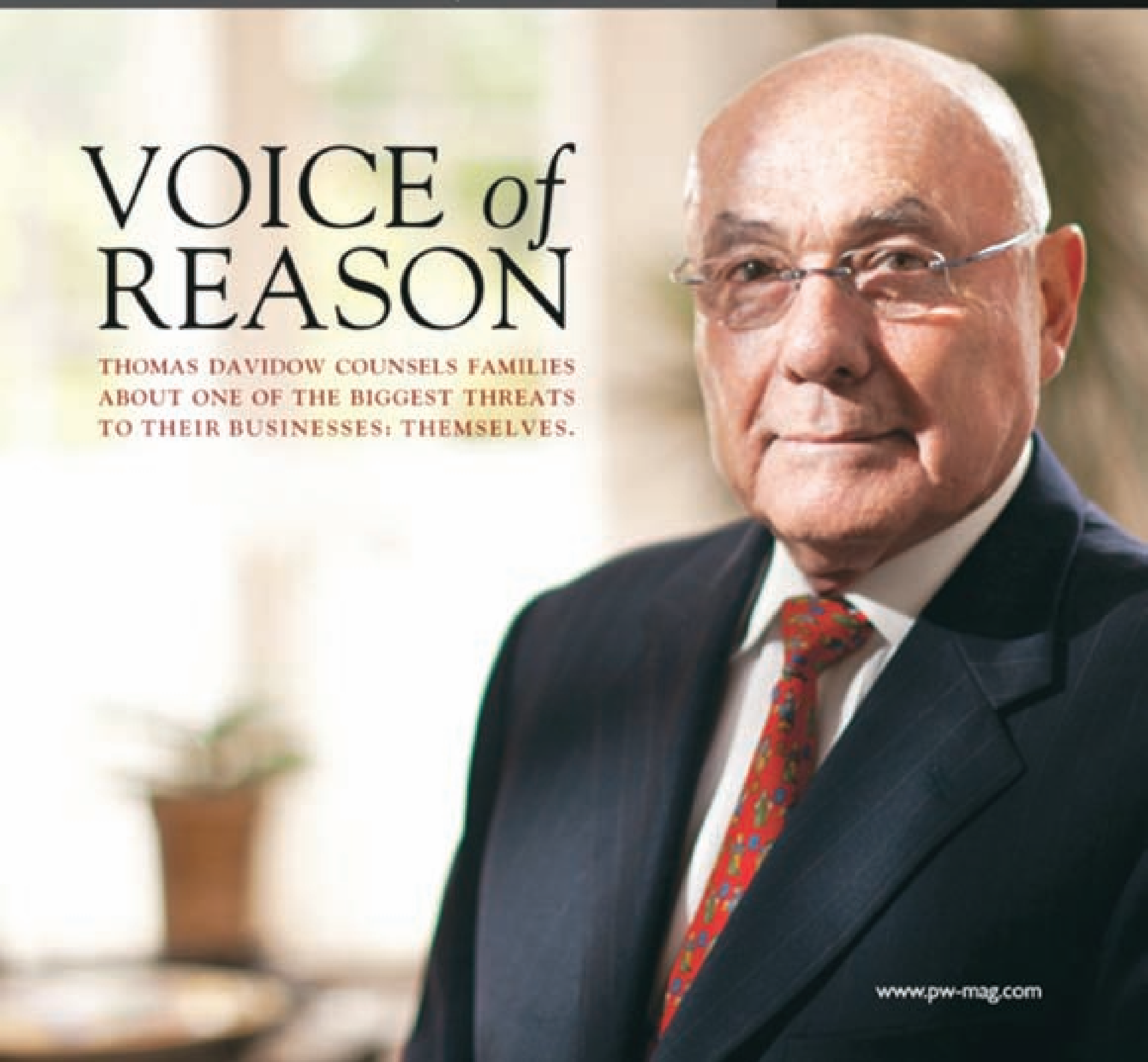
Private Wealth

ADVISING THE EXCEPTIONALLY AFFLUENT | NOVEMBER / DECEMBER 2010

INSIDE



VOICE *of* REASON

THOMAS DAVIDOW COUNSELS FAMILIES ABOUT ONE OF THE BIGGEST THREATS TO THEIR BUSINESSES: THEMSELVES.

www.pw-mag.com

VOICE *of* REASON

Thomas Davidow counsels families about one of the biggest threats to their businesses: themselves.

By Hannah Shaw Grove

PHOTOGRAPHS BY ERIK DOUGLAS JACOBS

Hannah Shaw Grove, executive editor of *Private Wealth*, recently spoke with Thomas D. Davidow, Ed.D., founder of consulting firm Thomas D. Davidow & Associates, about his specialty practice helping families increase the success and value of their biggest asset—their privately owned businesses.

GROVE: You have a very unique niche in the world of the wealthy. What prompted you to focus there?

DAVIDOW: When I was in private practice 30 years ago counseling adolescents and families, with several additional years of training in family systems work and family therapy, it became clear that families often unconsciously cause problems to persist. For instance, if one person changes, the other members of the family usually resist. When everyone gets together, each person reverts to the behavior or role that they're comfortable with. I saw this behavior and its casualties over and over.

There are family businesses on both sides of my family, so I understand that no companies are immune to issues and a lot of the "bad" behavior isn't abnormal, just challenging. There can be a lot of confusion, ambiguity and hostility at the intersection of business issues and family dynamics. By helping families realize that the criteria for business success can be different from the criteria for family success, it becomes a lot easier to prioritize and set goals, isolate issues, remove stressors and improve communication.

GROVE: You bring up an interesting point. How do you help families navigate the decisions that might be bad for business but right for the family or vice versa?

DAVIDOW: My protocol for engaging family businesses is that every individual that's involved in the management end of the business must be present at the initial meeting or I won't take them on as a client. There has to be buy-in from the critical family business members. When people agree to gather, it's a form of acknowledgment that there are problems and that they are part of both the problem and the solution. The families that choose to go forward believe in the strength of their relationships. They trust that they will be able to handle the weight of the emotional issues that will test those relationships. Collectively, it's a drive for a successful business and family harmony. I leverage their trust and those dual goals, with selective facilitation and communication, into doing the difficult work of managing the intersection of their family business issues. A threshold issue is the understanding that the business is the client. Family decisions can corrupt the business. Making sound business decisions keeps the business healthy and gives the family choices.

GROVE: Without breaching any confidences, can you share an example of how that type of commitment might manifest itself and how it worked for an actual family?

DAVIDOW: Family dynamics and issues are present whenever the family is present. You can't make decisions that are correct for just a single individual or just the family without eventually having a depletive effect on the business. Families need to accept certain realities, then establish priorities and ground rules and stick to them. One of my clients had a key family member with a long-standing addiction problem. As his behavior was covered up or overlooked, years of resentment had built up among the relatives and eventually the business was exposed to a criminal element. The family realized that an intervention was needed in order to stop enabling him, create accountability and set standards for acceptable conduct. They drafted a behavioral contract that he had to adhere to with performance criteria, measurements and reward systems. It called for total transparency and included specific things like "do not steal from the business" and "go to rehab." After two years he broke the contract and was removed from the business. It was an extremely difficult time for the family and the individual—there was a lot of anger and depression and guilt and animosity. Eventually he cleaned up, got a new job and did very well for himself and the family's business is now running smoothly. The family knew the problem needed to be addressed or it would place the business and him at even greater risk; they made a decision and they executed it to protect the business and ultimately the family member.

GROVE: Do you rely on a particular process to ensure families are committed to the mission?

DAVIDOW: Yes. After the initial meeting, which I've mentioned, there is a collective decision to hire my firm. The next step is almost always an assessment. We meet with every family member, including spouses. We also meet with non-family key professionals and some key advisors. The findings are presented back to the family in a report, conceptualizing the history (such as a death or a schism between siblings) that has brought them to this point. We also present a series of recommendations about how to solve their specific issues and can be retained to help the family implement the recommended changes. Most families begin thinking about the process as an opportunity to ccreate a new legacy or return to the family values that were the source of their business success.

GROVE: You emphasize collective thinking and decision-making. How important is this in your field?

DAVIDOW: It's critical to success. I make it clear up front that in order for this process to work, I can't simply be a mouthpiece for the senior generation or any individual. For example, if the patriarch anoints the next leader that person won't always have the buy-in of siblings. Decisions must be made, and owned, by consensus with transparency and discussion.

GROVE: How long is the typical engagement?

DAVIDOW: Probably an average of 18 months. It takes about nine months to identify and facilitate the behavioral changes that are needed and another nine months to internalize the behavior and have it become systematic and habitual.

GROVE: Generally speaking, why do most families hire a family business consultant?

DAVIDOW: By definition, family-owned businesses are relationship oriented. It's easy for them to fall into relationship protection rather than result-driven decisions. Some families find me when they're in crisis. A typical example is a family dealing with the unexpected loss of a patriarch who made all the decisions. Without an alternative decision-making process in place things can become chaotic. Some family members are paralyzed and do nothing, or too many people do too much. Most of our engagements are more forward-looking. For instance, the business is OK but the dynamics are problematic, and sustained performance may be at risk due to family issues or families want assistance with succession planning.

GROVE: What does succession planning entail?

DAVIDOW: Essentially it's a question of how to best pass authority and responsibility for the business to the next generation. This includes making decisions about ownership (who gets stock and how much?) and management (what happens to the current regime?) They're two emotional issues, but two separate issues that can often overlap and complicate things during the planning process. There are simple solutions for succession. It's important to remember that legal control and family control are two different things. Good estate planning can transfer control of the business to G2 now even though it still resides with G1 in practice. Good succession doesn't change authority while authority is alive. Implementing the plan is when the real work happens. This is the number one issue with family-owned businesses.

GROVE: In your estimation, what's the biggest issue between G1 and G2?

DAVIDOW: I've seen a lot of evidence of the communications disconnect between two generations, especially surrounding succession. In fact, I think you and Russ [Prince] uncovered it in your research with family businesses that failed after a transition from the founding generation to a younger generation.

FROM SHIRTSLEEVES TO SHIRTSLEEVES

Here are a few "foolproof" techniques recommended by Davidow for improving intra-family interactions and increasing the operating success of family-owned businesses.

Create dialogues instead of shutting them down. That may have been the way a patriarch was running the business and the family for years, but that doesn't make it right. Instead of saying, "That's ridiculous, that's wrong!" say, "I'm confused" or "I don't understand" so it creates an opening for a dialogue.

Talk more, talk better. Business revenues can double or triple as a result of better communication and cooperation between family members. Respect other family members' opinions to increase harmony and collaboration. Learn how to talk to one another through difficult and emotional issues, instead of yelling or bailing.

Set up structures that assist management and decisions. Thorny issues should be isolated and addressed in an appropriate forum. A Rhodes scholar might feel justified in questioning the credibility of a cousin who couldn't hack it at junior college, but a public showdown won't help anyone. Family councils and assemblies can be a safe environment for "family-only" business. Advisory boards add an often-needed surge of objective expertise.

The patriarch's perspective is "they didn't know what they were doing" and G2 invariably says, "I wasn't appropriately trained." When a patriarch transitions out of day-to-day management, it sometimes requires a change in how he or she relates to the business in order for it to survive.

GROVE: Have you noticed any changes in recent years in how families address their problems?

DAVIDOW: Most clients have become more knowledgeable about the process and more explicit about their issues and that allows work to begin right away. For instance, they might articulate a specific goal that is doable in three to six months. Once that's been accomplished, we'll meet to evaluate the output and if everyone is satisfied, another issue will be put forth. They realize that you can't tackle everything at once.

GROVE: How do you work with financial advisors?

DAVIDOW: Advisors are close to their clients' financial affairs so they often get a front-row seat to the dysfunctional behavior in families. I get a lot of new business referrals from advisors and often act as a resource to wealth management practices and multifamily office operations.

GROVE: How can advisors help ease the burden of strained family relationships among their clientele?

DAVIDOW: The presence of empathy during change is a criterion for getting through it successfully. I've found that the best advisors place an emphasis on establishing rapport with clients, and those existing relationships can provide support during difficult times. Empathy can be given by anyone. It doesn't always require special training.

GROVE: Is compensation as contentious a topic in family-run businesses as it can be in work environments where employees aren't related?

DAVIDOW: Of course, but it's important to know that most pay structures are based on the culture of the family and they tend to fall into one of two categories. The first is a professionally managed approach where employees are paid based on their role and their contribution. The good news is that there are lots of best practices regarding pay for performance. The second situation is one where everybody is paid equally. The mindset is "We're all in this together" and that can create other issues. For example, one family member works harder than the other but they're both getting paid the same. Everyone points to money as the issue, but it's just a presenting problem. The real issue is somewhere else. The real issue is that one person isn't pulling their weight. This type of concern can be addressed by enforcing performance standards for all employees.

GROVE: What is the most surprising thing about what you do?

DAVIDOW: Family dynamics can be complicated and messy but I enjoy what I do. I watch families make a commitment to fix things and the amount of emotional energy and intellectual capital that goes into it is unbelievable. It's humbling and makes me feel privileged. I'm successful because I know what I'm doing. I have great training and experience, but I could not do it without the commitment of the families. The value of the business and the value they place on their family relationships is what drives success. They don't give up. PW