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Succeeding in business for generations

A guide for family leaders

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This paper draws on Dr. Dennis Jaffe's latest research as well as the experience of the Merrill Center for Family Wealth. For additional information, please see Dr. Jaffe's *Resilience of 100-Year Family Enterprises,* published by Wise Council and co-sponsored by the Merrill Center for Family Wealth, Merrill Family Office Services and Bank of America Private Bank.

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Introduction

Many family businesses and the families themselves do not fare well through generational transitions. These problems can create a great deal of stress and even suffering. Yet many families are not only able to survive these transitions, but they become closer and more effective because of them. What are the hallmarks of these successful families? This paper seeks to describe the journey of those families who do well, and it explores what sets them apart. What we'll look at are several factors in these transitions, including:

- The critical roles of culture
- How culture and structure are aligned
- How power works in families
- Why roles and preparing for those roles are critical
- How families simulate the future to practice for transition
- What the mindset of the founder is in fostering success
- How both family and business leadership work to help ensure success

Often this involves a family moving from owning a family business to becoming an enterprising family. It's an exciting — and challenging — journey.

The core family challenge: Surviving into the third generation

Successful family business owners often envision passing on a thriving legacy that will sustain their families for many generations. But most families who attempt to create multigenerational enterprises fail. They fail because the essential mindset — and attendant skills — needed to keep a business profitable over a single lifetime differ considerably from those required to keep a business thriving across generations. The failure rates are staggering. Close to 90% of successful businesses are gone by the end of the fourth generation and, as businesses are lost, so are the fortunes arising from them.[1] When families do succeed on an enterprise level, it's because they've been intentional about their success.

[1] John Ward, *Keeping the Family Business Healthy: How to Plan for Continuing Growth, Profitability, and Family Leadership,* McMillian, 1987. It is worth noting that these statistics are somewhat deceptive — in the Ward study, businesses were deemed not to have survived when they were sold to third parties, merged or changed names. With respect to the loss of nonbusiness wealth, see Roy Williams and Vic Preisser, *Preparing Heirs: Five Steps to a Successful Transition of Family Wealth and Values,* Robert D. Reed, 2004. The authors describe their finding, in a study of over 3,000 families, that family capital disappeared within three generations.

Looking forward by looking back

Looking at the beginning of this journey, the founder's achievement is truly remarkable — through imagination, force of will and industry, the founder takes a tenuous dream, shapes the dream into an idea, and works tirelessly to make that idea a reality. This creation of something from nothing is at the heart of the founding of wealthy families. But family members tend to admire the rugged individualism of the wealth founder while unconsciously giving short shrift to the less romantic, but critical, collaborative skills required of the second generation. If the second generation is to set the business on a path of longevity and profitability for generations to come, they must develop new perspectives and competencies.

While there is no recipe for success, we do see general patterns in families who succeed through generational transitions.[2] The patterns are evident in long-term research and in our ongoing work helping ultra-high-net-worth families navigate foundational transitions. They reveal effort beyond just structural or process-oriented solutions. The deeper patterns of success and failure reveal common pitfalls encountered and constructive practices we see families adopt as they undertake this challenging endeavor.

Business culture vs. family culture

The essential challenge most second-generation family businesses face arises from a collision of two cultures. Families and businesses are two distinct types of organizations with different cultures. While a healthy **family culture** is based on unconditional love and support, a healthy **business culture** requires performance and accountability. When children are younger, these cultures remain largely separate. However, as the founder's children come of age and potentially enter the business, the two cultures intersect, often creating not only opportunities but also very substantial challenges.

As the two cultures come together, parents can be tempted to bend or modify the business culture that brought them their success to make room for family dynamics. In trying to merge the two cultures, family concerns often override good business judgment. In situations where the next generation becomes involved in the family business, parents may grant children disproportionately large salaries or decision-making power for which they are ill-prepared, or they may fail to hold them accountable for mistakes, leading to more mistakes and misjudgments. All of this can create resentment among long-serving loyal and competent nonfamily staff, and confusion and upsetment within the family, often leading to crippling business outcomes.[3]

[2] Dennis T. Jaffe, *Borrowed from Your Grandchildren: The Evolution of 100-Year Family Enterprises*, Wiley, 2020. This study draws from a larger longitudinal study involving nearly 80 families across 20 countries, from the third to the eighth generations. These families have an average of $500 million in assets.

[3] Common examples include salaries not based on merit or effort but on bloodline, rules that are different for family members than other employees, employee fear of raising concerns about a family member's performance, family members holding positions they are not qualified to hold, passive owners demanding excessive payments of dividends, and family members acting high-handedly in ways that generate greater business risk and dampen morale.

It's not just the business that can suffer when family and business cultures collide. Family life can also deteriorate. Family conversations can become dominated by business concerns, and the challenges of the business can become crises in the life of the family. Resentments emerge, simmer and often boil over. When the two cultures intersect, the collision can cause great damage to both the family and the business.

When this cultural mash-up happens, it often poses the first existential challenge and becomes one of the greatest threats to the longevity of a family enterprise. Not surprisingly, families who can determine early on how to separate — and separately nurture — business and family cultures are more likely to flourish in the second generation. Those who do not successfully address the two-culture challenge often succumb in the struggle to survive in the long run.

Families who succeed tend to exhibit five key characteristics:

Deep general commitment
They hold a deep commitment to continuing together.

Division of roles and professionalization
They create a clear understanding of roles, rights and responsibilities in each domain.

Structure
They create clear structures that are designed to support (not control) family engagement and which the family can make work on their own.

Power
They have a healthy understanding of the use of power within both the family and business structures.

Leadership
They foster a strong sense of leadership that is attuned to the needs of both the family and the business.

Pause to reflect: Have the family culture and the business culture become confused in your family business and, if so, how?

Deep general commitment

When a family business founder is ready to pass along the mantle of leadership, and adult siblings become involved in the business, the siblings' differences can introduce complexity. Some siblings become involved without clear long-term commitment. They may do so out of a sense of obligation to do what's expected of them, or because they want the financial reward that comes from working in the business. This can put them at odds with siblings who have a clear commitment to continue the business. Siblings also often have varying levels of involvement — some will work in the business, some outside. They also often have very different levels of understanding — some will be business savvy and some won't be. Our experience shows that with all of this complexity, sibling partnerships rarely survive.[4] And yet, some sibling partnerships do more than survive — they build and grow a thriving multigenerational business and a flourishing family. What sets these exceptional families and their enterprises apart from the rest?

[4] The Learning Family, Merrill, 2018.

The sibling partnerships that do survive are grounded in a deep commitment to the success of both the business and the family. Intentional partnership with one another is one of the most important elements to the long-term success of a family enterprise, and this commitment serves as the foundation upon which everything else rests. In these families, siblings are willing to meet frequently, take the time to resolve differences, learn to communicate effectively, and forge a common vision of the future. All of this is reflective of skilled leadership.

There's often a leader in the rising generation who can take the reins of the business. This is the role that garners the most attention from families and researchers. But, arguably, the more important role is played by the person who is looked to as the leader of the family. Sometimes these roles are vested in the same person, but more often, in successful families, they are not.[5] If businesses most often fail because of the psychosocial dynamics of the family,[6] the person who can hold the family together is vital to long-term success.

Without meaningful experience of working together while the founder is alive, making the commitment to working together can be particularly challenging. Siblings benefit from actually having to work together as partners long before they must do so. Wise founders put their children in situations that simulate, as closely as possible, what will be required of them when they're on their own. In short, they practice. Practice both tests and forges the commitment to becoming true partners in their generation.

Pause to reflect: On a scale of one to five, how committed is the rising generation to working together as partners in the business?

Division of roles and professionalization

Beyond this commitment, the rising generation faces the essential challenge of determining their roles and responsibilities. This can be characterized as a process of professionalization. In publicly traded companies, executives run the business, shareholders own it, and directors govern it, but in the first generation of a family business, the roles of operator, owner and overseer are most often fused into one person: the founder. As the business moves into the second generation, these roles must be teased apart.

Founders often make a fatal mistake by not recognizing that the operator, owner and overseer roles are fundamentally different. They assume the structures they create are enough if they assign different rights and responsibilities to each child. They trust that everything will magically fall in line. But while things may look great on paper, it's the rising generation who will have to make the business work as reality collides with plans.[7] It's critical for the sibling group to be involved in the process of separating and assuming various roles in the business. If this process of professionalization doesn't occur, the culture of the family will eat the structure of the business for breakfast.[8]

Beyond role clarity, family members must gain competence in their respective roles. Managing the business is very different from overseeing the

[5] Joshua Nacht and Gregory Greenleaf, *Family Champions and Champion Families: Developing Family Leaders to Sustain the Family Enterprise,* The Family Business Consulting Group, Inc., 2018. We examine the role of the Family Champion on page 8.

[6] By psychosocial dynamics, we mean the complex interaction of individuals (with their unique personalities and perspectives) within the family's social system. The whole of the family is different from the sum of its parts. Joseph Paul, *Balancing the Emotional Ledger: Axioms and Guidelines for Counseling Families in Business,* Aspen Family Business Group, 2015.

[7] As Mike Tyson said, "Everyone has a plan until they are hit." South Florida Sentinel, 2012.

[8] Matthew Wesley, "Fighting the 'Blob,'" *Trust and Estates Magazine,* 2015.

business on a board, which is very different from responsibly holding and voting ownership interests. These are all skills that must be developed. All too often, the focus is solely on managing the business and ignoring the very real threats that can be caused by failures of poor oversight and immature ownership mindsets. While many businesses fail because of poor business practices, a great many otherwise well-managed businesses fail because of disagreements at the board level or failures of owners to give the business what it needs to thrive.[9]

Role	Operator	Overseer	Owner
Description	Manages the business operations (people, process, product)	Sets the long-term direction of the company, monitors progress and holds the executive accountable	Ensures that the oversight of the company consists of skilled and capable people
Core business skills	Management	Strategy	Finances
Time commitment	High	Medium	Low
Role	Leadership	Trusteeship	Stewardship

Another mistake founders frequently make is how they grant or withhold passive ownership from those family members who choose not to work in the family business. Without dialogue and preparation, passive ownership can be problematic. Passive owners without an understanding of the business often become a fatal drag to the business by demanding excessive dividends and thwarting reinvestment. Conversely, passive owners with a relatively robust understanding of the business provide deep insight when critical decisions at the board level must be made.[10] We've seen boards composed of informed family members prevent catastrophic mistakes by operators with blind spots because they are too close to the business. Even more practically, by creating good ownership skills, the founder minimizes the need to buy out dissenters, which itself can be a drain on business performance.

[9] Cary J. Tutleman and Larry D. Hause, T*he Balance Point: New Ways Business Owners Can Use Boards*, Famille Press, 2008.

[10] Amelia Renkert-Thomas, *Engaged Ownership: A Guide for Owners of Family Businesses*, Wiley, 2015.

The skills of the rising generation need to revolve around core competencies in governance and business. They have to be able to work together to make collective decisions. If they cannot do this, the business will likely fail due to family dynamics. They must also gain business competency to ensure that, regardless of their role, they are supporting the long-term health of the business. All of this requires practice long before the rising generation takes over.

Creating relevant simulations takes many forms. Some founders will begin this process by involving all of the siblings in organizing and administering philanthropic endeavors. Others will carve out smaller asset pools to allow the siblings to learn governance skills. As the children mature into young adults, they may be required to do an internship at the company that's focused on educating them about the workings of the business. As they get a bit older, they may become involved in company operations, a board of directors and shareholder meetings with a detailed plan for development in each of these areas. For families who don't have this level of thoughtful practice in advance, these lessons can come at a high emotional and economic cost.

While roles are typically defined in succession, ownership and governance documents, it is the in-depth preparation that actually aligns culture and structure and keeps the boundaries from becoming confused.[11]

Sometimes a family business owner will decide not to separate out these roles but will instead consolidate all of these functions into one or two of the rising generation family members (typically cashing out those who will not be active in the business). In cases where passive owners have not been prepared to act in the long-term interests of the company (or have proven themselves incapable of or uninterested in doing so), this can be the right course. It allows the operators of the business to make decisions without having to deal with minority owners. However, it's important to recognize that this approach can endanger the chances of the long-term success of the business. It kicks the can down the road. Consolidation simply defers for a generation the process of creating governance structures that take into account diverse ownership. We've seen a number of cases where the business grew to a size in the third or fourth generation where it became impossible to generate sufficient cash to buy out family members' ownership interests. It's profoundly challenging to buy out minority shareholders when their holdings are worth so much that buying them out will imperil the capital structure of the company. Without a track record of successful governance development in prior generations, creating new patterns in future generations is often not realistically possible.

Pause to reflect: In what ways has your family professionalized? What can the family professionalize next?

[11] This is where a skilled family business and governance consultant can provide tremendous value to a newly minted second-generation family business.

Structure

Governance documents articulate the structural aspects of operations, ownership and oversight. Bylaws, shareholder agreements, trusts and policies create shared expectations of how important decisions about a wide array of economic issues will be made. Ideally, family members exercise their capacities to govern within these restrictions — each member operating within the "shadow of these structures."[12] The legal and governance structures provide both limits and guidance but, within those constraints, allow family members the ability to innovate, create and adapt (and often change those structures if the circumstances warrant).

Structural guidelines, as laid out in documents, are necessary but not sufficient. Again, creating plans that look good on paper but force the family into unnatural legal relationships sets the family and the business up for failure. No matter what the documents say, interpersonal conflict and incompetence destroy most family businesses before they can become family enterprises.

With that said, if the structure matches the family culture, it can be a powerful tool for providing guidance and clarity to the family. Like a contract, if the parties see advantages to working together, the business and governance documents smooth and direct the relationships, provide guidelines, anticipate processes for resolving conflicts, and help when difficult decisions must be made. However, just like a contract, if a party truly wants to break the legal structures, the documents alone will not override human factors.

Power

Enterprising families generally have a healthy understanding of the use of power within both the family and the business structure.

Hard power

Within structures are roles with greater and lesser forms of "hard power," or authority granted by economic means through the documents. In a traditional structure, the CEO has the official executive power to run the business. The board has the legislative power to set strategic direction and remove the CEO. The shareholders have the power to elect the board. This system of checks and balances works well if:

1. Everyone understands their role;
2. They are competent in those roles; and
3. No one fundamentally disrupts these checks and balances.

One well-timed, effective lawsuit can spell the end of the official hard power structure.

Soft power

"Soft power," defined as the ability to attract and co-opt rather than coerce, is harder to quantify than hard power, yet it plays an equally important role.[13] It creates the environment in which hard power can be effective. Those who wield it influence decisions by soliciting input, tapping into emotional connections, confronting bad behavior in constructive ways, and weaving together larger visions of shared self-interest.

Successful enterprising families will pay a great deal of attention to the question of who among the sibling group will facilitate cohesion and civility in the family.

[12] Robert H. Mnookin and Lewis Kornhauser, "Bargaining in the Shadow of the Law: The Case of Divorce," 88 Yale L.J., 1979. This groundbreaking article reflected that negotiations often occur in contexts where the legal structures inform and even constrain but do not necessarily require certain outcomes.

[13] Concepts of hard and soft power arose through the work of Joseph Nye in the world of international relations. He defined "hard power" as essentially coercive and manifested in such things as war, sanctions and payments. "Soft power" relies on co-opting opposition through diplomacy, negotiation, moral argument, cultural development and the like. Families are almost never held together by hard power but rather sustain themselves through complex exercises of soft power.

Researchers call this person the "family champion,"[14] and this role is vital to the family enterprise's survival over generations. Often the family champion is a rising-generation member or a spouse who — at least in the beginning — doesn't have a formal role or authority, but who informally gains the respect and confidence of the family.[15]

Family champion

The family champion uses soft power to help the family navigate the complexities of joint ownership of common family assets. This person encourages family members to overcome differences by engaging in honest discussion and vigorous debate. They meet with people individually, convene working groups and call family meetings. They often address the issues raised by the personalities and perspectives of those within the family: They prod the complacent, confront the stubborn, listen to the aggrieved and solicit the disaffected. They mollify, inspire, nag and move mountains by sheer will. They know when to push and when to pull back. They fill the role of what has traditionally been that of the strong matriarch.[16] In doing this, they help family members forge understandings that run deep enough to withstand adversity. While this is referred to as "soft" power, the role requires a great deal of courage, strength and skill. It often requires speaking hard truths as well as soothing bruised egos.

Family enterprises without a strong family champion — one who can both wield soft power and teach others to wield it — are in peril. Failures to engage in this more difficult work will either lead to attempts to use coercive power that ultimately backfire or result in weak agreements that are easily blocked due to lack of real buy-in or commitment.

Blocking power

When soft power is absent or weak, family members without hard power often resort to "blocking power." If frequent and persistent, blocking power can destroy a family's ability to create a lasting enterprise. This exercise of power typically manifests as resistance and non-cooperation. Blocking power often shows itself when hard power has been exercised in ways that are deemed unfair or oppressive, and when siblings haven't exercised soft power skillfully to gain buy-in and alignment. Family members who resort to blocking power tend to shirk accountability and are uncooperative or passive-aggressive. In its more extreme forms, blocking power results in coalitions, power struggles and lawsuits.

The extent to which siblings and other family members can shape the future together is the extent to which they are skilled at the tools of implementing justice through the exercise of hard power and equity from the use of effective soft power. As Martin Luther King said, "Power without love is reckless and abusive. Love without power is sentimental and anemic."[17]

[14] Joshua Nacht and Gregory Greenleaf, *Family Champions and Champion Families: Developing Family Leaders to Sustain the Family Enterprise,* The Family Business Consulting Group, Inc., 2018.

[15] By the third generation, this role has often become formalized into positions such as chair of the family council or family president and is often compensated.

[16] In traditional gender paradigms, this role tended to be female, but as gender roles have become more fluid in society, both male and female siblings are taking up the role of family leadership.

[17] Martin Luther King, "Where Do We Go From Here?" Annual Report Delivered at the 11th Convention of the Southern Christian Leadership Conference, August 16, 1967, Atlanta, GA.

Pause to reflect: How well does your family use hard and soft power? Are roles clear? Are all individuals well prepared for the roles they're being asked to fill?

The danger zone: Transitioning power in business and family leadership

Dangerous turbulence often occurs in the transition of power from one generation to the next. For wealth creators who've owned and operated their business, they'll move — either voluntarily on their terms or involuntarily based on their own aging or death — to a point where they're no longer in charge. Every business owner will eventually exit their business. The only question is whether it will end well or badly.[18] If they transition on their terms, they will, over time, move from being the quarterback to being the coach, to being in the stands cheering on the next generation and basking in the success of the rising generations. Another way to describe this progression is that they move from leader to mentor to elder. As one wealth creator said in a moment of clarity in a family meeting, "I see that within the next five years, I must make myself irrelevant." While we don't believe the founder should ever step aside completely, there's a difference between calling the shots and being an elder who allows the family to fulfill the executive function the founder once held.

Often the family champion's transition in leadership is no less difficult and can be even messier. Because there are rarely formal succession protocols in place, the role most often emerges over time. It often begins with the person holding the soft power in the first generation identifying and encouraging those family members who have a passion for the well-being of the family to gain awareness of their future role, and then skillfully positioning them with their siblings to assume that role. When done well, this transition instills confidence and peace that in their eventual absence, their children and grandchildren are set up to thrive.

Pause to reflect: Who is the business leader in the rising generation? Who is the family champion?

Leadership

Within the context of the use of hard, soft and blocking power, leadership in the family takes on great importance. Some leaders are assigned by the incumbent generation — and this is particularly true of business leaders. However, after the incumbent generation has passed from the scene, leaders will be effective in the family only with the consent of the family as a whole. This calls for the ability to lead with different styles.

Business leadership: Leading from the front

Families who understand business also understand the importance of appointing a decisive, empowered and accountable CEO to lead the business in the second generation. This CEO will take actions to cement and consolidate sound leadership. The leader will create a clear vision and delineated strategy to execute on that vision. For instance, they must develop a capable and well-respected executive team, recruit a qualified board, develop fair policies, foster operational excellence, and offer transparency to owners.

[18] Bo Burlingham, *Finish Big: How Great Entrepreneurs Exit Their Companies on Top,* Portfolio, 2013.

Given the overwhelming complexity of family business and the two-cultures challenge, some families will take another path by hiring a CEO who isn't a family member. This practice is rare in the second generation, but where children seek to retain the business as passive owners or where none of the siblings has the skills to lead the company, it can be an attractive option. By the fourth and fifth generation, most family businesses are led by nonfamily members. Families discover it's far easier to manage, review, direct and release nonfamily members. Family members then sit on boards and act as informed shareholders.[19]

Family leadership: Leading from the center

While the family champion uses soft power, it's important to understand the mindset of leadership they will adopt. Two basic leadership models are well known in our culture — leadership from the front, which is more about taking charge, and leadership from behind, which is consensus-based.[20] Leaders from the front declare a vision, motivate others to follow them, and push forward to accomplish something heroic. We're familiar with this model in the forms of military, business and political executives. The other type of leadership — servant leadership — involves leading from behind by seeking consensus, facilitating outcomes and empowering people. Common examples are diplomats, nonprofit leaders and those middle managers who obtain the cooperation of matrixed teams in companies. They don't have levers of power and must rely on, among other tools, personal gravitas, moral suasion, and an ability to persuade and build coalitions.

Most family leaders we know adopt a third style that we could call leadership from the center.[21] Leading from the center means using the tools of leadership from behind, but in a way that serves a vision often espoused by the leader from the front. Those leading from the center call the family to its highest and best self. They have high — even heroic — expectations. They inspire, motivate and hold the family accountable as would leaders from the front. However, they're ever mindful of not getting ahead of those they lead. They move only as fast as the family can go. In doing this, they forge deep agreements, foster emotional bonds, and create ongoing and powerful dialogue. These are the skills of servant leadership. They know if they get too far in front, they'll be abandoned, whereas if they pace themselves with the family, they can make steady and even accelerating progress. As a result of this acute attention to the pulse of the family and understanding what's realistically possible, these leaders often combine a profound humility with a deep sense of self-assurance and confidence.

Pause to reflect: Is your family good at leadership from the front and from the center? Does it make good decisions as to which type of leadership is called for in different circumstances?

[19] In many Latin American countries where families own a number of operation businesses, this is the normal role of family members. They oversee multiple businesses. As we will see in the next section, about the movement from being a family with an enterprise to becoming an enterprising family, this model is worth considering.

[20] Not only do family leaders lead from the center, but wise family business leaders will also interact with the family as leaders from the center when it comes to important business matters that affect the family. They will rarely take the business in bold directions without having built family buy-in (often in cooperation with the family champion). They push the family into the future, but they don't flog it.

[21] Dennis T. Jaffe, *Borrowed from Your Grandchildren: The Evolution of 100-Year Family Enterprises*, Wiley, 2020.

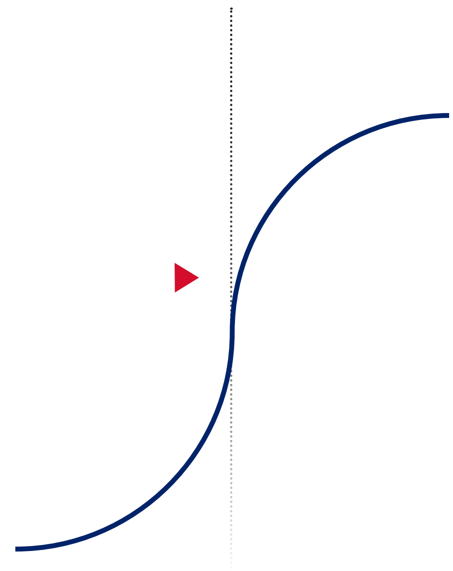
The second core challenge: Competing in the marketplace

As if it weren't enough for families to nail down the psychosocial dynamics of being in business together, they must also ensure that the business can compete in the marketplace.

All businesses go through cycles of development, expansion and plateau, often following an S-curve. The bottom portion of the curve reflects the original founder's struggle to create a business with limited resources. The middle portion depicts success, with a spurt of exponential growth. But growth cannot continue forever, and the curve eventually levels off as products mature, new competition emerges, or technology or tastes change. At this point, the enterprise faces external threats: the rise of the internet, global competition for core products, new global brands, the aftermath of war and political threats, maturing and obsolete products. CEOs can't wait too long; they have to anticipate and respond to these challenges.

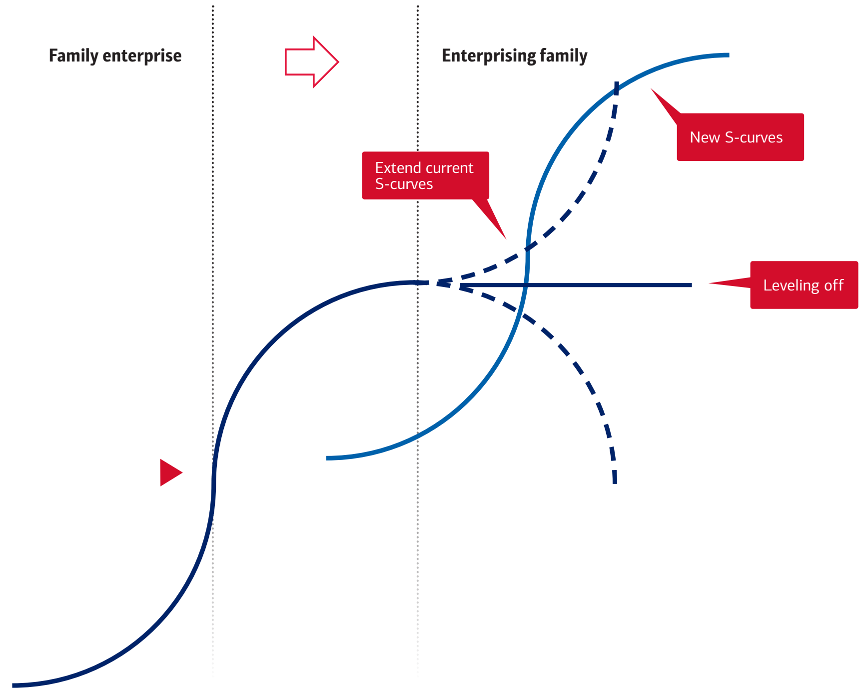
When this leveling off occurs for the first time in the second generation, the siblings must find a new pathway to growth or face decline. In successful enterprising families, the wealth founder typically identifies stewards within the family who have the will and skill to adapt and change.

S-curve



The process of achieving and sustaining market competitiveness in the second generation is usually correlated with a shift in perspective. Family members go from viewing the work as essentially about sustaining a single operating company (running a business) to thinking about the effective deployment of their capital (managing an enterprise). This shift to thinking like an enterprising family is a radical shift of mindset. The sibling partnership moves from a mindset of ownership — having a family business — to a mindset of expansion, or being an enterprising family.

Family enterprise



Enterprising families see the leveling off of the S-curve as an opportunity and a time to create new S-curves or extend current ones

This shift to becoming an enterprising family often comes from two distinct paths: that of the "craftsman,"[22] and that of the "opportunist."[23] Craftsmen refine, develop, expand and enhance the existing family business and gradually grow it into something more like an enterprise. In one craftsman family, the craftsman leader slowly expanded the existing business by improving processes, hiring better people and eventually opening adjacent markets. Opportunists seek out and seize opportunities that carry substantial risk but also promise substantial reward, rapidly adding a diverse set of assets to become an enterprise. In one family, an opportunist leader sought to capitalize on a new business in an industry unrelated to the original business. It operated as a startup and eventually the sibling (with the family's backing) sold the startup to a private equity company, whereupon the opportunist went on to start another venture that was also successful and that the family decided to retain.

This process can begin in the first generation if the founder has had a significant liquidity event or a recapitalization that has led to a diverse set of holdings. More often it emerges in the second generation as children of the founder branch out into real estate, opportunistic investments, new ventures and equity acquisitions of other operating companies. With each move, the questions of the family become more and more about the deployment of capital and what deployment will be most advantageous to the individual family members and the family as a whole.

[22] Dennis T. Jaffe, *Borrowed from Your Grandchildren: The Evolution of 100-Year Family Enterprises*, Wiley, 2020. This term is intended to be gender neutral.
[23] See note 22, above.

Regardless of whether the family follows the path of the opportunist or the craftsman (or both), the next generation must still find new business directions and success to incrementally build on the success of the first generation. They must jump from a maturing or declining effort at the end of the prior generation and create new products, enter new markets, start new ventures, or make new investments. As they innovate, redesign and shift their business activity, they consolidate the gains of the previous generation.[24] By the end of their tenure, some 20 or 30 years later, they've developed the economic engine into a more robust, diversified and resilient enterprise ready for the next generation.

Pause to reflect: How will the family meet the challenges of growth in the rising generation?

Successful muddling

The principles and ideals outlined here are approximations. There's no single set of steps that, if followed, will guarantee success. All enterprising families, even families who are held up as paragons to be followed, are "muddling through" together. No one has a map with an X marking the spot of buried treasure.[25] For enterprising families, muddling through means making mistakes and experiencing failure, but also being adept at learning from those mistakes and quickly progressing beyond them.

With all of that said, there are principles at work that are worth consideration:

- Solve the two-cultures problem.
- Deeply align culture and structure.
- Understand how power in families works.
- Prepare for the roles of ownership, oversight and operations.
- Simulate the future to the maximum extent possible.
- For the founder, focus on ending well.
- Develop business and family leaders.
- Move from having a family business to being an enterprising family.

Our aim with this paper is to help families — especially members of the rising generation — learn to "muddle through" more effectively together.[26] The more adept everyone is at muddling, the more likely it is that the family will thrive as a family and the business will succeed as a business.

[24] In rare cases, a business leader will arise who is a wealth creator in his or her own right. In these cases, the business leader will expand family fortunes exponentially.
[25] The concept of "muddling through," used to describe the art of decision-making in complex systems, was first introduced in the 1950s by Yale political scientist Charles Lindblom, and, since then, it has gained great currency in modern corporate theory, informing adaptive leadership, market penetration strategy and software development.
[26] The outside consultant also plays this role — at their best, as they understand the family and see the dynamics involved, they will have a good idea of where the family should put its attention. Given the complexity of the issues involved and the number of distractions that present themselves, this ability to focus on the right things can make all the difference.

About the authors

Matthew Wesley is a managing director and Wealth Strategist in the Merrill Center for Family Wealth™. Wesley is an internationally recognized practitioner and thought leader on the issues facing financially successful families. With a career that spans 29 years as an estate planning attorney, family advisor, facilitator and consultant, he helps address the complex issues of generational transition, family culture and ongoing governance. These issues often affect family enterprise succession, philanthropy and wealth transfer. Wesley holds a J.D. from Stanford University and an M.Div. from Fuller Theological Seminary. *(Note: Matthew Wesley does not provide legal advice in his role at Merrill.)*

Valerie Galinskaya is a managing director and Head of the Merrill Center for Family Wealth™. Galinskaya guides individuals and families in communicating about wealth and developing governance to make effective decisions, applying over a decade of experience as a facilitator, strategist and management consultant. She helped conceive and launch Merrill's Financial Boot Camp Series, the firm's premier client financial education events. Galinskaya speaks nationally on topics related to family wealth, and her insights on wealth decision-making have been featured in leading publications such as *The New York Times* and *Barron's*. She holds an MBA from Harvard Business School and a Bachelor of Science, magna cum laude, from New York University's Stern School of Business.

Dennis T. Jaffe, Ph.D., is one of the leading architects in the field of family enterprise consulting. As both an organizational consultant and clinical psychologist, he helps multigenerational families develop governance practices that build the capability of next-generation leadership and ensure ongoing capability of financial organizations and family offices to serve their family clients. Dr. Jaffe's work with families helps inform his training of financial advisors and wealth managers in the knowledge and skills needed to serve their client families.

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