "governs" the charter and ensures it is contemporary and remains relevant. A Family Council includes representation of all generations that have reached the age of majority.

'If the business is being discussed, the Family Charter or the Family Council decides whether to invite non-family employed representatives into the meeting to advocate or speak for the business so that a family member's position is not compromised. This ensures family members are not expected to wear two hats at once. The role of the CEO of the business may be laid out together with performance expectations of that role and what will happen if that person decides to step down or doesn't meet the required standards. The Family Charter is a comprehensive document that covers a vast range of possible future scenarios and how they will be dealt with and decided upon. And the Family Charter is created and agreed collectively and reviewed periodically. This document is crucial in the separation of the family circle from the business and ownership circles.'

The advisor continues, 'In addition, family matters must be systematically removed from the business. Every family business starts life in a place where the family, the business and the wealth are indistinguishable from each other – we talked about that right at the start. This marks the start of a journey. The only question is whether you are going to elegantly and purposefully separate the family, the business and the wealth (the three circles) or wait for the inevitable catastrophe that will rip them apart. The removal of family affairs from the business is part of the process and represents a shift to mature and disciplined administration of family affairs.

THE ONLY QUESTION IS WHETHER YOU ARE GOING TO ELEGANTLY AND PURPOSEFULLY SEPARATE THE FAMILY, THE BUSINESS AND THE WEALTH (THE THREE CIRCLES) OR WAIT FOR THE INEVITABLE CATASTROPHE THAT WILL RIP THEM APART.

'Typically, this is known as a "family office" but I know this is a terrible term. The idea of family office causes nothing but grief because it triggers a whole bunch of default settings about bureaucracy as well as waves of really intense emotional reaction from anger through to stonewalling. While the term is dangerous and unproductive, the idea is not.

'Do you find that you are asking people in your business to do things that are related to the family?' asked the advisor.

'I try not to, but it's impossible to avoid at times,' admits John.

The advisor continues: 'Looking at your balance sheet and recognising the size of the business I can assure you that the time has now passed where it is appropriate to ask a member of staff if they could pick up your grandchildren from school, and it probably feels bizarre to be asking a PA to organise travel arrangements for the family to your Hamilton Island holiday home, while also organising John's birthday bash. As Jackson Developments & Construction has grown and employed more and more people across different locations, the family's personal or non-business affairs have almost certainly become a burden on the business. It's time for the two to be separated. How that is done will depend on you and how you choose to answer the question, "What is a better or different way to manage the family's personal, non-business affairs?"

'Those personal and non-business affairs might be investment advice for the children, or how to manage the family's recreation assets and provide equitable access to them. It might include organising the family rhythm or meeting agenda, the calendar of family events, the funding, booking or organisation of family events as well as travel, managing frequent flyer points, or the funding and investment in education for your children and future generations.

'My guess is that you have certainly reached the point where your personal affairs are more than an executive assistant can or is willing to handle, and it's time for change. Even the use of a PA for personal matters is increasingly frowned on.'

'Yes, I am aware of that and I'm conscious we need a different solution,' admits John.

'The tipping point where separation becomes essential is that moment where your family's affairs, personal and non-business, are of a magnitude or dimension that, to continue to have the business manage them, causes many negative outcomes.

'There are a number of practical and financial considerations that make the separate management of personal matters effective. First, employed members of the business must no longer be asked to do things that are prone to misunderstanding, appear demeaning or, worse, appear to be seen by others as a means to "infiltrate" the family. Your staff must not be put in awkward situations that have no bearing on their job description. The other benefit is that this entity, whatever it is called, now contains most of your joint personal assets that have no bearing on or relevance to the business. It will include the holiday home and the ski lodge as well any other properties or assets you have. Creating such an entity therefore shifts the dynamic between you and your children as their relationship with the family's shared wealth is through this entity rather than through you personally. Your grandchildren might request a small stipend to assist them through university, for example, but that request, outlined and agreed as possible in the Family Charter, would be made to this entity – not to you directly as "granny and grandad". And whatever arrangement is agreed in the Family Charter would be available to all your grandchildren equally should they seek assistance through university.

'Once the work on the Family Charter is complete, the business and family circles are largely separated. The business has a voice and the family has a voice. Can you see how this process will make your life so much easier, minimise disputes and allow you to know the business is in safe hands and the family is still connected and happy?'

'Absolutely,' says Ayesha. 'This seems like a formula for sustainability, allowing our wealth to be a catalyst for family togetherness, rather than a wedge.' John then replies, 'Yes, we don't want to end up like the …' and proceeds to rattle off the names of several wealthy friends whose families have imploded due to their wealth.

Establishing the Ownership or Wealth Circle

'Okay, fantastic', says the advisor. 'Now there's just one more circle to disentangle from the current family arrangements, business and all.

'Clearly, Jackson Developments & Construction has been extremely successful and the business has created significant wealth. That wealth should be governed by shares, titles, trusts and registered interests. As such, at least in theory, it is the easiest to define. The relationship between the family and the wealth should be outlined in the Family Charter. Beyond that, do you hope to pass both the wealth and potentially the business on to your children in some form or another?'

'Well, yes, of course,' reply John and Ayesha in unison.

'Again, the rules and decision-making protocols regarding the wealth will be spelt out in the Family Charter.'

Transition of Wealth or Wealth Plus Business

When we talk about love, loyalty and wealth, we're not talking about the compulsory inclusion of a trading business. Our examples all revolve around the transition of wealth and a trading business because that's the most complex. If you've got a balance sheet without a trading business, that still needs to be managed. You may appoint investment advisors to ensure the family wealth is governed properly but there's less complexity. That said, a balance sheet still needs a similar governance framework, individuals being able to speak for themselves together with clear decision-making rules around the balance sheet.

Finding a home for Philanthropy

'The last piece of governance is around philanthropy. Like many other families with wealth, you are expected to use at least some of that wealth for the greater good. This adds even more complexity and uncertainty about whether your gifting is well placed. I know you are especially concerned about this Ayesha. You're not sure if your gifting is achieving what you intend. Most jurisdictions provide legal instruments to facilitate philanthropic governance. In Australia it's called a private ancillary fund (PAF) and it has useful tax incentives. There are lots of rules around the use of PAFs but they are well governed.

What's especially useful about PAFs is that they can only invest in things that are properly endorsed and evidenced to be community focused. They can't be used as a family slush fund. The institution of a Jackson PAF might be useful to aid in the separation of the circles.

'It's also worth noting that, whether you like it or not, you've created sustainable wealth. This means that there are problems brewing that subsequent generations will face if you don't face them. How to manage wealth and how to best navigate the legislative frameworks around the wealth will almost certainly change. The world is changing, the divide between rich and poor is widening and there will be a reckoning. There has to be. Add a Covid-19 global economic slump and the cries for high wealth taxation and greater equality are inevitable. A changed regulatory environment that puts limits on how much wealth an individual can retain and control is not out of the question. Ensuring future generations are equipped to deal with these changes and actively engage in philanthropy to use that wealth for the greater good is important.

'Once this work has been done, you will have a full and comprehensive governance framework. You will no longer be stuck. The circles will have been purposefully and respectfully separated and a great deal of the complexity and uncertainty will have been removed from the family and the business.'

'Great!' says Ayesha. 'So how do we start?'

'Well, we might begin by letting the appropriately qualified professionals provide the right advice on the ownership circle. What is owned? How it is owned? And how does it transition to the next generation under the auspices of the state law, trust law or contract law? Then you have the business circle. It's now governed under the auspices of the strategic plan. The strategy defines the structure and the structure then defines the possible employment paths that Christopher, Priya and Nathan can pursue based on properly specified roles that have meaning and value. Should Anika ever want to join the family business the same process will apply and she will only be given a job that is required to deliver on the strategic plan and that she is qualified for.

'Later, should any of the family members leave the business and want to re-join the same process will apply and they will only be given a job that is required to deliver on the strategic plan and that they are qualified for.

'Each family member must then demonstrate their capabilities and subject themselves to the same rigour and discipline as any other employed person in the business, including annual reviews, skills assessments and appropriate training and development.

'As a result, when all four siblings are sitting with you enjoying a family dinner, Anika – who is not paid a salary because she doesn't work in the business – no longer has to worry whether she has the right to access the family ski lodge or holiday home. There is no inference, real or perceived, that she is at the back of the queue because she is not employed by the business. Why? Because the family, business and ownership or wealth circles have been separated through governance. The only debate is who wants to visit the lodge and when. If Priya and Nathan would like to visit on the same week then the family applies the tie break that appears in the Family Charter. Anika can expect the same as her siblings who are employed in the business in terms of distribution of wealth or access to family assets. And should Christopher, Nathan or Priya want to borrow money from you in the same way Anika did for her restaurant they can expect the same repayment terms. But all such decisions are clearly laid out in the Family Charter. Whether the siblings are employed by the business or not is irrelevant to distribution. Those that are employed are paid a proper commercial salary for their contribution and have equal rights to the ownership or wealth as those who have chosen to pursue a different path or career. If you are interested in equal distribution, then you'll consider all siblings equally regardless of their relationship with the family business. No one will be worried about whether it was fair or not because the employed siblings are already compensated for their work via a salary.

'The only touch point between the family as a family and the business is the family's right and obligation as shareholder influencers to endorse the strategic plan of the business, or to provide family constraints to the trading business. For example, the trading business might have restrictions on investment or trading with industries that the family believes are unethical or unsustainable. Everything else is left to the business and its management and leadership which, where that involves family members, is outlined in the Family Charter.

'At the family table, you will now have a governance framework that is driven by each individual being able to properly represent themselves. You will both be properly representing your ambitions for succession. And the children will be properly representing their ambitions for the future. They are each then able to sit at the table and engage in the Family Charter conversation and properly represent their views at the charter table. And through that process, you'll also have dealt fairly and equitably with your children's life partners because each partner has 50 percent of their family's one vote, however that is represented at the table.

'If you action this plan as steward, John, you will have successfully put your family in a position where they can say:

- "We're well governed."
- "We're connected as a family."
- "We're not defined by our wealth but we manage our wealth efficiently."
- "We're confident the business, our wealth and the family will endure for generations to come."
- "Each of us understands and respects our relationship with both the business and the wealth."'

‘I must say,’ says John, ‘I am relieved this process exists. Even more so that it has been tried and well tested. Up to this point I thought two things: firstly, that I would have to solve this problem (I guess that’s my MO) and secondly, that I would have to invent the solution somehow. I really thought it would be a combination of good lawyers and good luck. It appears I don’t need to count on either! What you are demonstrating is that, like building a block of apartments, there is one best way to do this, and it works, and it is sustainable.’

‘Yes!’ confirmed the advisor. ‘Collectively, this is the solution. It is always the solution. And it can eradicate the vast majority of complexity, uncertainty and hostility or dysfunction that is so often viewed as inevitable or normal in family business. And it can ensure the continuation of love, loyalty and wealth. All you need to decide is whether you are ready to do the work.’