

# Family Business

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## 6 steps to revitalize your governance

Don't wait for a struggle to make these changes



**M**ost enterprising families want to hold onto the past and preserve the family values, which constitute a legacy and honor the vision of the wealth creator(s). History is comforting.

The same can be said for family governance. Often, families feel that once they have a platform in place, things will take care of themselves. That is magical thinking. The seven deadliest words in family governance are, “We have always done things this way.”

Most families wait until there is a struggle or an internal need before they update their governance philosophies. Change can be triggered by the addition of an in-law, a divorce or a disagreement. No matter what the challenge, thoughtful and inclusive communication must be a cornerstone as families grow larger and more diverse.

After a family has created a governance structure and a family constitution, too often they breathe a sigh of relief and feel they can now coast into the future. Not quite. While they have indeed reached a milestone, which they should be proud of, their cruise cannot last forever. Just as a house needs care and maintenance, and eventually major repairs, so does family governance. Crisis doesn't happen overnight; it creeps in unnoticed until things become too volatile to contain:

*The L. family was very proactive in instituting several layers of governance. They developed a family council early on and have annual family meetings. As the family added spouses, kids and grandkids, the growing numbers and geographical challenges made it more difficult to organize reunions. Add mounting tension between family members who worked in the business and those who did not, plus unequal ownership levels and wealth structures, and one can see a volatile situation starting to percolate.*

Over time, a family begins to experience signs of stress and decline in their governance system. These strains are inevitable and indicate the need for a new intervention. This does not indicate that what the family is doing is wrong or a mistake. Rather, it indicates a need to adapt to a more complex reality.

### **Early Warning Signs of Strain**

After the pandemic and other global societal ripples, the warning signs are flashing for every long-term family enterprise.

**Stale leadership.** A core group of people have taken on a great deal of the governance, and they are tired. A group of leaders does a great job and enjoy it, so others begin to pull away. The leaders don't feel comfortable leaving because they don't see a new group ready to take their place. They are stuck. At the same time, the rest of the family doesn't see a way to step up and enter what they perceive as a closed system.

**Loss of vision, energy and shared purpose.** Family attendance at meetings and events declines. People do not ask questions. The family council seems to operate on autopilot, scheduling empty and stale events. Family members wonder why they are doing things together and do not feel connected to a wider purpose. They drift away to their own lives and communities. They lack a connection to the family legacy.

**A large, dispersed family.** The family's governance practices are designed for a smaller group. Cousins do not know each other well, and branches tend to be the focus rather than the family as a whole. The group begins to disperse, and people wonder if there is a reason to maintain the family council — or even the family enterprise.

**Unclear succession plans.** The older generation get comfortable working together and hesitate to step down. There is little engagement across generations. There is no plan, process or timetable for succession, and the rising generation feels no invitation to participate or sees no path forward.

**Inability to celebrate differences.** The family believes that to stay devoted to the family legacy, they need to support old traditions. Diversity of thought is not welcomed. Family policies are too rigid and do not fit the emerging realities of the family.

Too often, the family ignores these warning signs or discusses them only in small groups, often with blame and resentment attached to them, or a feeling of helplessness.

But denial and avoidance do not make the underlying issues go away — they just build up over time. Sometimes, a crisis erupts, and the family goes into crisis mode, making an unsatisfactory fix to something that could have been attended to earlier with fewer costs and more time.

When energy begins to fade, the enterprise may enter a death spiral. This may not be a financial disaster, but it may end the shared vision and legacy and cause the enterprise to disband. Many families eventually sell their legacy business and decide to go their own separate ways. If there are major differences within the family, this may be the best outcome. However, defections from the family enterprise will dissolve the family's emotional ties. We suggest that a family carefully consider the pros and cons before they decide to disperse. Another alternative is renewal and the development of a new direction, as in the L. family

*Fortunately, the L. family had the family council as a platform to engage, educate and listen to the family. The council formed a task force of three council members and charged them with a three-pronged approach:*

- 1. They crafted a short survey that asked family members how they felt and what they wanted from family relations.*
- 2. Task force members took to the road, organizing gatherings of lunches and dinners in areas where there were larger numbers of family members. They also engaged via technology when necessary.*
- 3. The task force made it a top priority to actively listen, not judge or criticize, and report an executive summary of their findings back to the family.*

*This gave valuable insight to the family council, which in turn was able to adjust its mission and vision and engage all family members in a way that was exciting, inclusive and relevant.*

This path allows the family to see if there is energy in a new generation or the possibility of a new purpose and new leadership that can engage the family. Unless a family takes the time to listen and consider alternatives, it may slip too quickly into a decision family members will regret.

## Taking the Path to Renewal

While every family story is different, here are several steps or actions that we have seen families take to address these long-term strains and revitalize their governance.

### **1. Investigate the root causes.**

Families often look for the “cause” of a strain and immediately take an action that they feel will resolve it. If there is a difficult person or someone who needs to step down, they feel that will do the trick. While a quick fix may be helpful, it is just a first step.

Alongside the immediate steps there are larger strains and issues. The family must look below the surface to identify what are usually several issues they need to address. Just as rust and erosion accumulate, the mechanisms that were so helpful a generation ago may now be hindering change. For example, a growing feeling that policies are unfair, or that one group has excessive influence and is not listening to others, may be an issue. Or poor business results and unresponsive business leadership can be breeding frustration. Or some family members may feel that social responsibility and the environment are not being addressed. The family should be prepared to look squarely at where strains are. If they do this before they encounter a crisis, they can take the time to address the issues in a thoughtful, inclusive and effective manner.

## **2. Convene a task force to focus on the future.**

The task force should not be a small, tight gathering of leaders. It should reach out to younger generations and those who have different views, like married-ins and even outside advisers (perhaps from other families or related businesses). The goal is to encourage diversity and look at opportunities. The focus should be external — to look at what the family can be and can do.

The focus for the task force is not to make decisions — that is the purview of owners and clearly defined decision-making groups — but to seek out new ideas, uncover new energy and expand everyone's thinking. The task force should gather information that can be used by various governance groups as they plan.

## **3. Plan a renewal retreat for the whole family.**

This can be part of the task force's portfolio, or it can be convened when the task force has some preliminary findings to suggest. The purpose of the renewal retreat is internal — to build a great extended family, to remember the legacy and invite family members to develop and sustain their connection in a new generation. It brings together the older and newer generations, all the family branches, blood descendants and married-ins, and sometimes key advisers, non-family board members and executives. Participants share information, remember the legacy, define individual goals and needs, and discuss what the family could do that would excite them. Such an event can not only surface new ideas but also reconnect family members who are drifting away. The energy of this gathering can invite new leaders to surface, and new projects for them to do. It can also look at stress points where governance is not working, and possible remedies or changes.

## **4. Redefine governance and renew the family.**

Neither the task force nor the retreat is a formal decision-making body for the family. The family council and/or owners council are responsible for governance. Changes in the family constitution must be voted on and ratified. The new ideas and new energy need to be harnessed through concrete changes in governance. Two major areas should be addressed:

\* New projects, initiatives and entities.

\* Leadership development, outreach and appointment.

These endeavors allow the family to listen more broadly and search more deeply for potential innovative energy for the future. Sometimes family members do not realize that they might be listened to or taken seriously, and they passively accept the way things are. It should be made clear that they are invited to enter the dialogue and their input is welcomed.

## **5. Convene a gathering for the rising generation.**

The members of each new generation may not know each other well. A gathering of the rising generation will enable them to get to know each other, support each other and entertain ideas for what they might do together. These young people often have a powerful realization that despite their disparate upbringing, they have shared interests. At the gathering, they can propose and initiate new ideas, develop a set of values that reflect new realities and rekindle excitement about the family enterprise. The outcomes of such gatherings can lead the family on a new path.

## 6. Recharge

Like a field, sometimes the family governance system needs a time to rest and recharge before vigorous growth can take place. Well-established systems go through seasons of policy activity and engagement work. There may be not enough kids in a cohort, or there could be an event in the family or enterprise that mutes the need for robust activity. Rather than “tinkering” with structure and process constantly, the family gets time to reflect and formulate principles and action that are truly driven by the needs of the family. A word of caution: Don’t rest too long. Make sure you are reflecting and collecting the sentiment and needs of the family, and establish a timeline to re-engage.

### It’s not over until it’s over

Adversity and staleness can creep into any family enterprise. Too often entropy can lead to decisions that destroy potential and foreclose possibilities of the family enterprise finding a new path. Families that have made the decision to work together and have initiated governance structures must face the reality that these systems will not last forever. There will be periodic crisis points where the family must revisit its core purpose and find a new path.

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