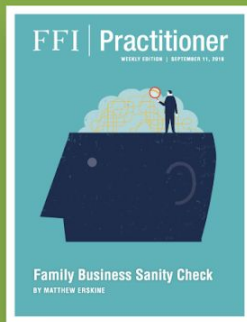
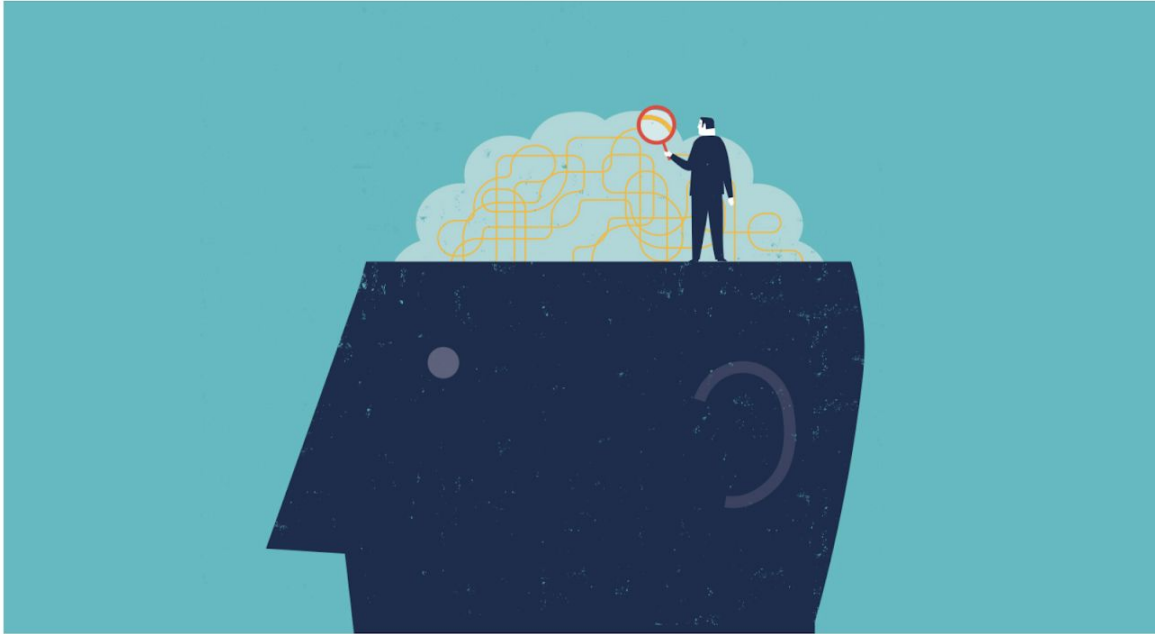


RESOURCES

# Family Business Sanity Check

WEEKLY EDITION • SEPTEMBER 11, 2019



## From *FFI Practitioner*

In today's world, family business owners have a lot to worry about – from rising taxes to developing future leadership. Thank you to this week's contributor, Matthew Erskine, for providing a "sanity checklist" that advisors can use with their clients to help identify and evaluate the potential systemic risks within their family enterprises.

**Family business owners, art collectors, legacy real estate owners, and the management of family offices worry about a lot of things: feckless heirs, risky markets, rising taxes, loss of privacy, rapacious vendors, and so on.**

Their children and grandchildren worry about the same things, and they add concerns about their stewardship of their legacy—both globally, like global warming, diversity, and homelessness, and personally, like debt.

Coping with these worries is a driving force for political campaigns from every party. Solutions, whether personal or global, have been promoted in the past and will be promoted in the future to solve these problems. Whether conservative or liberal, I hear “I have a plan for that” both from my clients and their advisors.

Every estate planner deals with plans and knows that plans are an imperfect prediction of the future. When we say “plans” what estate planners imply is, “if you take this action, then you will have the desired result sometime in the future.” Often, the result is an accumulation of trusts, LLCs Partnerships, corporation, and other entities that are created and implemented for a specific purpose but which have unintended consequences.

## Sidebar

### “Using Modeling to Diagnose Risks to Succession”

by Matthew Erskine  
FFI Practitioner

In this article, this week's contributor, Matthew Erskine provides an examination of the “Success to the Successful” model and applying to succession in family enterprises.

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Despite (or because of) these plans, systemic risk to family enterprises is ignored by two-thirds of the risk assessment professionals, according to a [2015 study by Linda Bourn of Crystal & Co.](#) Professional advisors tend not to cross between the family, business, and wealth management systems, so family members are unable to see how a plan that is excellent from one perspective is deeply flawed from a different perspective. What is needed is not more planning, but rather awareness of what the leading indicators of long-term family business success are and an easy way of identifying systemic risk in the family enterprise.



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On leading indicators, Timothy G. Habbershon and Mary L. Williams found in their academic research paper on the strategic advantages of sustainable family businesses<sup>1</sup> three leading indicators (Resources, Processes and Learning) and two trailing indicators of sustainability of family businesses over time. Habbershon and Williams' work is not easily digested by the non-professional. To help identify systemic risks, I have developed a Sanity Check based on their research.

A sanity check is a series of quick questions that allow you to evaluate whether assumptions can possibly be true. These simple questions are intended to weed out obvious problems. It is a fast way to avoid complete disasters.

### Sanity Check: Leading Indicators of Constraints on the Sustainability of Family Enterprises Survey

By Matthew Erskine

Here is a simple check to see if the statement "Control over my Family Enterprise is Sustainable" is true or false. Sustainable Family Enterprises have three attributes: there are sufficient resources, there are adequate procedures, and there is sufficient innovation and learning. We are using these leading indicators of long-term sustainability of Family Enterprises in our sanity test. The advantage of this sanity test, over performing a complete or rigorous test, is speed.

- 1) Which of the following statements do you believe to be true about your Family Enterprise?
  - a. There are Sufficient Resources available to the Family Enterprise.
  - b. The Processes for maintain control over the Family Enterprise are adequate.
  - c. There is Sufficient Innovation and Learning in the Family Enterprise.
- 2) For each question you answered as true, complete the appropriate section of the survey below, indicating whether, in your opinion, each statement is true (-1) or false (+1) for your Family Enterprise.
- 3) Add up the rankings. If the sum is negative, go through and rank each statement as to whether this is the weakest or strongest attribute of your Family Enterprise.
- 4) Consider whether what you may have assumed as true is in fact false in answering question 1. Consider how to remove the greatest weakness that is constraining the sustainability of your Family Enterprise.
- 5) Compare your conclusions with the conclusions of other stakeholders and consider the following:
  - a. What should you change to address the core issue at the heart of the problem of sustainability?
  - b. What should you change to solve that problem?
  - c. How are you going to make the change required to implement the solution?
  - d. What will you agree to change next?

## Sanity Check: Leading Indicators of Constraints on the Sustainability of Family Enterprises Survey

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So, here, in this sanity check table, are the leading indicators for the long-term success and sustainability of a family enterprise. Managing the systemic flaws in the family enterprise is a different, and more difficult, process. It requires both leadership to recognize the flaws in the organization and enough independence outside of the family enterprise to risk implementing the systemic change needed to correct them. Usually a professional advisor, this leader has to focus attention on the here and now, by learning, adapting, and anticipating risks and opportunities. This leader also has to create confidence in the future for the family enterprise. The Sanity Check is a start, but prepare to find someone and get to the hard work.

## Resources

<sup>1</sup> "A Resource-Based Framework for Assessing the Strategic Advantages of Family Firms" Family Business Review, Vol. XII March 1999





## About the Contributor

**Matthew Erskine** is the managing partner of Erskine & Erskine LLC, a fourth generation law firm, and The Erskine Company, LLC, a consulting firm. He focuses on strategic planning and legal services for business owners, professionals, individuals, families, collectors, and inheritors of unique assets. The Erskine family has been counsel to client families since 1876, overseeing estate and income taxation planning, personal trusts, dynasty trusts, private foundations, and family offices. Matthew can be reached at [m.erskine@erskineco.com](mailto:m.erskine@erskineco.com).

## About Erskine & Erskine

Since 1876, Erskine & Erskine has helped families and heirs achieve peace-of-mind with respect to their financial future and personal legacies using a custom, holistic approach to estate planning and trust management that is both empathetic and practical. Our approach to problem solving is personalized, innovative, and hands-on. Using this approach, we are able to understand the necessary human dynamic to recognize and appreciate the color and substance of complex family issues.