

LEARNING TO GOVERN

The Role of Lifelong Learning in Family Leadership and Managing Family Wealth

By Barton Parrott

Families that succeed together over multiple generations are those that manage to learn from experience and adapt over time. The ability to learn together is a competitive advantage for families. It helps them weather generational and business transitions that often derail other families. In order to reap this benefit, though, families must be intentional about creating learning systems that help them update their stories in the face of changing circumstances; they must get good at facing reality together. In multigenerational families, the best way to accomplish this is to get away from the “hero model” of leadership in favor of a system of governance with multiple levels of participation and clearly defined roles. Multigenerational families must engage and educate their members and prepare them to participate. In short, they must be actively learning together. Family advisors can recognize and support this.

Effective family governance is essential to successful multigenerational wealth transfer. In the midst of the current wave of wealth transfers from the greatest generation to the baby boomers, and increasingly from baby boomers to millennials, there are many ways to get this wrong. Indeed, we often hear claims that the great majority of wealthy families will lose their wealth by the third generation, and many consultants and advisors have witnessed this phenomenon. This article will explore how good governance, animated by a culture of active learning within a family, can play a positive role in this dynamic.

The Role of Governance

The task of family governance is to make the right decisions at the right time in the right way. More realistically, this is about making good-enough decisions at a good-enough time in a good-enough way. This is the job of a family’s leadership, in partnership with its advisors, and the family’s future depends on it.

Yet many families struggle with making good-enough decisions over time, even when offered the best advice. They fail to acknowledge changing circumstances; they operate as if the future will be the same as the past. They don’t make use of relevant data. Worse, they may actively ignore information that doesn’t fit with their preferred narrative. They put in place a kind of bubble around themselves that insulates them from realities they don’t want to face. They waste energy by acting in passive-aggressive ways with one another. They avoid conversations they need to have. They try to streamline decision-making by leaving out relevant stakeholders, but they do so in ways that create turbulence and slow things down rather than speed them up. They operate from fear rather than optimism. They stop being curious. In essence, they stop learning together and applying what they learn.

We all do versions of these behaviors, of course, individually and collectively. But the cost of these behaviors adds up over time for multigenerational families that are operating businesses or managing wealth. Bad governance is largely the unwillingness

to face messy, complicated, or inconvenient realities. It results in bad decision-making. The job of leadership is to put in place systems, structures, and processes to work against this. Said another way, family leaders must act as chief learning officers.

Many first-generation wealth creators don’t think much about governance issues—nor do they necessarily need to. To paraphrase one such entrepreneur: “What’s all this about governance? I make the decisions here.” These wealth creators are busy building a business or growing their investments. They know how to be successful in a particular area. They often show a tendency for tight control. They are used to being in charge and having a close grasp on details. They don’t necessarily involve others who are affected by their decisions. In short, they act as a sort of wealth-creating hero for the family. If this hero happens to be skilled and capable, this arrangement may serve a family well during the course of a single generation. It can indeed be an heroic act to generate resources that help a family improve its life together.

But the experience of many families shows that this hero model does not suffice through multiple transitions. As the saying goes, what got you here won’t get you there. As the life of a family progresses, there are more stakeholders who have ownership or beneficiary rights. There are more people who are affected by decisions and need to be involved in making them. More may be able to exercise a veto—or at least cause trouble—in one way or another. In many

families, succession is seen initially as a matter of finding and anointing the next hero leader who will govern just as the first-generation leader did. But this rarely works out. Governance in the second, third, and subsequent generations of a family is by nature different from the first generation.

Because of this, a different approach is needed. If the goal is continued viability of the family and its shared economic engine, it is important to find an alternative model for governance. It's not that families don't need leaders and heroes, it's that the jobs of leaders and heroes are different. It is less about controlling and deciding everything on one's own, and it must include educating other stakeholders and getting them involved in the right ways at the right times. The alternative to the hero model, one that is more likely to be sustainable in the long run, is to create a structure of governance with multiple levels of defined participation, along with processes that ensure engagement and active learning.

The structure will depend on the family's size and complexity. To paraphrase Albert Einstein, it should be as simple as possible, but no simpler. It must be complex enough to account for the complexity that the family must address—for example, how many entities and owners are involved, and what kinds of decisions need to be made—without being more burdensome than necessary. Some families can get away with a simple committee. Others may set up structures that resemble three branches of government: a family assembly serves as the legislative branch; a family council serves as the executive branch; and a wisdom council, made up of family elders retired from active roles, serves as a judicial branch. The responsibilities of each branch are specified in a family constitution.

Whatever the appropriate structure for a particular family, the processes that animate it and make it work are just as important. For a family to keep its common narrative up to date and in sync with current realities, those processes must involve shared active learning.

Learning from Experience

The educator John Dewey said that experience plus reflection equals learning. To be more specific—and the distinction is important—he said, “We do not learn from experience, we learn from reflecting on experience.” Indeed, many families seem to go through a lot together without managing to learn from it. They may, for example, act out the same less-than-optimal patterns over and over without seeming to realize it. History, Winston Churchill is supposed to have said, “is just one damn thing after another.” The same can be said for the history of a family; a lot happens along the way, some of it challenging and painful, but family members don't necessarily derive the benefit of their experience. Worse yet, they may draw the wrong lessons and perpetuate fear-based beliefs that work against the family's best interests.

Just as generals often are accused of fighting the previous war, families may seem to be stuck in a previous era. They may be holding onto investments or businesses that no longer serve them. Interpersonally, they may be acting out old grudges with one another, or still taking revenge for perceived slights. They may have a hard time acknowledging that a once-dominant leader is starting to show signs of dementia. They may be treating next-generation family members who are now in their 30s as if they were still teenagers. Families, like armies, must bring their assessments, their ideas, and their strategies up to date.

The task is to promote reality-based learning as a core skill of the family and its economic entities. That means being intentional about it, including setting up mechanisms for shared reflection. There is no single right way to do this, and there are many possible approaches. Family leaders and their advisors have the opportunity to be architects of learning who make this process fun and engaging. Below are some ideas to consider when creating a learning program in families.

Make a plan. It doesn't have to be long or complicated, but articulating a plan makes you think about the topic in an integrated

way. A written strategic plan for family learning provides focus and creates shared accountability. It could be simple enough to fit on a page or two. But like any good strategic plan, it is most effective if it spells out three areas: where you are (current state); where you want to be (goals); and how you will get there (implementation roadmap).

Set up an education program. Ideally the plan should set out the framework for a learning and development program in the family. This can include both individual and group elements—for example, individual learning plans combined with group education events such as workshops and speakers. When creating group events, pay special attention to making the initial offerings a success so people will want to come back. In setting up the program, use games, simulations, and case studies. Where possible, put people in charge of their own individual learning. Put in place on-demand resources such as video courses and coaching. Host materials, videos, and communications on a secure online portal such as TrustedFamily.

Get people together. Hold regular family meetings, at least annually, that combine business, education, and play. Set up fun, impactful shared learning experiences. If there are enough young people in the family, treat them as a cohort with the goal of establishing a learning community as they grow up. Make them accountable to each other for their learning goals. Also reach out and connect with peer families to share experiences. Attend conferences and programs along with other families.

Be clear about roles, authority, and boundaries. What makes shared governance work is to establish clear roles and lines of authority. If decision-making authority is distributed across more than one person, the specifics must be spelled out in writing—for example, with a written constitution and with role descriptions. In the past many family businesses involved family members in an all-or-nothing way: If you didn't work in the business, you were kept in the dark. Now more families are

realizing that a tiered system has many benefits, and they are establishing more than one level of participation with different rights and responsibilities.

Get real. If they are to improve their ability to face uncomfortable realities together, families must learn to have difficult conversations. One of a leader's jobs is to make challenging topics approachable and discussable. A well-designed governance system can help because it depersonalizes and normalizes issues. It provides a way to deal with contentious topics. This can help a family member take a larger view of, say, a dispute with his cousin. Without a larger frame, every discussion within families can feel intensely personal.

Create experiments and look for low-risk learning. We learn by trying things and seeing what happens. When consulting to families, I try to help them find opportunities for low-risk learning in which people can make mistakes without incurring drastic consequences. The key step—which few do systematically—is to harvest the lessons learned, as described in the next point.

Hold after-action reviews. Because of the need to learn quickly when facing new and changing conditions in both Iraq and Afghanistan, the U.S. military has focused on developing effective after-action reviews. Learning from experience is a matter of life and death. Done correctly, after-action reviews have many benefits for families as well. One key: Don't focus on blame, but instead identify the handful of elements to get right going forward. Using an outside facilitator and a clear process can help. Celebrate as much as you criticize.

Identify and question assumptions. Every group that makes decisions has a set of assumptions at work, and usually these operate in the background without being named and discussed. Moreover, our assumptions and mental models about the world shape what we see, and more importantly, what we think is possible. Bringing these to light is like uncovering the source code that makes up a computer program, and then projecting it onto the wall for a

group to consider together; sometimes they decide the code needs rewriting.

Carve out time for reflection. If reflecting on experience is essential to the learning process, then it is important to make time for it. This can be as simple as taking a few minutes at the outset of a discussion, then posing a question to the group and asking them to spend three to five minutes jotting down notes to themselves. Especially with busy people who rush from thing to thing all day, this kind of simple pause can greatly enhance the effectiveness of a discussion. Getting perspective on one's situation can be playful as well—for example, by using an improvisation group to lead family members through an improv exercise that lets them have fun exploring a current challenge or dilemma.

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Try appreciative inquiry. Appreciative inquiry is a process used in organizations to design a desired future. Rather than treating the current situation as a problem to be solved, the process focuses on strengths and how to build on them. This is not about ignoring what is going wrong, but about taking a larger view and activating creativity. Treating the world as a problem can limit what is possible. The approach of building on strengths and cultivating curiosity has many benefits in families.

Avoid the fire hose in favor of the learning cycle. Education programs are too often structured around once-a-year events that overload participants with too much information in a short time—like drinking from a fire hose. A more useful approach is to employ an action-learning approach, a process based on scientific inquiry. There are many versions of this, including this adaptation that I have used with executives in family businesses: (1) If someone needs to get

better at something, start from real responsibilities, circumstances, and data. What is the actual situation and what is the person's role? (2) Build in active analysis and reflection, and introduce relevant ideas, theories, and frameworks that help people make sense of their experiences. (3) Develop hypotheses to test. (4) Take action to test those hypotheses. (5) Lather, rinse, repeat.

Account for different learning styles and approaches. There is a growing realization that people learn in different ways and bring different strengths. This includes how they take in and process information. Many sophisticated families are now making sure that, in order to make the most of all their available talent, they are approaching topics from more than one angle and providing information in more than one modality. The visual artist in your family, for example, may not approach a topic the same way the MBA graduate does, but she may end up having the perspective that unlocks a particular opportunity.

See one, do one, teach one. A staple of medical education is that you have not learned a topic until you have had to teach it to someone else. Some families employ this idea with their rising generations by incorporating peer teaching and learning within their cohorts. When a group of family members is undertaking financial education, for example, they might divide up a set of topics and ask each participant to come back at the next session and teach their topics to the rest of the group.

Help family members individuate. Building cohesion and closeness in families does not mean enforcing conformity. It may seem like a paradox, but helping each family member individuate and become his or her own person can strengthen family unity. A family that helps you be yourself, rather than fighting you all the way, is a family you want to stay connected to. Fostering individuality can be the best way to avoid the dangers of group think.

There are, of course, costs to all of this. The process of educating and engaging stakeholders in family governance is not free,

and it's often a pain. A family leader, for example, may be tempted to just make a decision and announce it. But in so doing, that leader may spend the next year trying to get others in the family to accept it. Make no mistake, family members will have their votes, one way or the other. It may actually be faster to take two or three months to employ a thoughtful process of engagement when making a decision, resulting in speedy implementation of that decision, than to try to build support after rushing it through. Process matters. So although there is a cost to engaging family stakeholders in governance decisions, there is also a cost to not doing so—and this cost is rarely calculated.

What Gets in the Way of Learning in Families?

Learning from experience is in part about looking at what might have been done differently—regarding, for example, how a particular financial or business decision was made. As human beings, of course, we don't like to feel criticized. Our built-in reaction is to get defensive. Bowen Family Systems Theory (originated by Murray Bowen, one of the early leaders in the field of family therapy), suggests that we will never be as reactive—as “emotionally hinged”—to anyone as we are to our families. No one can trigger us like family. As a result, when you mix family, wealth, and power, you have all the trouble you'll ever need. This is one reason why shows such as *Empire*, *Game of Thrones*, and *Dallas* make for great drama.

The goal in developing a learning system in a family, then, is to foster discernment—the ability to analyze what happened and why and learn from it—and to interrupt our habitual patterns of judgment and blame with one another. We must continually bring our narratives about each other up to date, and let go of the parts that no longer serve us. This is easy to say but harder to do. To quote the famous philosopher Yogi Berra: “In theory, there is no difference between theory and practice. In practice, there is.”

Bowen Family Systems Theory also gives us a way of looking at families as anxiety-management systems. When people feel

threatened individually or collectively, anxiety increases. Seeking to lower the anxiety, we share it—like a hot potato—by triangulating with others. If I feel criticized by one sibling, for example, I might complain about that person to another sibling. When this gets rolling, there is seemingly no end to it. It can result in a great deal of wasted time and energy. It erodes trust. It makes cooperation harder. It blows the emotional budget.

Investment managers and wealth advisors may wonder why families have a hard time making rational decisions together: “I gave them a great set of options. Why can't they act on them?” The reasons may lie in these underlying forces tugging on family relationships. If there is one factor most likely to help families make better decisions together over a period of decades, thereby promoting the survival of the family as an economic entity, it is the ability to get over being defensive and reactive with one another, and instead to be in learning mode together. This requires the willingness to have difficult conversations with each other—which is partly about skill, but mostly about courage. The job of leadership is to go first and model this behavior. A common alternative to this, played out daily in the media, is to end up in court together and never speak again.

Succession

Families need great leadership, not just one great leader. In the long run, most families begin to lose their wealth and revert to the financial mean. To forestall this, they must make use of all the talent they can. This requires educating more than one person to participate effectively in decision-making. Whether or not families are lucky enough to have recognized leaders emerge naturally from their ranks at the right time in each generation—and if so, they are indeed lucky—they will benefit from developing a culture of learning across the family. Leadership succession is the most loaded and consequential issue in family businesses. This includes “financial families” that have sold operating companies and are in the business of managing their investments. Succession should be seen as a process, not an event. Start early to educate the

rising generation. Just as in a national democracy, an educated populace is essential to a participatory system. The investment in lifelong learning, both in content knowledge and in relational skills, can pay off in many benefits over the life of a family—including staying out of court.

The Role of Advisors

Dysfunctions in family governance make it harder for investment managers and wealth advisors to do their jobs. But advisors who can exercise their emotional intelligence and help families navigate the complexities of learning from experience—and as a result make better decisions together—are not likely to be replaced by machines or algorithms. They become trusted partners.

It's not enough for families to get great advice; they must be able to navigate their own dynamics to act on that advice in their collective best interest. Families and their wealth are beset by risks and challenges outside their control; choosing to become a learning organization, however, is one of the few things that is fully within their collective control. Helping your client families to make this choice, and to act on it, is in everyone's interest. ●

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Barton Parrott is a principal with Wealthbridge Partners. He earned a BA in English with distinction from the University of Virginia, and an MBA from The Wharton School, University of Pennsylvania. Contact him at barton.parrott@wealthbridgepartners.com.



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