A REFLECTION ON THE PATH OF THE STAKEHOLDER OWNER

ORGANIZATIONAL AND MANAGEMENT SCIENCE

With a Section on Leadership of the Family and its Enterprises

The idea of the study of organizations and how they operate begins in the early 20th century with the time and motion studies of Frederick Taylor for various industrial enterprises; studies such as those for Ford Motor, when Henry Ford was developing the assembly line system of production. In this day and age of just-in-time computerized inventory systems and its links to the production line, we see the evolved results of those early studies.

While I intend to stress the modernity of this science, I do want the readers to remember that there are historical precedents for the study of how organizations work. For instance many individuals studied how organizations work to better make war, individuals such as Sun Tzu, Julius Caesar, Von Clausewitz, Napoleon and Mao Tse-tung. Others studied how to manage and operate empires, the Greeks, the Macedonians, and the Romans both, Westerners and Easterners, the Chinese, the Mongols, the Japanese, the French and the British come to mind. Finally, some studied how to mange and run global religious enterprises, the Islamic Caliphate and the Roman Catholic Church being perhaps the best examples. In these three theaters of activity, the need to manage complex far-flung enterprises whether, armies, enterprises, or episcopates required a deep understanding of how to build, manage and run large scale organizations. It is important, as with all apparently modern sciences, that we understand that while the methods employed to study a subject, may in "modern times," use the scientific method, that the "science" itself is often based on a set of ideas that embody a philosophy of that subject founded on ideas which have evolved over many centuries. Thus, while the sciences are modern, many of the ideas on which they are based have a long pre-modern life and are the result of serious study by very wise people from earlier "non-scientific" periods. We will see this truth repeated in every chapter in this book.

What relevance does organizational and management science have to the study of family's of affinity? In the 1960's when I first began to work with families, I knew of no one who was using business terms and their underlying science to try to understand and explain the dynamics of family organisms and organizations. The family and the system, within which it operated prior to their work, were thought not to even be businesslike much less businesses, and, therefore, the sciences of organization and management were, as far as I can tell, thought to have no relevance to the family. Much later I learned that Peter Davis and Howard Stephenson were seriously doing such work at the Wharton School and at Harvard respectively. Peter and Howard, I believe you were the first of the moderns and so I salute you as pioneers.

Today such a view is seen as impossibly antiquated. In fact, one cannot attend a conference dealing with the family without encountering four terms that come straight from these sciences and which are now used to define the nature of a family:

"The business of the family is its well-being and development", "the assets of the family are the human beings who make it up", "the business of the family is the growth of its wealth, its human, intellectual, financial and social capitals" "a family is an enterprise, and to be successful it must be enterprising."

Such terms as these express ideas about the family and its practices that are directly taken from these sciences. Again, to my knowledge, no such terms as defining a family and its practices were in general use before 1980. Since then they have become ubiquitous.

One of the early questions that arise for a family of affinity, seeking skills and practices to enable its development and to avoid the affects of the proverb is: are organizational and management terms and the sciences that underlie them helpful to a family's long term success? Or are they simply handy and intended to impose on the family system a particular family consultant's hubristic view of himself, by equating his professional work with families to that of great business scientists, like Peter Drucker, John Ward and James Collins? In fact they are, in my experience, of significant benefit to a family's comprehension of how its system, its family organization, can work better and more efficiently toward the family's dynamic preservation. Why?

- Families are self-governing organizations and thus are candidates for the application of systems theory;
- in many ways they act like enterprises;
- they are complex systems, working toward an outcome which is intended to make a profit--the greater happiness of each succeeding generation;
- they have measurable results; and
- As systems of governance, which grow in complexity through the constant accretion of members, they are required to organize themselves in highly structured and ordered ways in order to accomplish very long-term visions and the goals and outcomes they plan for.

How then can a family of affinity employ these sciences and the concepts they have spawned toward increasing its success?

First, the area of organizational and management science that has the most to teach families, is its ability to help a family recognize how complex the process of its governance and preservation are organizationally, because of the multiplicity of its relationships, and then to help organize and manage these relationships well. As I have said in my book, "Family" families of affinity[1] represent a system of multiple relationships, each of which must be managed excellently over a long period of time if a family is to successfully dynamically preserve itself.

In the families I have studied that are in their 3rd, 4th and later generations the members of these families often have as many as 21 different relationships with each other. In almost all cases those relationships fall into two divisions. Those I call "me" relationships and those I call "we" relationships. In defining the multiplicity of family relationships and in explaining them I am deeply indebted to the work of my colleague, Joanie Bronfman, PhD. The "me" relationships are those in which I play a role as an individual integrating into my family of affinity in relationship with another living family member of such family; some of these relationships are son or daughter, grandson or granddaughter, great grandson or great granddaughter, cousins (often first, second and third) parents, spouse, grandparent, aunt or uncle (often great and great--grand) son-in-law, daughter-in-law, godson, goddaughter, godparent and step relationships of all kinds.

The "we" relationships are those in which I play a role as a member of a family group integrating into a family organization comprised primarily of other family members such as: beneficiary, trustee, owner of shares of a family corporation, member of the board of a family corporation, employee of a family corporation, owner of a partnership interest in a family partnership, a general or limited partner of a family partnership, an employee of a family partnership, a member, general or limited, of a family limited liability company, an employee of a family limited liability company, a member of the board of a family philanthropy formed as a not-for-profit corporation, an employee of such an organization, a member of its grants committee.

I hope these lists of "me" and "we" relationships have exhausted you emotionally as you recognized how complex family organizational management of its multiple relationships really is. Each of us knows how difficult it is to manage one relationship well. We learn that trying to be an excellent spouse, or an excellent parent, or an excellent elder, or an excellent owner requires super-human efforts on our parts over a lifetime to do any one of them well. We also know that we are almost never given a road map to follow at the inception of such a relationship to help us do it reasonably well. We know that it is through trial and error that we discover the means to make such a relationship successful. Now here is Jay Hughes informing us that if we are to successfully organize and manage the process of dynamic preservation of our families of affinity, we have to be able to understand and manage not 1 or 2 relationships well but perhaps as many as 21 or more. Have I now set an impossible standard? Is family enterprise governance in fact impossible? Certainly not!! However, families who do not understand the complexity of the relationship systems in which they are embedded; who cannot pull apart and separately describe each of their relationships with every other

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[1] For a full explication of the term *families of affinity*, please see pages 3 – 11 of my book, "Family."

family of affinity member; who cannot understand what must be learned about the nature and rules of each such relationship, will fail.

How then might we begin to understand how to make all these relationships work? It is my view that to successfully engage in any relationship we must:

- know ourselves and define our goals and aspirations for what we will gain in an understanding of ourselves by entering into any relationship;

- understand the goals and aspirations of the other party to the relationship;

- be educated about the nature of the relationship we are intending to form—what are the values, rules and practices which underlie, bound, and define it

- Be prepared to organize such a relationship around those values, rules and practices and then actively participate in it using them--often for our entire lifetimes.

Sadly, in most families the multiple relationships we form are not entered into with any awareness of or forethought about the foregoing four points. Much more often in family we don't even foresee these as we are born into many of these relationships and only recognize the complexity of them when they begin to diminish our efforts toward individualization and happiness. Many of our "we" relationships are formed by third party advisors, suggesting to an earlier generation of "me" relationships the "need" for such business or not-for-profit organizations. We become members by co-option because of our genealogy. Many of these relationships, such as long-term family trusts may pre-exist us and give us no chance during our entire lives to decide whether we wish to be in the relationships they create for us at all. However these "we" relationships came into being, we are simply drawn into them by virtue of our having a "me" relationship to the person whose financial assets represent their initial funding. Rarely, as I've said, are we asked whether we'd like to join and, may I add, even more rarely are we given the educational tools to understand what is entailed in being a member of such an organism and the complex legal, ethical, human, intellectual and family relationships it represents. It is not, therefore, surprising that the single largest factor in a family of affinity's failure is the family's inability to organize and manage the multiple relationships that its enterprise system demands. This Reflection is not the place to define and to diagram each of the multiple relationship family members have with each other. However, organizational science offers the methodology to dissect any set of relationships and then to explain the rules and practices that govern that relationship. At the core of the science of organizations lies the belief that every relationship can be defined and that rules for its excellent practice can be delineated.

One positive thought on unraveling this spaghetti of relationships before I move on.

A sad reality of the history of a family of affinity's efforts to govern and manage themselves well has been the lack of application of the science of organization to family governance systems. Happily, as discussed earlier in this Reflection, during the past 20 years this reality is changing.

- As business and organizational scientists have assisted families whose financial capital includes a business enterprise, the ideas and practices of these sciences have filtered into families of affinities consciousnesses.

- Similar ideas from family system theorists have osmosed into family organizations from Psychology, as family members sought advice on how to make their individual relationships, including their financial relationships, more successful and happier.

These two streams of ideas, both offering skills toward the development of better organization and practice of relationships, are now deeply flowing into the consciousnesses of families of affinity and significantly improving their abilities to govern and manage themselves. Families of affinity are blessed to be in a world where the ideas of these two sciences are available to them.

While this isn't the place to dissect and define all of the emotional and financial relationships within a family, I do want to attempt such a process with one particular relationship, the relationship of *owner* as opposed to *manager* because I believe it lies at the root of so much family entropy..

One of the deep paradoxes that guides my work in this field, is the trap that family's fall into when they fail to perceive that their long-term success in dynamically preserving their family's financial capital lies in whether every member of each generation of their family's learns to be a great dynamic steward/conservator/stakeholder[2] *owner of the family's financial capital, rather than one who is merely chosen to manage the family's financial capital.*

In looking back over 40 years in this work and my father's 50 years in it, we often noted that many, and probably most, family business enterprises we observed that failed did so *not* because of poor management but because of failed ownership. At the root of this reality lies the Cheshire cat's question to Alice in *"Alice Through the Looking Glass",* "Alice, where are you going?" Alice replies, "I don't know" and the Cheshire cat opines (and I paraphrase), "then you are certain to get there!!" . Yes, a family enterprise is bound to arrive somewhere in its life's journey, but if its owners are not giving it a strategic vision of where they want it to go, then it will arrive wherever its management leads it and this will, in my father's and my experience, rarely be a safe

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[2] Dynamic means to avoid stasis and to grow; a steward as inheritor is someone with an obligation to his or her family and to the world at large to responsibly increase for the good of all, his or her inheritance; a conservator is one who turns over what he or she inherits and what it grows to be to the next generation of his or her family in equal or better condition than it was received; a stakeholder is an active, caring participant, as opposed to a passive, disinterested investor.

harbor for the family which owns it. Let me hasten to say that a family enterprise perpetually at sea is no fault of management, barring corruption, which in my experience of the life cycle of hundreds of family enterprises is the rarest of reasons for a company foundering. Management's role in a family enterprise is to be the crew and to perform the tactical maneuvers needed to keep the ship afloat and in good condition. It is not management's task to determine the strategic goals of the ship's journey. This is the responsibility of the family owners. It is the owners who must determine where they want the ship to go, where they believe it will find its most profitable harbors along the way, and how it will come safely home from the risks of its journey, so it can go forth another day.

If the owners are not performing their strategic roles and responsibilities, then their enterprises will enter the entropy that all rudderless ships experience as they go round in ever deeper entropic circles when their steward/conservator owners fail to give them directions. These enterprises do eventually wind up somewhere, but it is never where their owners hoped they'd be.

Why should this paradox of concentration on issues of management in family enterprises at the expense of the deeper need for concentration on issues of ownership, with its entropic result to a family's financial capital, constantly replay itself in family enterprises?[3] I suggest that there are multiple reasons among them:

- Failure to provide owner/inheritors with education on their roles and responsibilities as dynamic steward/conservator stakeholders;
- Failure to perceive that ownership is the stewarding responsibility of every adult family member regardless of how that member joined the family of affinity which owns the enterprise. While management on the other hand is a calling;
- Failure to perceive the different nature of one's role as a passive shareholder versus an active stakeholder and of the likely gradual running down of the enterprise's energy by its management if all owners are in the first category and its likely growth of energy with the second;
- Failure to appreciate that learning to manage risk is a complex discipline that every owner must undertake and that the boundary between taking too much risk and putting the enterprise into chaos or taking too little risk and putting it in a state of profound inertial order is a learned reality, not a mystical experience;
- Failure to perceive that trustees, by virtue of their duty to be prudent, are entropic owners because they cannot take the same risks as the stakeholder owners of competing enterprises;
- Failure to perceive that the beneficiaries of trusts which own family enterprises are the true stakeholder owners of those enterprises, beneficiaries often with no education on how to be great beneficiaries much less to be great

[3] My use of the term family enterprise includes both active businesses as well as family enterprises consisting solely of financial assets.

stakeholder owners, with all the consequent entropic effect on the enterprises' likely success;

- Failure to provide owners with an understanding of systems theory and of the ever-increasing complexity of systems as they evolve[4];
- Failure to expose owners to Organizational Sciences' knowledge on the issue of *transitions* (I suggest substituting *transition* for the word *succession*) within

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[4] In this Reflection I use the terms complex or complexity to describe family system. I talk about them as webs of interconnected individuals and their multiple relationships which ebb and flow with the demography that defines their particular family. I also discuss family enterprises and families as similarly complex organisms whose lives reflect the constant additions and divisions of all forms of capital in their enterprises' as enterprises energetic journeys.

What is the nature of this word complex, as reflected in complexity theory and the new 20th century science that studies it? In this context complex is used to describe the evolutionary process in which any single organic unit or base unit or foundation unit, let's say the initial two members who form a family of affinity, through the addition of new entities that become parts of it, in our example a child or children joining the parents, causes its system of relationships to become more complex. Another example would be the process by which a single fertilized cell through continuous division becomes a human being composed of trillions of cells.

The development of complexity is the ordered evolutionary process, by which new wholes grow out of new parts, often leading to geometric increases in the number of relationships among the parts that make up the new whole.

Sometimes it is not a chaotic process of random addition or division leading to new forms in what is a revolutionary process but rather an ordered process of growth.

This latter point is very important, since there is another very powerful new 20th century science that deals with the nature and process of chaos and seeks to describe the process of change in the universe resulting from seemingly random combinations.

Perhaps one could say that complexity theory defines and its science studies processes of fusion while chaos theory and its science studies processes of fission.

The spectacular growth of the use of the theory of complexity, as a tool to study the evolution of all systems, whether biological, sociological, political, economic or cultural is a defining reality of our 21st century lives. We have come to see that every system to survive in competition with all others of its kind will gradually have to become more complex to do so.

In complexity theory we have a tool that helps us understand the Darwinian process of natural selection as it helps us understand the natural evolving process that brings into life new forms of life founded on their normally but not necessarily simpler forebearers. Please note I did not say wiser or higher forms of life. Mother Nature loves to weave ever more complex webs as she experiments with variation, but she does not say that with complexity comes wisdom or progress, only that creating new and more varied relationships are her way of initiating new forms of life, that will have to discover, by their competition for survival whether they are more fit than those they seek to replace. We can hope that with greater complexity comes improvement, but Mother Nature does not guarantee it.

Family systems and the systems of the family enterprises that are the subjects of this Reflection are forever becoming more complex, as they add respectively new members and new assets. The increased complexity posed to family survival, by the need to integrate new relationships and new assets to the survival of its enterprises, are what necessitate ever more complex systems of family governance to enable the ever more complex decision making the family will have to do.

For a family to be successful on its journey to greatness, I believe that complexity theory teaches that there must be a never ending virtuous spiral of interconnections between the growth of complexity in a family and its enterprises, followed by an increase in the complexity of its systems for their governance, to match the family's evolution followed as that system produces excellent decisions by the ability of the family and its enterprises to successfully evolve to even higher orders of complexity. If this virtuous interconnected spiral can continue as a proper response to each unfolding of its twin members, the family and its enterprises, the future for a family will be very bright.

family organizations and to the various forms of leadership "from in front" and leadership "from behind" (these forms of leadership will be discussed in a later section of this Reflection) that might be best for the enterprise at different points in its evolution;

- Failure to expose and educate owners to the business tools of evaluation and assessment necessary, for owners to know if management and the enterprises they are leading are thriving;
- Failure to enable dynamic steward/conservator/stakeholder owners to develop their dreams for the enterprise, as it evolves past the dream of the founder/creator generation, leaving management with a historical rather than a current dream to manage;
- Failure to offer dynamic steward/conservator/stakeholders the wisdom that families, in their goal to reach their fifth generations in strong condition and to go on from there, have a few critical long-term transitions to manage in every generation if they are to achieve these goals, and that no short-term transactions is likely to make a difference in their success, except negatively;
- Failure of family elders to help their family owners perceive their need to do strategic Seventh Generation thinking,[5] with beginner's minds,[6] instead of the management thinking that is directed to tactical tasks that are normally and appropriately short-term. If owners are not educated to maintain the boundaries between these two forms of thinking, short-term concerns will prevail, management's needs for short-term success rewards will prevail and trouble can only follow from such a misprision;
- Failure to expose dynamic steward/conservator/stakeholder owners to the areas of knowledge and the tools for their implementation, necessary for their proper stewardship and conservation roles in overseeing the family's enterprises; areas and tools such as
  (a) Family balance sheets, as well as financial statements;
  (b) Family income statements, as well as enterprise income statements;
  (c) Family banks;
  (d) Modern portfolio theory;
  (e) Investor allocation, as well as strategic asset allocation;
  (f) Vision and mission statements for the family and their needed congruence with the vision and mission statements of each of the family's enterprises;
  (g) Rules for family and family enterprise meetings;
  (h) Policies on secrecy and/or confidentiality and the fundamental difference in outcome of these two;
  (i) Valuation, evaluation, and assessment systems;
  (j) Family systems theory, and business systems theory;
  (k) Roles and responsibilities within family enterprises;
  (l) Human Resources knowledge, to define and to learn how to recruit, retain, compensate and change management, both family and external;

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[5] Thinking that looks back seven generations through the eyes of a family's elders to enable a family to act with care, wisdom and discipline to the solution of today's problems so the seventh generation from today will have the care and wisdom it applied to them.

[6] Seeking to begin the study of the solution to every problem with an open mind and heart.

(m) Modern governance tools for improving family oversight of their trusts.

While I appreciate that this is quite a list, it represents my current view of the components that lead to failure in the life cycles of family enterprises. Summing them all up, lack of education of family members as owners, continually seeking to learn how to dynamically steward/conserve and stakehold family enterprises is at the heart of the problem.

Remarkably, in my experience, often the problem of family members educations as owners never arises because the leaders of the family's enterprise never perceive that dynamic steward/conservator/stakeholder ownership is the critical skill needed for long-term enterprise success. Having blinders on about the depth issues of one's life, whether as an individual or a family, is to be profoundly in illusion or entropy as I have come to understand. Instead of teaching ownership skills, many of these families fight endlessly over who gets to manage the enterprise, thinking that this is where success lies. In this fight, the family often makes two tragic and deeply entropic errors. First, it eventually selects a manager from within the family, who is not called to management as a life journey but who is rather simply good at intrigue. In many such cases this just helps the family's enterprise founder replay Shakespeare's King Lear, with its tragic consequences to his or her family. Such a family member manager, without management as his or her calling in life, in competition for success with all other managers in the domain of the enterprise's business, will gradually lose that competition, as he or she battles with other managers, whose live's callings it is to win such competitions. Choosing this kind of management turns out to lead to the gradual weakening of the competitive position of the business enterprise and all too often to its failure. Alternatively, and in a second path of error, the family, to avoid the conflict of choosing among competing family members selects external management as a weak compromise of its unresolved conflicts. Such management, sensing correctly, that it does not have the confidence of the family's ownership, since it was not the family's first choice for leadership, elects not to advise the owners of the difficult risks they need to take to face their competitors dynamically. Why? Because this management does not believe the divided family owners will back them up if they suggest taking the risks that the business environment in which the family enterprise is operating requires. As Abraham Lincoln said, "a house divided against itself cannot stand".

So what do I hope you now know? That it is competent and thoughtful ownership, not management, that determines the fate of family enterprises and that under or uneducated owners lead inevitably to the entropic downfall of their family enterprises. Within this reality we can begin to understand why only 15% of the family enterprises reach the third generation of the family that founded them and why only 30%[7] of the succession plans developed for family enterprises actually work. With statistics like

[7] While this first statistic is widely cited, for this second proposition see page 161 of "*Preparing Heirs*", by Roy Williams and Vic Preisser.

these, the problems of entropic ownership become a challenging reality rather than just an interesting theory[8].

So what wisdom can Organizational and Management Science provide families who wish to try to avoid the outcome for their families and their enterprises that these statistics foretell by helping define the path of the owner? I would suggest that these two sciences offer many helpful responses to the enumerated list of failures, as well as the skills and practices needed to address the educational deficiency that brings on these sad realities. I will offer these responses in generally the same order as I listed the failures, with some responses covering a number of the failures, in the hope that each failure can find an antidote to its prescripted disease.

First: As I discussed previously, individuals who are members of families with significant financial capital, whether with or without active business enterprises, frequently have as many as 21 or more different relationships within their families, either as family members or as participants in roles within their families' enterprises. In their enterprise relationships, whether through corporations, LLC's, LLP's or general partnerships, they, together with their family members, generally represent a majority of the financial capital invested in that entity, thus they are the principal owners of that entity. It will come as no surprise to readers who are in similar positions, and their advisors, that at present it is a *very rare* occurrence that with the creation of one of these entities the education of its owners on how to become excellent dynamic steward/conservator stakeholders of that entity comes automatically. In fact, normally no education of any kind occurs. This is not to say that whoever is chosen to manage the entity is not educated about that role. In fact, almost as often as owners are uneducated, management is extremely educated. This imbalance of knowledge sets up governance conversations in which the parties have no common ground of knowledge or vocabulary to use with each other. The confusion that results is natural and the loss of financial capital which results predictable. As I pointed out above, in the list of reasons for failure, management's knowledge and experience does not create similar knowledge and experience in the owners, just because management understands its role. It may be true that Athena, wisest of all Greek gods, was born fully adult and wise from the head of her father, Zeus. However, it is not my experience that Zeus is available to owners for such birthing with wisdom.

Owners must receive the education they need to understand the strategic roles cast for them in the rules and systems governing the operation of a family enterprise. They must be educated particularly on what the roles and responsibilities of a stakeholder owner are and are not and specifically on their responsibility to take an active role in the governance of the entity, as opposed to the more passive role of a shareholder/investor owner who waits for his dividend check as an infinitesimal percentage owner of Exxon.[9]

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[8]There is no doubt that many of these businesses are sold successfully and contribute to this statistic. However, fewer are sold at the prices they would have commanded, had they had great owners, than the statistic reveals.

[9] Readers who wish to see a short list of the beginning functions I feel owners must learn should look at a Reflection called The Roles and Responsibilities of the Owner of a Family Enterprise.

Management's tasks are tactical and dynamic steward/conservator/stakeholders's tasks are strategic. Owners who ask managers to take over their duties lose connection with the governance of their financial wealth and incur the entropy that befalls any absentee owner of any asset. All too often such owners ask their managements to serve in strategic roles that may have nothing to do with their manager's callings to manage or their educations to do so. Management is a *science* for which one can get a degree in Business Administration, ownership is an *art* as all true entrepreneurs discover. There is no reason I can think of to support the view that a calling to management is a calling to entrepreneurship. Even if a particular manager of a particular family enterprise was gifted with the skill of an entrepreneur, how will the owners know how to function in governance of the entity if the same person is fulfilling their own roles as owners and management's roles as well.[10] Clearly, the poor boundary issues of such a business relationship will cause significant friction within the governance of that entity, friction that is a form of entropy. What works best is when the owners are educated from the beginning, on their roles and responsibilities toward becoming dynamic steward/conservators/stakeholders of that particular family enterprise. To the extent they are educated to fulfill their proper and expected role in the entity's governance it will function more effectively and the possibilities for the success of that enterprise will be enhanced.

It has often occurred to me that failed governance of family enterprises occurs when the fundamental rule that form follows function is abrogated. As an example, many professionals often help the families they serve organize the proper legal *forms* of the practices they need for the management of their financial enterprises, while ignoring the *functioning* of such structures, when they fail to educate its owners on how to make them work. These professionals presume that because they know how such enterprises work and the family's managers who hire them know how they work, that all of the family members who will own them will also know how they work. Frankly this simply isn't true. A moment's thought on these advisers parts about the reality of who actually knows what about how the entity functions, as opposed to its appropriateness in its legal form, would avoid the risk of significant financial capital entropy that flows from lack of owner's education. Their awareness could turn that risk into growth, just by providing the family owners with the education they need to make the governance of these structures successful. So education of owners to become dynamic steward/conservator/stakeholders of every family entity is the first step in avoiding the catalog of failure set out above.

Second: every family member of a family of affinity, whether born, married or invited into it automatically becomes a participant in the stewarding/conserving/stakeholding role of owner of the family's enterprises, whenever he or she joins the family.

Many families fail to perceive this reality, basing their view of ownership on the principle of "who holds the gold rules". Every family must recognize that every family

[10] For an excellent exercise on the problem of boundaries in family enterprises and how to discover and manage them, see Lee Hausner's and Ernest A. Doud's "Hats Off to You."

member, regardless of physical ownership of a family enterprise, is a member of its governance system and thus deeply intertwined with the governance of every entity affected by the family's governance system. Failure to understand who is in the system leads to the education, if any education occurs at all, only of those who own direct interests in the enterprises. This system deprives those who may own the enterprise in the future of that education, as well as diminishing the overall competence of all the family members to fully participate in the owners' decisions that will be directly, or indirectly, the focus of the family's governance of its financial capital.

Families that recognize that teaching, all family members to become dynamic steward/conservator stakeholders of the family's financial capital, increases the family's store of knowledge, as it increases the intellectual capital of its members, perceive how to make highly valuable additions to the family's asset base. Such families also appreciate that an increase in understanding by each family member of how the family's financial capital is owned and managed will enhance each family member's ability to participate in its governance and increase the likelihood of it enabling financially enhancing decisions. Getting all family of affinity members to an equally high level of education on the nature and function of a dynamic steward/conservator stakeholder owner in the governance of the family's enterprises reduces the risk of poor decision making while increasing the probability of its success by an equal margin, a major reduction of enterprise risk.

Third: Earlier I mentioned the positive difference in long-term results for a family's enterprise, if it has active stakeholder owners as opposed to passive shareholder owners. Here I would like to add that management's capacity, in fact I believe also its interest, to manage the family enterprises dynamically, will be heightened by reporting to active stakeholder owners. Management's calling is to bring to life the owners' entrepreneurial dreams, not to bring to life its own dream. When a family enterprise has owners who feel that they are stakeholders in bringing to life the dream that that enterprise was given as its birthright and who actively participate in its governance to do so, that enterprise is likely to be dynamic. That enterprise's management in turn will be stimulated by the owner's efforts to bring the dream to life and be energized by that process. Sadly, family enterprises dominated by passive shareholder owners are often reflections of enterprises in which the owner's dream that founded the enterprise has gone flat or disappeared. No new dream has emerged, and the growing stasis of the enterprise reflects the lack of dynamism of its owners. The managements of these enterprises will themselves go stale as they realize that there is no dream to bring to life since the dream vanished with its earlier stakeholder owners. In this case good management will leave and poor management will thrive as the whole structure slumps into the land of Lethe. Families who practice stakeholder ownership, and thereby practice dynamic steward/conservator/ ownership and leadership, will positively attract to their family enterprises managements who will be energized by them and whose energy will reciprocally enhance the family energy. This is the positive spiral of entrepreneurial energy family owners need to overcome the entropic failure to which they and the enterprises they own will otherwise succumb.

Fourth: From Evolutionary Biology we know that the code for life lies in the double helix of "DNA". Risk and its double helix partner Reward spiral on forever together as the code for the dynamic steward/conservator/stakeholder process of ownership. Families seeking to avoid the failure of their family enterprises seek to understand this never ending and ever changing conundrum of how much risk to take to achieve the reward of growing their family enterprises each year. They seek to govern their enterprises so that they are slightly more profitable than the year before, so the power of compounding, can work its powerful magic for their family's long-term success.

Today we have many economists whose professional lives are occupied with trying statistically to prove that their system of managing risk and reward will equal "Goldilocks'" perfect ability to consistently know when risk and reward are in the exact balance necessary for continual non-volatile growth of financial assets. So far none have done so. Each of their efforts hopefully, however, adds to the increasing probability that we are getting closer to "Goldilocks'" golden formula and the Holy Grail of investing it represents to all investors.

What rules have I observed that seem to guide the most successful dynamic steward/conservator/stakeholder owners in managing this conundrum?

- They recognize that taking no risk puts a fortune into inertia, with the family's capital losing its spending power and thereby eroding its capital base. This is an even more a critical problem for trustees, which I'll discuss below. Equally, acting hubristically, by believing that one can beat the markets' odds, is to gamble, not invest, and, to fail to remember, that the house always comes out ahead of the gambler. These investors seek to act dynamically, within the rules of prudence that modern portfolio theory teaches, while noting that no theory including this one is ever infallible. They use this theory like a pressure cooker's valve, to be sure that their investment pots are steaming with energy, but not blowing up.

- They recognize that as stewards they must do Seventh Generation thinking if they are to honor the future, so they will take the risks that will permit their financial capital to meet the needs created by the likely growth in members of their family, their demography (an extremely difficult task).

- As stewards, they help their families understand risk, by using their family stories to inform their families about the risks taken by earlier generations to achieve the current rewards their families are enjoying.

- As stewards, they take serious advice about the investment environments of the future from the wisest people they can find, whose experience represents the highest level of success in understanding and practicing the science and art of investing. They often evolve these advisors into a strategic investment committee for long-term guidance.

- As conservators, they recognize that they are required to meet the conservators' credo, "to pass on to the next owner whatever comes into my hands as conservator in equal or better condition than the condition in which I found or received it."[11]

Combining the dynamism of the steward's sense of the family's history and future and his or her willingness to take serious advice on the art and science of investing and the conservator's credo of maintenance and improvement of what he or she conserves, all in a controlled way, offers family owners a deep insight into the process of managing their double helixes of risk and reward. In an intuitive way, by combining my five propositions, they bring "Goldilocks" to life, as a member of their family's of affinity and use her unique gifts to find the point of risk and reward "That's just right"!

Fifth: Many succession plans[12] for the continued control of family enterprises for two or three generations beyond the life of the founder are based on placing the owner's interest in the enterprises into trust. In my career and in my father's career, we frequently suggested such plans to our clients. However, my father taught me that there is a shadow side to the clear benefits of trusts as succession devices. The issue is that trustees, by law, are not permitted to take the same investment risks as stakeholder-owners. This investment rule evolves out of the fact that trustees, as fiduciaries, are acting for others, the beneficiaries, and not for themselves. As fiduciaries the law requires them to act as prudent investors so as to conserve the assets of the trust for the lives of their beneficiaries and the remaindermen of the future (those who will receive any assets remaining in the trust on its termination). As the rules of prudent investing have evolved, trustees have been counseled, that while the law permits them to make any investment they deem prudent, the word suggests that higher levels of risk, such as investing for example in areas such as private equity, oil and gas, and real estate investments and particularly investing in early financing rounds of these types of investment, are not likely to be "prudent". Further, trustees are taught that broad diversification of the assets under their control is the best way to meet their duty of prudence. This policy translates into a risk/reward program that often and properly (since they are dealing with someone else's money) provides for less risk and thus less possible reward. Less risk then is often taken by individuals and particularly entrepreneurs, who are willing to concentrate all of their fortunes in their active enterprises, all toward greater reward. The entrepreneur's policy of concentration, if implemented by a trustee, would legally be "per se" imprudent

[11] I also believe that they develop excellent sell strategies to know when to take profits, but even more importantly when to cut their losses. I put this as footnote rather than a bullet, since my view is more experiential and intuitive than certain. However, all the greatest investors I've observed made their money on the sell side, even though almost all the investment books I've found emphasize the buy side.

[12] Had they been considered *transition* plans much harm might have been avoided. I wish I'd learned this truth 40 years ago. As you the reader knows families have long transitions that matter to their success while no transaction will make any difference in their 150 year journey to avoid the shirt sleeves to shirt sleeves proverb prescription! Succession is a form of transaction!!

and raise a serious risk of the trustee's surcharge by a judge, for any trust losses should it fail[13].

Additionally, prudence in investment is often equated in law with diversification, the idea of not having all of ones eggs in one basket. The principle that diversification, assuming it's thoughtful, equals prudence lies at the heart of the law's view of what is prudent. This reality leads all trustees to seek to diversify their investment portfolios as much as possible. In the case of family trusts, holding single or multiple closely-held enterprises, the trustees, whether explicitly or implicitly, will try to diversify away from such positions by selling them, a policy directly contrary to that of the entrepreneur's.

Since trustees will always be sellers, again whether implicit or explicit, in order to protect themselves, a significant tension arises in setting the trust's investment policy, over whether their concern about their liability for lack of diversification and thus imprudence or the enterprises possibilities for greater reward if the trusts investments remain concentrated in it should prevail.

Whenever such tensions arise, entropy enters the system since such tensions interfere with clear decision making. Entrepreneurs, when competing with trustees for reward, have no such tension and will, therefore, be likely to prevail in competition with trustees in the market place.

So here is a paradox. The reality that, while many family business founders choose trusts as the vehicle for the ownership of their enterprises, (believing that maintaining long-term control of these enterprises in the hands of family owners will most help their family's grow their financial capital,) *the legal requirement that a trust be invested prudently and thus diversified, may make a trust, as an owner, the wrong vehicle altogether to maintain the dynamic ownership needed by the enterprise to enable it to take the higher risks it needs to achieve success.* The tension between the human and fiscal benefits of trusts with the investment limitations imposed on them by the trustee's need to exercise prudence, particularly in the case of a trust's concentration of ownership in active business enterprises, is a reality that many families don't see or experience until the trusts have existed for many years, and the trustees have years before ceased to take the risks necessary for them to continue to grow.[14] So far I have found no perfect answer to this paradox, and I believe rightly so[15]. Why? Because the trustees as round hole investors find the continued ownership and thriving of the business a square peg problem, as they try to fit the business

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[13] The term "per se" is Latin for absolutely and the term surcharge means the trustee paying back to the trust, out of his or her own pocket, the loss suffered by the trust due to the trustee's imprudence.

[14] This paradox reminds me of a scientific study of a similar problem. If you place a frog in a 175 degree water he jumps out. If you put him in 71 degree water and increase the temperature every ten minutes by 5 degrees, he eventually boils! Perhaps, better to avoid the long term investment entropy being hidden here in a trust, by accepting the short term high pain of not creating a trust that seems to have such significant immediate benefits.

[15] I am finding that for families of great financial capital, a private or limited purpose trust company can reduce this tension measurably.

enterprises' need to take risks into their investment responsibilities of managing the trusts' assets within their legal duty of prudence.

My legal colleagues will often suggest that drafting a trust properly will significantly reduce this tension. They suggest that the trust deed give the trustees special permission to retain closely-held active business assets and to make further investments in them and direct that the trustees need not diversify away from such investments or diversify at all. I agree that such language helps and have often drafted such language into the trusts I wrote. However, even with this language, I have never met a trustee, including myself, who, when advised by counsel of the duty of prudence, did not thereafter, implicitly or explicitly, seek to find a way to diversify the trusts' portfolio. While I appreciate that entrepreneurs, who found trusts to achieve long-term family ownership of their businesses will not like to hear this, it is true. The words and desires that trust founders express are deeply important but legal risks to one's own assets (read the trustee's fear of surcharge) will always trump them.

While there may be no perfect answer to this paradox clearly knowing about and taking it into consideration when planning for the transition of a business enterprises' ownership and control will shift the probabilities of finding the right transition plan and the correct risk and reward profile for the enterprises success. Trusts solve some problems while raising others. Finding the balance is the task of great family leaders as they seek to be dynamic steward/conservators working toward strengthening the family's financial capital.

Sixth: A partial solution to the trustee's legal dilemma, in trying to manage risk and reward within a trust that owns an active family enterprise, often comes from having enlightened beneficiaries who see themselves as the real stakeholder owners of the enterprise. Under trust law, in most cases, if the beneficiaries of the trust are all adults and of sound mind, the beneficiaries can release the trustees from the normal levels of risk governing the trust, thus permitting the trustees, if they choose to do so, to take more risk than normal. This legal principle recognizes that, as the trustees are ultimately accountable to the beneficiaries for their actions, the beneficiaries can determine in advance how they would prefer the trustees to act and release them from liability for that action if the trustees follow their requests. This reality would appear to solve much of the problem in the trusts tension discussed in "Fifth" above. Sadly it does not in most cases. Why? Because as with so many other relationships in families of financial wealth, family members find themselves in this role we call beneficiary, by dint of birth or marriage but not by choice, and with no education on the roles and responsibilities required of someone in that position. In my experience, among all of these "we" relationships the lack of education of beneficiaries stands alone as creating the greatest risk to a family's long-term success. The reason I make this very bold statement is because, in my experience, the largest proportion of a family's financial capital in families of significant financial wealth is placed in trust to "solve" tax and control issues. If I am correct that my experience and that of my colleagues is true, that trusts are the most frequently chosen means for families of this type to resolve the questions posed in transition planning, then the most critical question for the success of these families' plans must be whether the beneficiaries and trustees can manage their relationship excellently. Clearly if they can't the entropy of a failed relationship will eventually doom the plan the trust was designed to foster for the dynamic preservation of all of the family's various forms of capital. In three Reflections[16] I posed the questions I believe are most likely to lead a family with trusts to a more successful outcome. The critical questions posed in those essays are all questions of governance of the relationship between the beneficiaries and their trustees, and specifically the necessity that the current beneficiaries be dominant in the process of trust governance up to and until the trustee feels that in his or her or its discretion he, she or it must act in a certain way to protect all of the interests presented by the beneficiaries and the remaindermen. Perfect beneficiary /trustee governance should never require the trustee to exercise its discretion in a way that feels to the beneficiaries like a "veto". These essays stress the reality that today, as in the past, there is no one path of education that beneficiaries can follow to become great beneficiaries. What is clear is that education of beneficiaries about the "function" of the trust, that it exists to enhance their lives, and about how to play their roles within its system of governance, rather than education about its "form", will enhance the process of beneficiary/trustee governance. This is education that increases the likelihood that the trust will be generative in the lives of its beneficiaries and thereby generative to the family and its enterprises.

Beneficiary education is not a panacea for the failure of family enterprises held in trust to thrive, but it is a critical positive requirement for enterprise success. How can an enterprise owned by a trust thrive if its de facto owners, the beneficiaries of the trusts that, de jure, own and control it, are absent from their roles in trust governance or worse have been rendered dependant by their trustees instead of independent? These are deep questions and beyond the scope of this chapter. Suffice it to say that without excellent beneficiaries, who can fully participate in and approve the risks their trustees are taking, a trust will become entropic, that is its energy will rundown, as its trustees avoid making any decision which puts them at risk. As this process of avoidance becomes embedded the growth of the family's enterprises will, in my experience cease and the family's financial capital will enter a period of long-term dissolution.

Seventh: The issue of succession (please read transition) in family businesses occupies many leading academics, management consultants, organizational dynamics specialists, attorneys, accountants, and a myriad of other career coaches, counselors and pundits. Unfortunately, as I mentioned above, seventy times out of a hundred the succession plans and systems they develop for a family don't work! The consensus of why they don't work is that the "rational" science they offer can't overcome the "irrational" human behavior they are trying to guide and modify. The various human behaviors at issue here are dealt with in depth in the Chapters on Psychology in my book, "Famility"and the books cited throughout this Reflection.. Many are also covered later in this chapter in the books cited here. Here I simply want to say that the issues I've already addressed lie at the heart of the matter,

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[16] See Reflections, The Trustee as Mentor, The Trustee as Regent and The Unexpected Consequences of a Perpetual Trust. They can be found at www.jamesehughes,com.

a) failed ownership as a result of decisions made by family members who lack education about the roles and responsibilities of owners and the different roles and responsibilities of management;

b) the complex issues of learning how to govern multiple relationships, which one inherits rather than chooses, especially that of beneficiary and trustee; and

c) that management is a personal question of calling while ownership is a process of becoming a dynamic steward conservator stakeholder

This is not to say that the family's system and particularly its governance system, with whatever state of order or chaos these systems are in, are not deeply involved with how successfully the family is able to carry out its role as dynamic steward/conservator. They are. Rather, it is to recognize that the failure of particular relationships within that family system are at the heart of why these systems go into chaos and fail to provide the positive successions (read transitions) of leadership family enterprises need for success. While failure has been the prevailing reality for family enterprise succession planning, remember, 70/30, are the odds in favor of failure, I believe that the wisdom offered by a number of great minds in the domain of organizational and management science can very powerfully reverse these odds. I make this statement with the proviso that these ideas are fostered, developed and used within the family ownership system in an educational process that begins at least ten years before the next likely succession transition. I see these ideas as creating a curriculum which, once experienced by the current adult generation of a family remains forever as a part of a core curriculum, taught to every rising generation of dynamic steward/conservator/stakeholder owners. I'll speak more about family transitions below, here I simply want to point out that if a need for succession occurs without the process for such a succession being seen as linked and integrated with all the other long-term transitions the family's system is evolving to manage, it will not be successful, beyond possibly solving whatever short-term issues that family enterprise faces at that moment. In other words, succession will be seen as a transaction to be accomplished to solve an immediate problem of that enterprise rather than an integrated act within the family's long-term strategic goal of dynamically preserving its financial capital. Seeing succession as a transaction is likely to produce one kind of candidate for the leadership while, seeing succession as part of a 20 to 50 year long-term plan for the success of the enterprise may well produce a very different candidate, a candidate much more interested in long-term bridge building to provide a way of consistently crossing the river of risks which threaten the enterprise instead of a candidate who quickly finds a low point in the river to ford it but offers no long-term solution to the risks it poses. Transitional thinking is Seventh Generation thinking, while transactional thinking is its antithesis.

Perhaps the best story I know to illustrate this point is my father's process of welcoming a new CEO of a company on whose Board of Director's he sat. He would go up to that person and congratulate her or him and then immediately ask, "Who is your successor?" Dad knew that the answer to this question should be the principal occupation of the new CEO, beyond all other issues she or he would face. Dad felt that the overarching importance of this question to the success of an enterprise was true in all forms of enterprise but he felt it was particularly an issue in family enterprises. He believed this because his experience taught him that the science of succession (transition) planning was deeply appreciated and studied in public enterprises as a result of the life choices and the experiences of their shareholders, boards, and management. This experience resulted in recognition of the importance of succession to the long term well being of the enterprise and therefore kept the question of succession high on the agenda of every meeting. However, in family enterprises he saw that very few inheritor owners were educated on these subjects, nor were they part of family cultures that nurtured this learning. As a result, families of this type feared the subject of succession appreciating the risks it presented but having neither the education nor cultures to deal with it. The result was that their strategic agendas rarely included this question, until events outside of their control and often when they were least able to deal with them, forced succession onto them. Their failed successions demonstrated my father's concerns and his wisdom.

The science in this field has great powers to help with the succession (transition) issue. I'll now mention a few of the voices that have been my mentors and teachers, in helping me form my views of how to help family's achieve positive transitions for the leadership of their family enterprises. It is my hope that families and their advisors will use each of these books as building blocks in a curriculum that will lead to the education on this subject their family members need to achieve successful transitions and to the creation of a culture within their families that assures that future generations of their families will be prepared to deal with this question in the most sophisticated and enlightened way.

- Kelin E. Gersick, John A Davis, Marion McCollom Hampton and Ivan Lansberg in their book "*Generation to Generation,"* give us a deep insight into the Venn diagram that shows the interlocking of the three fundamental elements that make up a family enterprise's system, the family, the board as representatives of the ownership, and the management. Their book defines and illustrates each of these elements in depth and shows how completely interconnected and interrelated at all times these three independent systems are, in the efficient dynamic functioning of a family enterprise. They also make clear that the family enterprise's leaders must manage all three sets of relationship excellently as independent entities. Most importantly they emphasize that the family's enterprise leadership must as its highest strategic responsibility, manage the system to assure that all three elements interlock, interconnect and interrelate dynamically and not chaotically if the family enterprises are to achieve enhanced successful governance toward long-term thriving, I chose this book as the first building block because over the years it's the book I have given away most often as the starting point for family education on this subject.

- Ivan Lansberg in his book, *Succeeding Generations,* offers an additional vision to that explored in *Generation to Generation* and this is the notion of the founder's dreams and how it works its will and way in the long-term life of the family's enterprises. Lansberg's notions of how a dream is born and whether and how its power integrates into a family or group are compelling. Equally his insights into how the dream's energy plateaus and dissipates herald the power of entropy. Lansberg also deepens our insights into the terms, Founder, Sibling Partnership, and Cousins Consortium, as definitions for us of the first three generations of the family governance system of a family enterprise. Lansberg here, as well as he and his colleagues in the earlier book, define and explore a three generation evolutionary process they see in family enterprise governance using these three terms to describe the three first generations. He and they go deeply into the behaviors and systems of each of these generations and offer profound guidance on what are their likeliest behaviors .[17] Lansberg and his colleagues' wisdom on the evolution of this process and on the behavioral issues which can stall or abort it should be required learning for every family member who is or might ever be in the ownership system of a family enterprise.

- John L Ward's book *Creating Effective Boards for Private Enterprises* on the creation. function and operation of family boards of directors is the bible on this subject, read it, discover its wisdom, and integrate its deep insights into your family enterprise's governance system.

- John L. Ward's and Randel S. Carlock's *Strategic Planning for the Family Business* offers deep learning on the multiple facets of managing family enterprise organizations, as does David Bork's, Dennis Jaffe's, Samuel Lane's, Leslie Dashew's and Quentin G. Heisler's *Working with Family Business* and as does Fred Neubauer's and Alden Lank's *The Family Business*. All three are useful works, to enable a family's understanding of the questions it needs to consider in organizing its family's enterprise governance systems to achieve their highest functioning.

- Burt Nanus's book, *Visionary Leadership*, explores how an organization forms its vision ahead of forming its mission. Nanus's insights have profoundly affected my work with families. Before I read his book I had worked with a number of families on their Family Mission Statements. Frequently the resulting statements didn't really inspire them or their work and ended up as dust catchers on the desks of family members. Nanus informs us that all successful systems of work must be founded on a

[17] Lansberg and his colleagues suggest that every generation of a family after the third constitutes a new Cousins Consortium, an idea with which I completely agree. I would add to their work the question of the formation of clans in the third generation, "the inflection" point in family life where all members did not grow up under the same roof and where many new stories from other families based on different ideas enter the system. The issues of the consortiums of the fourth and fifth generations and the horizontal social compacts formed by these generations pose interesting problems for family enterprise succession that I am hoping Lansberg and his colleagues will address in the future.

common vision, shared by all who are a part of such systems. A vision they see together of why they exist so those who are within their systems will know what they are seeking together to accomplish, all so the work they do, their missions, will be most successful. After reading and absorbing Nanus's work I changed my process with families to encourage them to write Family Vision Statements before proceeding on to the writing of Family Mission Statements. As Nanus prophesized, the result is families who are actually using the vision statements they write and thereby benefiting significantly from their work together. Finding a common vision, what all of us see, is the first step in any common endeavor. This truth should be self-evident, but in my experience rarely is. Getting the beginning right, as my father taught me, is critical for a successful journey. I have found that if a family commences any work it does together by taking the time to determine its common vision for the long-term outcome and success of that work, the results of that work will be better than if it begins in any other way.

- Jeffrey Sonnenfeld's book, *The Hero's Farewell* offers four paths for the succession of leadership in a family enterprise. Each path is fully explicated with the likely outcome to the enterprise's success or failure clearly delineated. Not surprisingly, Sonnenfeld shows very clearly why the paths of the "Ambassador" and the "Governor" lead to higher order successes in enterprise transition than the paths of the "Monarch" or the "General".[18] I give this book regularly to first generation family founders and ask them to decide which of the paths best describes their method of leadership and their views on succession. I also ask them to consider the potential outcomes of their current programs of succession (rarely do they see these as transitions!) in light of Sonnenfeld's predictions on their outcomes. My gifts of this book have also lead regularly to my not hearing further from men and women who as "leaders" are happily flowing down their personal rivers of hubris and narcissism to the death spirals in the waterfalls at the ends of their journeys of the enterprises they lead as "Monarchs" or "Generals". The journeys of the "Governors" and particularly of the "Ambassadors" have lead to further very fruitful conversations and transition plans that frequently succeed. Sadly the 70/30 principle is reflected in who continues the discussion and who doesn't. Another aspect of Sonnenfeld's wisdom, although not as deeply explicated, is the truth that for the full growth of a human being he or she must journey fully through all the stages of life, including most importantly the third stage, of moving from doing to being, from worker seeking calling, to elder offering wisdom, the evolutions of life reflected here positively by Sonnenfeld in the journeys of the "Ambassadors" and the "Governors". In these two of the four roles there is a partial or

[18] I will not further define these terms, but rather leave it to you to read the book to see how Somenfeld describes to a "T" the four human personality types we find at the head of enterprises.

complete transformation of the leader from one state to a higher state of his or her being. Transformation, with a concomitant positive affect on the enterprises she or he leads, as space is made for the next leaders in a gentle open welcoming evolution instead of in a tumultuous process forced unwillingly on the enterprise by the inability of the leader to go through her or his own transformational process. The inability of a leader to move to the next natural developmental stages of his or her life causes the energy of the organization she or he leads to freeze, reflecting the frozen nature of its leaders own evolutionary process. Here again entropy is hard at work.

- James Collins's book *Good to Great.* This book offers a look into ten immensely successful companies. Collins offers the stories of why these particular companies and only these companies among the thousands be surveyed could meet his definition of companies whose journey took them from being good companies to being great ones. In nearly all cases it is because they had a transcending idea greater than the ideas of their competitors and a transformational leader who not only believed that idea, whether it was his or he discerned it from someone else, and whose creativity brought the idea to a higher order of life. The stories of these companies and their leaders offer instruction on the process of enhancement of the normal lives of business organizations by enlightened leaders who could take their businesses to the highest ground in their fields and then go on to higher ground often never imagined by their competitors. These are illustrations of great value to the learning of dynamic steward/conservator/stakeholder owners of family enterprises.

- B. Joseph Pine's and James H. Gilmore's book *The Experience Economy.* This book has influenced my thinking about where profit lies in economic terms more than any other book I have read. The authors suggest that there are five strata of economic activity, each with a higher margin of profit. The strata in ascending order are: Commodity, Craft, Service, Service with Education and Experience. In this hierarchy they explain in detail what profit each stratum yields for one's economic efforts. I am not going to describe these strata except in the case of an example of an Experience. The authors use one's arrival at Disney World as a metaphor for an Experience. They explain that while you are still in the parking lot of Disney World, you pay $50+ a head to gain entry to the park, just for the transforming experience you expect to have inside, albeit that you have not yet had any experience at all; and are currently surrounded by harried adults and screaming children. A remarkably powerful insight into what consumers crave. For owners of family enterprises the lesson is to ask yourselves whether your customers and your managements and your employees all have positive transformational experiences by virtue of their connection to your family enterprise. A thoughtful question indeed! And with significant profit to follow not only in monetary terms, but in the human and intellectual experiences of each group as it connects to your enterprise and your ownership. "Stickiness" is a term now in use in business for how tight and long-term a businesses' relationships are with its customers. I believe it is also a very good test of the quality of owner's relationships with all of the other constituencies they influence, their employees, managements, suppliers, communities and all other groups with which an owners' enterprise is interconnected. To me, this word at its highest level of meaning is defined as loyalty and at its lowest as fly paper. Long-distance running family enterprises need great loyalty from all of their constituent parts if they are to succeed. It will be in how these enterprises are experienced, in their interactions with each of their constituents, that their outcomes will be determined. If they are sticky because of the unusual loyalty of their constituents, it is likely to be because their constituents experience them as positively different from their competitors and in some cases that experience might even be transforming. I think James McGregor Burns's view of transformational leadership, discussed below, as opposed to transactional leadership must have been in the intuitions, if not in the intellections, of James Collins and B. Joseph Pine and James M. Gilmore when they wrote their inspired works.

- John O'Neil's two books, *The Paradox of Success* and *Aikido Leadership,* offer important insights into a family's systems and practices. John O'Neil is one of the world's leading authorities on the forms and processes of leadership and I am privileged that he counts me as his friend and that he is one of my mentors. While there are deep insights on every page of John's books, there is one point from each book I feel bears importantly on the set of skills about which family members need to be educated and in which they need to become proficient, to guide their family enterprises. From *Paradox of Success's* chapter on secrets we learn that any organization whose leadership believes it has secrets to be kept from its membership is in entropy and running out of energy. John's point is that a secret unshared with the body of members of an organization asks the brightest of the membership to spend their time trying to discover, it instead of working productively on the work of the organization. John is right! While he is writing principally to the business community I have taken his insight into my work with families and their enterprises as a subject of huge importance to their successful functioning. Secrets are toxic when they lead to this form of entropic behavior. Confidentiality, on the other hand, is a right which all family members individually and as a whole are entitled to expect from each other in safekeeping their most important information and privileged communications. To speak to outsiders or to other family members of things regarded by one's family members as confidential is to destroy their right to have confidence in you and leads to deep distrust. Confidentiality is a virtue in all human relationships and a deep honoring of one another's boundaries and sensitivities. Confidentiality is an appropriate place to repose trust in another, especially in our elders who in their roles as mediators of family relationships must be entitled to keep certain matters confidential to do their work. Families happily grant them the authority to do so because of the trust reposed in them. It does not, however, create the atmosphere of fear and entropy within a family or any other group created by secrets as O'Neil explains. While O'Neil doesn't make this point, I have carried his wisdom forward into seeing that all families have, as do all other organizations, white secrets and black secrets. White secrets are those bits of information in the family context that the family believes are their special knowledge and which they call "secrets". All family members know these bits of information and treasure them as part of the family's special lore. Families keep these bits of information as a part of their special mysteries. Families have throughout history celebrated such special knowledge, in the rituals underlying their celebrations of their "differentness," often through special rites and oaths known only to their adherents. This form of "secret" is useful to the family's cohesion and, as I've said, to its special sense of its differentness. Black secrets, on the other hand, are the kinds of bits of information in a family which are thought to be able to be known only to a special, self-anointed clique. These are the kinds of secrets O'Neil defines as toxic to an organization and in families should be avoided like the plague. There is an ancient saying "clarity to our friends and allies and confusion to the enemy". Black secrets within families confuse the functioning of a family at best and at worst erode a family's relationship fabric, as some family members deem other members of their family's of affinity outsiders by the decision of who knows the secret and who doesn't. Such practices are the antithesis of a family of affinity. White secrets are transparent to all family members but opaque to all others, thus following the admonition of the saying above.

Transparency between the parties to a relationship has become a current byword for a necessary form of behavior for the highest functioning of all of our relationships, familial and societal, and a synonym for trust. Perhaps transparency has always been the basis for the trust necessary for any relationship to flourish. Secrets are the opposite of transparency and have within them the possibility to lead to distrust, as O'Neil teaches. Family leaders depend on trust for their success (doesn't every leader worth his or her salt in the end depend on the trust of his or her followers?) Family leaders who decide they have secrets to keep from their family members are essentially saying I don't trust you! Why then should any family of affinity member follow them?

- In *Aikido Leadership* O'Neil offers families a view of leadership in the form of the leader who is a master of the Japanese defensive martial art called Aikido. In this form of martial art, the master seeks to permit an opponent seeking to defeat him, to use his own energy to defeat himself. The genius of this art of defense is to employ all energy, ones own and one's opponents, toward the protection and well being of oneself. Aikido seeks to deplete the energy of all those attempting to oppose the positive journeys of its practitioner's energy. The Aikido warrior seeks to add his opponent's energy to his own energy by avoiding its lethality and rechanneling it as a positive addition to his own energetic force. Metaphorically, it is a family creating a defensive system for combating negative energy from without or within. First that energy is opposed by diverting its force away from itself by letting it pass by without it wounding it and secondly by taking that energy into itself and thereby making it a positive force for its own self-preservation and growth. A family's Aikido leaders will do this naturally, if a family is willing to recognize that is their leader's ability to convert defense to offense that is the preferred way for a family system to defend itself, especially with the positive energy it obtains thereby as Aikido warriors. This is the opposite of an individual's normal tendency to immediately attack his opponent and misses the deep wisdom that such an attack may waste valuable energy and certainly will not add the energy of ones opponent to one's own. One system risks dissipation of energy while the other cultivates and accretes energy. Aikido leadership offers a model to family enterprise leadership that, in its subtlety, goes deep to discover what works. Aikido offers Western families a way into models of leadership which grow out of the Eastern intuition about how energy flows and of their deep understanding of its benefits when one flows with it and never wastes it by flowing against it. Thank you, John, for the gift to us of both of these books.

Eighth: Family's of Affinity need to understand all of the World's models of leadership, as a part of their family's education toward choosing the model of leadership best adapted to their family's system of governance and to the governance of their business enterprises. As a part of their educations on governance of their business enterprises they need to learn how such systems can transition from the best form of leadership for the founder's generation, to the best form for the next generation as a Sibling Partnership, and then to the third and later generations as Cousins Consortiums. This study will help structure a system of leadership for a family's business enterprises that is both reflective of and integrated into the system of leadership the family selects to govern itself, while offering the enterprises themselves the leadership most appropriate to their needs. Integration of the family's leadership system of itself with its system for governing as the stakeholder owners of the family enterprises leads to significantly higher functioning of both systems, as the learned skills of leadership within the family then flow naturally into the governance systems of the family's enterprises.

What are the areas of study of leadership, both of the family and of its enterprises I believe should be included in a family's education on this subject?

- The combat of ideas on what type of leader is best between the two greatest Chinese philosophers, Confucius and Lao Tzu, is where to begin. I believe that the leader from behind, rather than the leader in front, is the more successful leader of a family and of the stakeholder owners of family enterprises once the family moves into its Sibling Partnership and Cousins Consortiums generations. While I can no longer find the quote, I believe I remember reading that Confucius himself said that Lao Tzu's model won the debate between them over which type of leader is best. The ability of the followers of a great family leader from behind to continually say "we did it ourselves" as taught by Lao Tzu in *"Tao Teh Ching"* is the highest commendation any family leader can receive. A good Chairman of the Board of a family enterprise who leads from behind, gently urging all parts of the enterprise system forward yet who is "never seen, never heard, and never felt" will be revered, as Lao Tzu teaches. by that enterprise's owners for over 1,000 years. The study of leadership as it developed in the East, begins with Lao Tzu's, T*ao Te Ching and* Confucius *The Analects and* I suggest family members begin here as well. A reading of Jeffrey Sonnenfeld's chapters on the "Ambassador" and "Governor" mentioned above and Henry Mintzberg's article on the *Quiet Leader* will help acquaint family members with this concept and its powers.

- Sun Tzu's *The Art of War* written sometime between 500-300 BC, is the most studied book ever written on war and the nature of the most successful leaders who win them. Within this study lies great wisdom on relations between opposing individuals, communities and states, at all levels of competition and the results of the behaviors which succeed and of those which fail to win those competitions. Sun Tzu offers a family many important principles of leadership on how to prepare for and engage in competition, whether on the defense against entropic challenges or on the offense to gain greater freedom. Perhaps his greatest gift to a family's study of leadership is his observation that the greatest general is the one who never fights a battle. Never fights either because she[19] has planned so well strategically, long before any particular battle, that she is so well prepared, equipped and manned, that her opponent declares defeat without fighting, or because her opponent is in that superior position and she withdraws to assure her army can fight another day. Here is the leader for whom long-term strategic planning is everything and tactics are a means of bringing strategy to life. A leader who takes opportunity that arises from long-term thinking, Seventh Generation thinking, and who knows that no opportunity that risks the survival of her family, regardless of the reward, is ever worth taking. Any man whose works are read two millennia and more after they were written must be of extraordinary genius and this is such a man.

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[19] My use of the feminine here is to enhance the readers view that successfully surviving family wars is in my experience far more often a gift we receive from our feminine members, founded on their practice of Beauty as Harmony than from our males member's biologically evolved trait of aggression as a conditioned survival response.

- Niccolo Machiavelli's *"The Prince"* is perhaps the most read book on leadership ever written and properly so. In a sense this book offers two models of leadership that of the leader the world sees, the leader in front, and then behind him or her the great leader as number two, the power behind the throne. The study of leadership for the modern Western mind begins here. For the reader interested in the nature of a great number two and of what motivates him or her to make someone else great, see the chapters on Privy Councilors in "Family".

- Families can learn much from James MacGregor Burns's book, *Leadership,* and its distinction between transactional and transformational leaders. Families need both in their family enterprises as they do in their families. However, generation after generation, families need transformational leaders "*most*", if their enterprises and their families are to successfully achieve the long-terms transformation of themselves they will need to accomplish for their long-term success. Transactional leaders meet and overcome today's issues while Transformational leaders meet and overcome the future's issues. The first helps a family enterprise meet a families need to eat for a day, the latter often doing Seventh Generation thinking, helps a family eat not only for its current lifetime but also plans for the enterprise to provide the food for the lifetimes of all the generations to come.

- John Gardner's work, "*Self Renewal,*" especially on the stages of a leader's life, Warren Bennis's many books in this field, Ronald A Heifetz's, *Leadership Without Easy Answers,* and Joseph Jaworski's, "*Synchronicity*", add to a family's educational process. John O'Neil's, *The Paradox of Success,* mentioned previously, will add immeasurably to a family and its leaders understanding of the difficulties leadership presents to a sane life. Margaret J. Wheatley's, *"Leadership and the New Science,"* is a wonderful lead into understanding the new sciences of complexity and chaos and the nature of leadership they call for.

- Finally, and perhaps most valuable in exploring the question of what constitutes a great leader in the role of steward/conservator, is Robert K. Greenleaf's book on *Servant Leadership*. Greenleaf goes deeply into the nature and process of *Leadership as Service* to those being lead, whether in the form of a family, a social community, or a national citizenry. He explicates the nature of a leader from behind who seeks through service to others, to meet the highest callings of stewardship toward the growths of the human and intellectual capitals of those she or he serves in a leadership capacity. I cannot recommend Greenleaf's book too highly to all family members seeking to envision the form of leadership I believe likely to be most successful in the journey to grow a successful family and its enterprises.

In ending this section, let me add that there is a place for leaders in front and for their transactional skills in winning battles. However, as so many of these wise authors teach, it is transformational leaders who win the wars and even more importantly the peaces. The peace that carries their families and their enterprise's through the long transitions, that represent their struggles toward their fifth generations existences, and who achieve the true greatness that comes from their families and enterprises successes in arriving there, with the strength to imagine and bring to life their next five generations[20]

Ninth: Families must expose and educate their enterprises dynamic steward/conservator/stakeholder owners to the business tools of evaluation and assessment to help these owners know if management and the enterprises they are leading are thriving. At point twelfth below I'll discuss the tool box of ideas and skills I suggest form a beginner's mind's list of things for family's members to learn to become dynamic steward/conservator/stakeholders of their family's enterprises and which will make it possible for them to evaluate and assess the states of energy of their family enterprises. In addition to the general understanding of their enterprises provided by a process of assessment and evaluation, stakeholder owners seeking to know at what level their enterprises are thriving must develop a process for knowing whether management is thriving. Without such a process an owner will be in the dark on the most important knowledge he or she needs about its enterprises management, the state of its human and intellectual capital.

As an example of the kind of questions servant leaders use to assess and evaluate themselves, here's a story of a great one. Edward Koch, while he was the mayor of New York City, asked everyone he met "How am I Doing?" He believed, that as mayor, this was the only relevant question in measuring his performance toward achieving a higher quality of life for his constituents. Koch had the humility of a servant leader to both ask the question and to *hear* the answer, regardless of whether the answers, as a person with an ego (what politician doesn't have one?), were what he might hope they'd be. During Koch's tenure, he was viewed by most New Yorkers as an attentive and positive leader, with the result that he was reelected with large majorities. He is also remembered, even today, as a great mayor. All leaders of family enterprises whether owners or managers in evaluating and assessing their performances could benefit greatly by practicing the form of leadership epitomized by Ed Koch and his great question "How am I doing?"

In my experience, if a family enterprises stakeholder ownership knows where it wants the enterprise to go, by virtue of its vision statement, knows by its mission statement how to get there, has leadership from behind to help it get there, has a process to assess and evaluate that its management is sound and growing and a process for growing great dynamic steward/conservator/stakeholder owners, it will do fine.

Tenth: Families should seek to enable their dynamic steward/conservator/stakeholder owners in each generation to develop their own dreams for the goals of its enterprises as the family and its enterprises evolve past the dream of

[20] For those readers seeking American historical examples Generals Sherman, Grant and Patton were transactional leaders; Abraham Lincoln and George C. Marshall transformational leaders. For other readers please substitute these two kinds of leaders for your culture and history.

the founder/creator generation; this so that as the founder's dream dissipates, it does not leave management with a historical rather than a current dream to manage.

Earlier, I mentioned Lansberg's work on the dream of the founder/creator and how the enterprise reflects the living out of the dream. Family enterprises are the spawn of the dreams of family founder/creators, whose dreams' successful fruitions eventuate in the creation and growth of a family's financial capital. Since any human being has her or his unique dream and since no person can cognitively dream another's dream, why should any later generation family member seek to enable the dream of an earlier generation at the expense of his or her own? This reality poses a serious conflict in the development of a family over whose dream should predominate. All too often this conflict emerges in an entropic way in the life cycle of the family's enterprises. Entropy here being reflected in a failed process of enterprise evolution when the original dream that gave the enterprise birth fails to give way, to enable integration into the family and its enterprises of the emerging dreams of its current generations. This failed process often occurs because the families older generations successfully abort this natural process by not permitting these new dreams to replace the old. This process need not be entropic to the family's enterprises, if the family's dynamic steward/conservator/stakeholder owners are educated to appreciate this reality. Intuitively, anyone living in a family system, founded on an earlier generation's dreams, which now seeks within that system to bring the individual dreams of new members to life, will sense this conflict. The critical question for the family leadership is, whether it identifies these conflicts early and, first defuses them, and then by gentle acts of persuasion, integrates the new dreams into the family's vision, or alternatively, sees these conflicts as challenges to a historical legacy that it must maintain ,even at the expense of its and the family's own dreams. Let me add that in using the term family enterprises here, I am not suggesting that integration of new dreams necessarily be into existing enterprises rather than into new ones; that is a tactical question to be determined at the time the new dreams emerge. Rather, that it is strategic for a family's long-term success that its process be open to the generativity reflected in the rising generation's dreams, in order for the family's system to evolve to incorporate the aspirations of new generations if it is to be positively attractive to them. You'll recall that I believe that a family being positively attracting is fundamental to a its long-term well being. Let me say that not every new dream should be naturally selected to survive in competition with an older one, since nothing says it will more creatively deal with the issues the family and its enterprises are facing when it emerges. Clearly a founding dream that leads to the creation of a significant financial fortune is a very powerful dream.[21] All new family dreams must face the founder's dreams' powerful

[21] The nature of the power of a Founder's dream is often not fully appreciated. Let me offer a view of just how extraordinarily powerful it is. Let's ask each other of the nearly seven billion of us on the planet how often in the morning, of the billions of dreams we dreamt the night before, any one of us can remember even one dream from the night before? Actually very few of us. Next of the few who remember such a dream how many could remember that dream three days later? Very, very, very few. Next, of those who can remember such a dream, for how many will that dream remain in their consciousnesses' to become an idea? Very, very, very, very few. Next for those for whom such a dream becomes an idea, how many of those ideas become material in any form, including, as an enterprise? Very, very, very, very, very few. Finally, of those ideas that materialize, how may produce great financial fortunes? Such a small number of

competition, and, if they survive, will have to be highly robust and strongly generative to long-term family success to supplant it. My purpose here is simply to try to raise the consciousness of families to this natural conflict arising out of the evolution of their families, asking them not to fear this evolution, and asking that they manage the combat of the creative dreams of their different generations toward an integration of the best of them into their systems. This is an area where Seventh Generation thinking by elders can do much to guide the family, by helping it recognize the positive creative aspects of generational change and helping it manage change as a transition, so it energizes the family's system rather than as "olders" impeding it, by ignoring it or actively blocking it, with great risk to their families' well beings.

In my book, "Family," I stated my vision for how a family of affinity seeking to reach its fifth generation successfully (which I define there as greatness in a family) might get there, and that that vision asked a family to imagine its purpose to be the enhancement of the individual journeys of happiness of each family member toward the family dynamically preserving itself. I said that if it could so vision itself, it had a high probability of success. I suggested that every human being's life's journey lies in seeking greater freedom, in the form of greater awareness of self and toward achieving a higher order of happiness and the human flourishing that follows. I further suggested that if a family is to become great, it must be attractive to each new generation, by actively pursuing policies and practices that are perceived by each new generation's members as proactively seeking to enhance their individual journeys of happiness, all toward each of them achieving greater awareness of self. I believe profoundly that this is the process that will lead to a family's greatness. Given my belief I see family enterprises as one of the places in a family's system, where this process of enhancement of individual family member's lives can be practiced by the gradual incorporation of their new dreams into these families' enterprises.

Let me assure readers, as I stated above, I am not suggesting new dreams simply at the expense of older ones, but rather suggesting the fostering of an open system within the family's enterprises that welcomes new ideas while honoring older ones. For me, this is a capitalist's way of thinking and acting that embodies Joseph Schumpeter's deep intuition about capitalism, that it is founded on the principle of "creative destruction". Schumpeter in his book, *"Capitalism, Socialism, and Democracy,"* suggests that creative destruction is at the heart of capitalism and that this concept is reflected in the set of beliefs that guide capitalist owners and in the business systems and processes they bring to life to practice those beliefs. This is a process for the new ideas to be born and integrated into their enterprises they will need to meet the future challenges to their enterprises' well-beings. A process which recognizes the creative chaos new ideas often present to orderly systems. These capitalists therefore assure that the systems of their enterprises be constructed with such flexibility that they can accommodate the new ideas without being destroyed by them. In other words, their business systems and processes are being built so flexibly toward creativity that the new ideas can creatively destroy the

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all those billions of dreams dreamt every night as to be statistically impossible. Yes, these are impossible dreams – powerful in their impossibility - absolutely awesome!!

old without the entity being destroyed in the process. Schumpeter suggests that capitalism is the only economic system that can physically destroy the old and create the new, without destroying itself. The process of creative destruction requires an open system, in which old dreams compete for light with new dreams, all toward the sustainability and strengthening of the organism in which they are competing. This is enhancement of the whole through the healthy competition of the parts. Families, who seek to encourage the discovery, creation, and quest that new dreams bring into their system, do well to practice creative destruction as they reflect that the process of successful natural selection Darwin taught is at the heart of life. Families must honor the dreams of their founders, as reflected in the enterprises their dreams birthed, but never at the expense of the future dreams of later generations, which must be nurtured if the whole family enterprise organism is to be able to evolve to be the survivor of the fittest among all similar enterprises with which it is in competition for survival.

Next, I want to acknowledge a debt I owe to my colleague, Diane Neiman, for acquainting me with a highly toxic form of enterprise disease called Founder's Syndrome. I learned about this disease as I was inadvertently fostering its symptoms in an organization I helped found, which sought to combine the dreams of a group of us, to create a platform for family members to receive the educations that are at the heart of this book. The organization was called The Learning Academy. For three years the Academy flourished and our dreams began to become real. Sadly, in the fourth year our dream began to be rightly challenged by the dreams of the new journeyers who had joined us and we couldn't open our system to incorporate their dreams. As a result, The Learning Academy foundered, as the founders couldn't get out of the way. Much too late I learned that such a result is a common outcome in an organization where the disease called "Founder's Syndrome" enters and freezes its systems and its abilities to evolve. Founder's Syndrome and its sad outcome are examples of what happens when old dreams prevent the new dreams enterprises need to evolve and survive to enter their systems. Failure to educate dynamic steward/conservator/stakeholder owners on the need for open systems within their family enterprises, to permit the emergence and incorporation of new dreams of new family owners, is to put their family enterprises at risk for Founders syndrome and its death spiraling results.

I have been discussing the need for open systems for a family and its enterprises well-beings to accommodate old and new dreams; I will now turn to a particular negative risk to dreams of a particular type of closed system. The risk of a family's closed system holding back its enterprises from evolving from founder/pioneer organizations into homesteading institutions.

In my experience, all enterprises to be long-distance runners have to eventually evolve from their pioneer stages, to their adult homesteading stages. This is the same process of an enterprises' evolution, Gersick, et al, in their book, *Generation to Generation*, describe as the development from First Generation Founder, to Second Generation Sibling Partnerships, to third and later generation Cousins Consortiums. If an enterprise cannot systemically make this journey from one system, that of pioneer, to that of another, that of the homesteader, with all of the governance issues it poses, it will become historic. Each of these enterprises systems starts out as a closed system, bounded by the dream that gives it birth. Getting to its next evolutionary step requires that system to open if it is to succeed. Frequently the original system is so closed it cannot do so and so the system fails and it dies. Gersick and his colleagues chart this process for family enterprises by showing graphically where the overlaps are between each of the three generational systems they explore. They point out that while one closed system is opening and evolving to the next, the enterprise is at great risk. The principal risk being whether the family of the owners and its governance processes are themselves evolving gently and in an orderly evolutionary way from one generation to the next, or in a chaotic process in which those systems and processes are failing. Clearly if the family systems and governance process of the current family are not able to meet the challenges of change posed as the familys' natural generational shifts occur, the enterprise's systems, which are organically linked to the family's systems will fail and become chaotic too. I like to imagine that families and their enterprises, like lobsters need to shed their shells to grow. As with lobsters, when their old shells are gone and their new ones are not yet hard, they are at great risk.

Evolution, and its descriptor Evolutionary Biology, requires all organic[22] systems, once born, to be forever, thereafter, in competition with all other organic bodies, in the competition to survive to adulthood so they can replicate themselves. Pioneers do not normally replicate themselves, unless they can stop moving and start to create families who will live on the lands they have discovered. In this way they replicate evolutionary biology. If the pioneer just keeps going and never settles he disappears historically, unless by some chance a stranger decides to maintain his memory. It is only by settling down that his memory is likely to be maintained in the generations who follow him on that land, thus the need for him to evolve from pioneer to homesteader. Here biology and history teach a reality of the human condition and experience that is foundational to the long-term survival of families and their enterprises. Family owners must be educated about these realities if they are to successfully manage the transition of new dreams into the family systems and family enterprises founded on earlier dreams. The happy reality of families is that, with their oral histories as their glue, no dreams of their founding generations need ever be lost but rather they can be dynamically preserved as the archival lore that sustains future generations about where they came from and how they emerged. Our family dreams are all by definition, those of discovery, creativity and seeking. To lose them is to lose ourselves. Equally to have a system that cannot incorporate into our stories new dreams of creativity, discovery and seeking is to lose our futures. Neither the loss of our past dreams or of our future ones is possible if we are to reach our fifth generations and go on from there. What is true here for our families is equally true for our enterprises; both will need their family stories and the stories of their future generations if they are to be long distance survivors. If our families do this well, the evolution of pioneer to homesteader will occur and the family homestead will itself grow to accommodate larger and larger dreams.

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[22] While we normally do not define enterprises as organic, this is wrong. All enterprises struggle, like all forms of life, to be born and fight with extraordinary efforts not to die. I find that all enterprises are forms of life and their struggles of life replicate those of all other forms of life. Thus for me enterprises are organic.

Eleventh: I am simply going to repeat verbatim the statements I made in the next to last two bullet points in my opening list above as positive statements.

Families whose goals are to reach their fifth generations in good shape and to go on from there must offer to family members in their roles as dynamic steward/conservator stakeholder/owners the wisdom that families have a few critical long-term transitions to manage in each generation if they are to achieve that goal, while no short-term transaction is likely to make a difference in their success except negatively.

Family elders must help all of a family enterprises' owners perceive their responsibility to do long-term Seventh Generation strategic thinking with beginner's minds, instead of management thinking that is properly directed to tactical tasks that are normally and appropriately short-term. Such owners must be educated to maintain the boundaries between these two forms of thinking or short-term concerns will prevail, management's needs and rewards for short-term success will prevail, and, trouble can only follow from such a misprision[23].

Twelfth: As the final bullet point listed in the opening, I suggested areas for the education of dynamic steward/conservator/stakeholder owners and the tools for implementation of what they learn, toward their becoming such owners in their roles as overseers of the family's enterprises.

Here I wish to establish where discussions of each of these areas' tools can be found for those family steward/conservators/stakeholder owners who are interested in going deeper. In all cases family members with beginner's minds can understand these areas and tools as apprentices, without the need of expert assistance. Each to be mastered does require a coach to help develop the skills of that area by fully experiencing all of its possibilities. Only in the case of (l) below, regarding Human Resources, do I have no text to suggest, as this area is one that requires a family mentor, skilled in this field, to provide the experienced learning necessary to do this well.

(a) Family Balance Sheets – see Chapter 4 of *Family Wealth*

(b) Family Income Statements – see Chapter 4 of *Family Wealth*
For learning to read a Financial Balance Sheet and Financial Income Statement see any introductory book on business accounting,

(c) Family Banks – see Chapter 4 of *Family Wealth*

[23] In the Chapter on Privy Councilors in my book, "Family," I discuss in depth the nature of the type of persons families most want to recruit to their service to achieve long-term success. All such people are themselves long-distance thinkers who seek the success of the families they serve, while applying their professional skills to the day to day issues of management needed to bring their families long-term success by making short-term contributions to it.

(d) Modern Portfolio Theory – see Charles Ellis's book, *Winning at the Loser's Game* and, *Creative Capital, Managing Private Wealth in a Complex World* by Gregory Curtis

(e) Investor Allocation - see Chapter 5 of *Family Wealth* – See Ellis's and Curtis's books above, for understanding asset allocation

(f) Vision and mission statements and their need for congruency with the vision and mission statements of the family's enterprises - see Chapter 2 of *Family Wealth* and see Bert Nanus, *Visionary Leadership.*

(g) Rules for family and family enterprise meetings see Chapter 2 of *Family Wealth,* and see Bork, et al, *Working With Family Business.*

(h) Policies on secrecy and confidentiality in family enterprises and the fundamental difference in outcome of each in the success of the enterprise, see O'Neil's *The Paradox of Success,* Chapter 2

(i) Evaluation and Assessment Systems see Chapter 13 of *Family Wealth,* for how to assess a generation of a family and see all business authors mentioned throughout this chapter to assess a family enterprise's thriving.

(j) Family systems theory - see Bowen's Family Systems theory, as explained in Bowen's *Family Therapy In Clinical Practices*, for business systems theory Peter Senge's, *The Fifth Discipline*; and on complexity theory as applied to business; Richard T Pascale, et al's, *Surfing the Edge of Chaos* and Richard Foster and Sarah Kaplan's *Creative Destruction.*

(k) Roles and responsibilities within family enterprises and how to practice them – see Ernest Doud & Lee Hausner, *Hats Off to You*

(l) Human Resources knowledge to learn how to recruit, retain, compensate, and change management, both family and external. The Family Office Exchange, 100 South Wacker Drive, Suite 900, Chicago, Illinois 60606 has much valuable knowledge to share here.

(m) For more information on the governance of trusts see Chapter 14 of *Family Wealth* on the uses in trusts, of terms for trustees, peer review, trustee reaffirmation and Chapter 8 on the uses and roles of protectors, and see Chapter 15 on Private Trust Companies.

While this is a long list of areas and tools it is not complete following the "Bakal rule" and I quote Mr. Richard Bakal, my mentor, that "other" must be added to all lists, as none of us is so wise and accomplished that we may be sure that we have thought of everything! These recommendations are for now, my list of the starting points that I use in developing educational curricula for family owners to enable them to fulfill their service to their families as great dynamic steward/conservator/stakeholders of their family's enterprises. Please add to the list as your family system of education evolves and discovers and creates the new tools needed for your family's success.

I now close this Reflection on the path of the stakeholder owner. I hope my efforts, to help families understand why ownership and not management is critical to their families and their enterprises thriving, were successful in making this reality clear. I also hope that the distinction between transitions and transactions and their different consequences to a family in its successful efforts to reach the fifth generation is clear. Finally, I hope families will see why their greatest leaders are those who lead from behind and seek them out to become their elders.

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