



## FEATURE: FAMILY BUSINESSES

By **Rebecca A. Meyer** & **Fredda Herz Brown**

# Building Resilience in A Family Enterprise

Like a muscle, it requires exercise and effort

**F**or those who hadn't thought much about resilience previously, the COVID-19 pandemic may have brought it to the forefront. The upside of any crisis is that it provides the opportunity to muster resources to be able to cope with as much grace as possible. The pandemic has caused many families to face and manage a whole range of emotional, physical and financial challenges.

For all families, developing resilience requires attending to both individual needs and the needs of the system as a whole. For families who share assets and who've joined their economic life to their family life, building resilience is essential. Like most things of value, resilience requires time and effort to develop. It's not like a ball bouncing off the pavement, a one-time collision that results in a new trajectory. Resilience develops from the belief that meeting challenges can be a positive learning opportunity.

### Resilience is Like a Muscle

To be clear, resilience isn't built on catastrophic events. If so, we would all be in waiting for such learning opportunities. Rather, resilience develops from sometimes minor and sometimes significant struggles of life. Normal, everyday challenges are sufficient—to the extent that we're willing to embrace those challenges and open ourselves to learning. The alternative—working to protect ourselves or others from having to contend with life's complications—

can be undeniably tempting, especially if the others are people we love.

Thinking about resilience as a muscle suggests that it can be thoughtfully and incrementally developed by use. It requires both exercise and effort to build. Once that's recognized, we become aware of the opportunities to develop resilience and the need to evaluate when help or a shortcut is benign and when it can undermine the development of resilience. That means asking ourselves questions like:

- When does it make sense to use resources to help a family member out of a tight spot, and when will it be more helpful, in the long run, to let them be in charge of navigating their way through?
- What do we need to do as a family so that we develop the ability to work together through complex and complicated conditions while strengthening our family bonds and economic engine?

These questions demand that we expand our thinking from individual characteristics to the collective, from an individual to a family system.

### Beyond Individual Resilience

In popular imagination, resilience is the purview of individuals, for example, the entrepreneur who over years and through many seemingly insurmountable hurdles builds a successful global company or the athlete who overcomes devastating injury to triumph in the Olympics. Every individual is part of a family and/or community that has an important influence on their ability to triumph over obstacles, by providing emotional, financial and/or physical support.

Behind every successful entrepreneur is a family. Even when we think about individual resilience, it's important to consider the wider context of the family

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system. And, for families with the easy availability of resources—including money, social networks and problem-solving skills—as well as good intentions, it can be harder for a family member, throughout their life, to experience age-appropriate opportunities to struggle and figure out their own solutions. Let's consider the Jennings family:

Alice Jennings has been active in her family's foundation and takes pride in her family's food manufacturing business. Her parents didn't talk much about money when she was growing up, but she's learned how to be a responsible trust beneficiary. Alice's husband Bill is an attorney and didn't grow up with wealth. Alice and Bill recognize what a blessing it is that they can afford to do pretty much whatever they want. It was important to them that their son and daughter focus on school and extracurriculars, so they discouraged them from getting jobs when they were in high school.

Before their oldest son, Daniel, went off to college, Alice and Bill spoke with him about a monthly budget and gave him a credit card. Daniel's spending has been consistently higher than the monthly amount they had agreed on. Freshman year, Daniel was struggling to adjust, so his parents didn't want to raise the issue of his spending. They were so pleased when he settled in and did well academically and socially in sophomore year that they glossed over the spending issues. When the same pattern continued during junior year, Daniel's parents recognized that, while they were intending to help him, they weren't really doing him a favor, and they sought advice.

Ultimately, Alice and Bill realized that they needed to give Daniel the opportunity to figure out how to be accountable to a budget. They thought carefully about how to discuss the issue with him and to take responsibility for their role. Alice and Bill let Daniel know that they had every confidence in his ability to learn how to manage his own finances, and they talked through their expectations for the year ahead. Going forward, they would deposit a set amount of money in

his account every month so that he could pay his own bills. Daniel's parents were committed to letting him deal with the consequences of his spending decisions now, before he was out of college.

The bottom line is that help isn't always helpful when it comes to building resilience. If others are always fixing things for you, you could get the message that you don't have the wherewithal to cope.

Like Bill and Alice, we can be compassionate

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and clear about expectations and limits. When resources are abundant, natural scarcity won't provide the limits. So, to enable others to develop resilience, we have to look out for the opportunities. At each age and phase of life, individuals need to struggle with challenges that they can learn from. And, these challenges tend to be incremental. Whether it's figuring out what to do when you forgot to bring your lunch in fourth grade or experiencing the disappointment of getting a poor grade when you forgot to complete a homework assignment in eighth grade, the ability to learn from managing small difficulties builds a sense of being able to handle the next challenge that arises.

### Collective Resilience

Resilient individuals are important in a family enterprise because the system benefits from every individual's contributions. But, it's not simply the focus on building the individual capacity to deal with challenges that builds collective resilience. It's also the experience of building the family's capacity to work together. Family enterprises, with the complexity derived from their intertwined emotional and economic systems, need their family members to work together to contend with change and adversity.

Families that share assets will inevitably face two



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categories of challenges in which the collective ability to work through and learn from complex challenges is essential. The first category is made up of foreseeable lifecycle tasks and events that are primarily internal in nature. These include:

- Raising the next generation with the skills to be responsible owners;
- Developing familial and working relationships among young adult siblings and cousins; and
- Actively planning for generational transitions in ownership and leadership in the family and the business

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By thinking ahead and taking smaller steps that build on one another, a family enterprise can develop both individual and collective resilience muscles.

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These complex challenges unfold over time. In most cases, there's no single event that signals the need to begin addressing them. Therefore, it's possible for a family enterprise to function well on a day-to-day basis for quite some time without attending to these inevitable needs. But left unattended, the needs will lead to complications. A resilient system will identify the skills and practices that will allow family enterprises to prepare for these lifecycle complexities and invest the effort, little-by-little, over time, providing appropriate experiences and learning opportunities to the group.

Let's look at how adeptly the Peterson family has been preparing for some predictable lifecycle challenges:

George and Connie Peterson (Generation 1, (G1)) are in their mid 80s and built a sizable real estate business originally centered in Nashville, Tenn. Their three children (G2), Keith (60), Gina (58) and Bradley (55) joined the family business

at different times after having pursued their own careers. Keith joined first and is accepted by his siblings as the G2 leader, although they operate collaboratively, with each in a leadership role in one of the company's divisions. Keith remained in Nashville. Gina lives in North Carolina. Bradley lives in Texas.

The Petersons brought up their children talking about the business around the dinner table. They enjoyed including everyone in their thinking about market trends and after-action discussions, when things didn't go as expected. With the able planning advice of their attorney, accountant and family enterprise advisor, the Petersons have long since transferred the majority of the real estate ownership to their three children and their families. Keith, Gina and Bradley have grown the business substantially since the Petersons "retired" more than 10 years ago.

The extended family, including eight G3 households, gets together for holidays and vacations several times a year, so the cousins have developed strong family ties. Now that the family is bigger, keeping everyone in the loop on the business has required a structured effort, including quarterly reports and semiannual family meetings, which have been developed with the guidance of their family enterprise advisor. As each G3 family member entered college, they were invited to join the family meetings. And, for several years, the G3 family members have been meeting, learning together and getting to know each other as young adults. More recently, G3 began participating in a project connected to the family foundation, which has given them the opportunity to learn more about each other's interests and skills.

Many years ago, G2, in collaboration with their parents, developed the current business structure to meet the changing times and G2's needs. The G2s are now beginning to think about their transition and have begun working with an advisor to help the family develop a vision for the future. Given the increased complexity of both the



family and the business and recognizing that their unusual partnership is unlikely to be replicated in a G3 cousins group, G2 knows that the family will need to explore a number of possibilities for the future. Some of the questions that they've begun to address are: Is the family spread too far and wide to continue as one business? How might changes in the economy and real estate markets impact their business in the future? How does all of this fit with G3's interests, skills and vision for their roles in the family enterprise?

By thinking ahead and taking the smaller steps that build on one another, a family enterprise can develop both individual and collective resilience muscles, reducing the risk that predictable lifecycle challenges turn into a crisis. At the same time, these efforts build the family's capacity to manage unavoidable, situational challenges such as divorce, remarriage and the unexpected disability or death of a leader.

The second category of events covers the primarily external challenges that are unpredictable but not unexpected, including competitive and industry shifts as well as trade and financial market disruptions. These can come about due to innovation, politics, natural disasters, war and pandemics. Here, again, an ounce of prevention is worth a pound of cure. What's the prevention? The process of family enterprise strategic planning. Not the plan itself, per se, but the process of developing the plan. This provides the training ground where an enterprising family and the organizations that operate their assets build their collective muscles—ramp up their skills and capacity to talk about risk, explore options and develop the agility to make the decisions required to meet new circumstances.

And, what happens if and when these two categories of challenges coincide like they did in the pandemic? The Peterson family was in the early stages of working on the transition from G2 to G3 when there was a major disruption in the real estate market.

Having been through a number of market dislocations in the past, G2 knew that there are both threats and opportunities that arise during these periods. They were also keenly aware that this would be a great opportunity to engage G3's

unique skills and perspectives along with G1's wisdom and the firm's other stakeholders (employees, vendors, advisors) in thinking through their path forward.

During their recent strategic planning exercise, the family, along with key employees, had worked through the implications of three potential scenarios. While the unfolding events don't exactly mirror any one of the scenarios precisely, the general approach they came up with was applicable. Everyone had a sense that they would not only be able to weather the storm but also be able to find opportunities. For now, the business is still moving along the trajectory of G2's vision. However, the siblings recognize that their work as a family during this period will likely play an important role in the development of G3's vision and the next chapter in their family enterprise.

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### Three Areas to Address

Family enterprises have some unique characteristics that need to be considered in the process of building resilience. Families have a long-term, shared emotional history, meaning that they have a strong identity and can reflexively repeat past patterns of relating that can complicate their work together. Families also have a much higher relationship intensity than non-family groups, which means that they know each other well but their relationship dynamics can require more attention. And, families don't have as much flexibility to choose members, which means that it can be harder to become integrated and more challenging to exit. This can have the effect of blurring roles and responsibilities.<sup>1</sup>

So, what can a family enterprise (and its advisors) do to build collective and individual resilience?



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Engage periodically in a family enterprise strategic planning process that addresses three areas:<sup>2</sup>

1. **Define who you are, where you're going and why.** It can take time to figure out a bold vision that animates the family—but once you do, it creates a lot of momentum to address whatever arises—both challenges and opportunities. Without clarity around purpose, every decision becomes a referendum on what you stand for and where you're going, which can be time consuming and exhausting. “Because we are family/have a long history,” or, “because of taxes,” likely won't hold up in times of adversity.

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2. **Determine the decision-making practices, resources and structures you need to achieve your vision.** You'll want to manage the balance between formal and informal ways of operating so that everyone has clear expectations and the opportunity to gain relevant skills. Having the right set of policies and processes (governance) is akin to having appropriate road signs and traffic patterns. You don't need stoplights at every street corner. Your family enterprise advisor can provide examples of what other families have done in similar circumstances and help you figure out what might be useful considering your family's unique context right now and for the next three to five years. There's no one structure that works for all families or for all phases of a family enterprise. But together, the right structure and the appropriate skills create a nimble environment where people find it easy to engage and good ideas are debated thoughtfully.

3. **Evaluate your communication practices and skills—especially around about topics like risk, setbacks and interpersonal dynamics.** This can include quarterly reporting meetings, longer annual or semi-annual family meetings as well as Sunday dinners, depending on your family circumstances. You'll want to plan those meetings to address the obvious and nuanced issues of the day. It's also essential to develop the skills and make it a priority to prepare for difficult conversations among individuals or high stakes discussions with a group. It can be easy to succumb to the tendency to defer or avoid those interactions. But, potholes aren't easy to keep avoiding and can do a lot of damage when they aren't tended to. Of course, communication is a two-way street, not just the reporting of information but the gathering of perspectives and ideas. The flow of information is the life blood of the family enterprise, and in different phases of a family enterprise's lifecycle, needs can shift. For example, when a new generation is newly included in an aspect of the enterprise, it can be helpful for them to be involved in designing a reporting process that's more frequent and incorporates an educational component.

### Advisors' Role

At times the “family-ness” of the family enterprise makes it a challenge to see the need to do such planning. It's fairly easy to slip into a mindset that reinforces that what's been done before is what should continue. For example, it's tempting to mistake the desire for the continuity of a legacy business with a clear-eyed evaluation of what's needed to make it viable for the future. The role of advisors, whether they be accountants, attorneys or family enterprise consultants, becomes one of trainer—helping the family enterprise to systematically build the muscle critical to the moment and to their future ability to thrive. 

### Endnotes

1. Fredda Herz Brown, *The Essential Roadmap: Navigating Family Enterprise Sustainability in a Changing World*, Chapter 1 (2020).
2. Froma Walsh, *Normal Family Processes* (4th ed.), at pp. 399–427.