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OPINION

Family business lessons from the House of Windsor

By George Isaac

The House of Windsor has survived war, recession and even an heir renouncing title to the throne of England.

It has dealt with a cranky Parliament and accepted a greatly changed role that includes allowing a first born daughter to become Queen, a gender-neutral succession policy that serves as a good example for all family businesses. And as the odds would be, on July 22 it welcomed a new baby boy to the Royal Family, who sets the stage for the Windsor name to continue into the 21st century and beyond.

There is a lesson here for privately held companies in the English speaking world and beyond. The management and planning practices of the Royal Family are the ultimate exercise in operating a closely-held enterprise, which raises the ultimate question: Why has the Royal Family succeeded for centuries while 85 to 90 percent of family enterprises fail to survive past the second generation?

I'd argue that succession planning is the key component, and that nobody addresses this concept earlier than the Royal Family. It was decided at birth that new Royal Baby will be third in line to the Crown after Prince Charles and Prince William. With this clearly defined succession plan, all family participants understand their roles and responsibilities and have ample time to properly prepare for their various duties as part of the Royal Family.

Learning from the Royal Family, it's important to note that having a

succession plan is not the only attribute of success. The entire family, indeed, the entire nation understands the succession planning that's been deeply ingrained in the British culture.

The lesson is that understanding and addressing succession planning in any family enterprise is critical to insuring its longevity.

Unfortunately, among many of the most successful private enterprises outside of the royal palace, proper and frank consideration of succession planning is often postponed by senior family members and deferentially avoided by the succeeding generation.

KEY ISSUES

The key issues most frequently at the core of problematic family business succession center on:

- Mutual respect
- Family inclusiveness
- Power and control
- Perceived fairness
- Compensation and rewards

To successfully address these issues, the family company's core principles, legacy, and purpose for existence must be understood and endorsed by all family stakeholders, both active and passive. While the governance of the Windsor family may be a bit opaque, the Royal Family's many traditions, including tremendous continuity among a core of trusted advisers, means that structures are in place to secure the crown and its succession. For fam-

ily enterprises that can't count on the traditions that prevail at Windsor Castle, there are two formal organizational structures that support positive family dynamics and succession planning: the Family Council and the Board of Directors.

The Family Council, a formal membership organization whose primary mission is to oversee and address the issues associated with

a family enterprise, is the first place to start. It facilitates extended family member

engagement and provides important direction and insight on dealing with family matters associated with the enterprise. The council should be professionally run with regular meetings and have representation from all family member constituents.

Members should receive reasonable compensation for attending meetings, and the council should evaluate member performance on a regular basis to maintain a high-functioning council.

The initial steps are structural and should be developed from input at inclusive family meetings of both active and passive family enterprise stakeholders. Issues such as scope/mission, frequency of meetings, selection of members, compensation, communication guidelines, term limits, etc., are the building blocks for an effective council.

The second structure, the company board of directors, is comprised of members elected by the shareholders or selected based

upon the terms outlined in a shareholder agreement that governs the enterprise.

The board's mission is to focus on the business issues, not family member issues or other non-business nuisances. Issues such as business strategy, financial performance and planning, operational reviews, organizational needs, future capital needs, shareholder distribution strategies, etc. are common agenda items.

Like the Family Council, family business boards are not informal family meetings; they need to be professionally run. We strongly recommend having some non-family "independent" directors on the board.

Non-family directors will help insure a level of professionalism, mutual respect, objectivity and formality to your family business board meetings.

In addition to these two formal structures, other less formal initiatives, such as family retreats, company outings, or general fireside chats, can be used to further strengthen the family legacy and each family member's responsibility to each other and to the family overall.

By learning from the British royal family and addressing succession and family dynamics directly, your family enterprise should provide many years of multigenerational success.

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Viewpoint