

# Five Keys to Creating a Successful Family Entity

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Starting a family entity can bring family members closer as they build a new level of meaningful interactions together. Along the way, the venture may create wealth and opportunities, fulfill philanthropic goals, and build a legacy for future generations.

*But how do you build an organization with staying power?* By establishing enterprises that run on proven business principles that are both agile and structured enough to address the unique circumstances presented by a family-run organization.

**Here are 5 key elements that successful family enterprises have in common.**

## ***1. Formality, structure, and separation from other family activities***

Creating a family enterprise can be a wonderful way to establish something that reflects your family's spirit, values, and goals. These organizations are often created by setting aside some portion of a family's wealth to accomplish a shared purpose. This may be a means to include family members in structured charitable giving or focused philanthropy, or to explore interesting entrepreneurial investments together. Regardless of what spurs the desire to establish a family enterprise, it is critical that the organization have clear goals and expectations on how wealth will be used by the enterprise to support its long-term mission. For most families, it is critical that the enterprise has a clearly understood structure that is outside of the family's normal daily activities. A well-defined mission and vision should be in place with supporting structures that drive operations, expectations, decision-making, dispute resolution, mentoring, and succession planning. The level of planning, formality, and structure needed must be tailored to what works for the individual family, but without defined objectives, clearly understood roles, and formal organizing principles communicated to all participants, the enterprise is unlikely to be effective, or last.

## ***2. Clear guidelines based on established business principles***

Time-tested management principles are an integral part of success for all types of entities. Easy to understand, straightforward instruction provides employees and, in this case, family participants,

the opportunity to succeed. By using established business principles, participants can be focused, engaged, motivated, and committed to the success of the organization from the very first day. Examples of such principles include: defining expected and acceptable behaviors, clearly laying out the required commitments from each person, outlining specific responsibilities associated with each family member's participation, and on top of that, noting the ways in which each member will stay accountable. It is also a critical time to establish ground rules for communication, confidentiality, and ethical behaviors.

### ***3. Inclusiveness and accountability***

As you establish a family enterprise, it's necessary to identify which family members are committed to the endeavor, how they will function within the organization, and how their contributions will be measured and whether the expected individual rewards are psychic and also monetary. Transparent communication and formalized processes go a long way towards building a sustainable enterprise. This process should also include criteria for future members of the family to join the organization, and how to deal with family members who may separate from the organization due to changes in family dynamics and/or succession planning.

### ***4. Willing participants with an overarching governance***

Organizations thrive when run and operated by enthusiastic participants and supporters of the entity's mission. As family-based effort takes shape over time, using a direct and productive communication approach with all members can make a tremendous difference in keeping relationships healthy while achieving enterprise and individual goals. As with any business, it is critical to assess an individual's level of commitment, capabilities, and strengths, before assigning any type of professional responsibility.

While adopting an enterprise governance approach can be a difficult topic for some families, creating a family forum (or "council") to act as the enterprise's governing body can create a vehicle for long-term success. The family council can then be responsible for strategic and tactical planning, formulating policy, making decisions, communicating, and building opportunities to bond over the mission of the organization. This group can also oversee succession planning, help older family members transition to retirement, and identify new participants and smoothly integrate them into the operation. Perhaps most importantly, the family council needs to function as a safe place for professional interactions concerning all aspects of the family enterprise. And, establishing formal procedures to guide the family council leads to consistency, transparency, and an overall sense of fairness.

### ***5. Build in a team of trusted experts with relevant knowledge***

No business can truly go it alone. Certain skillsets are not inherently part of the family dynamic, but are needed for effective operations. Engaging the support of experts with relevant experience (such as accountants, attorneys, consultants, family office personnel, investment advisors, or philanthropic advisors) can make a big difference in helping to ensure success over the life of the enterprise.

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*Those who wish to discuss their particular situations and how these considerations may impact them should consult their Goulston & Storrs attorney contact.*