



Protecting the Wealth & Legacy of Families Through Better Governance

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What is required to secure the Success of the
Family Business through the generations?



What is required to secure the Success of the Family Business through the generations?

- A current leader , willing to transfer power and ownership to the successors
- A successor /s who is ready to take on the responsibilities of management and ownership
- A process that takes the family through the transition challenges
- Agreement in the family for Protecting the Wealth and legacy of FB through Family & Business Governance
- Writing it all down in a Family Constitution



Importance of Effective Governance

Effective governance requires:

- Accountability between shareholders and the business
- Setting family policies that would prevent the seemingly arbitrary decisions within the family members



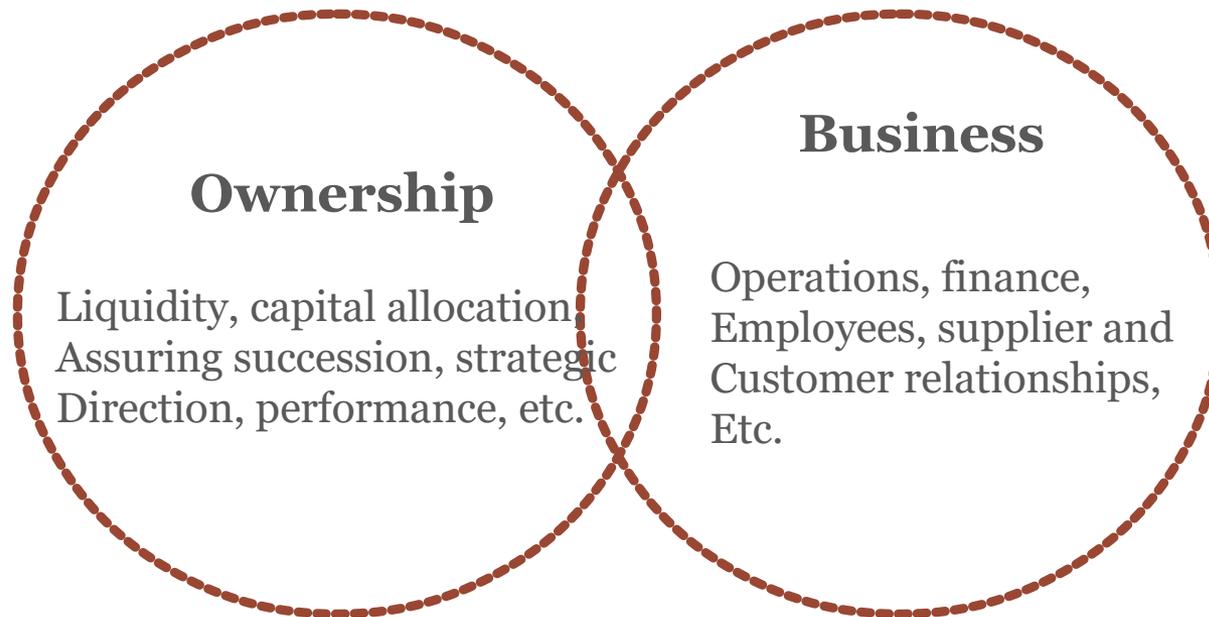
Why bother with governance

“Family-controlled companies should establish family governance mechanisms that promote coordination and mutual understanding amongst family members, as well as organise the relationships between family governance and corporate governance”

“Principle 9: Corporate Governance Guidance and Principles for Unlisted Companies in Europe. Published by the European Confederation of Directors’ Associations (ecoDa) March 2010.

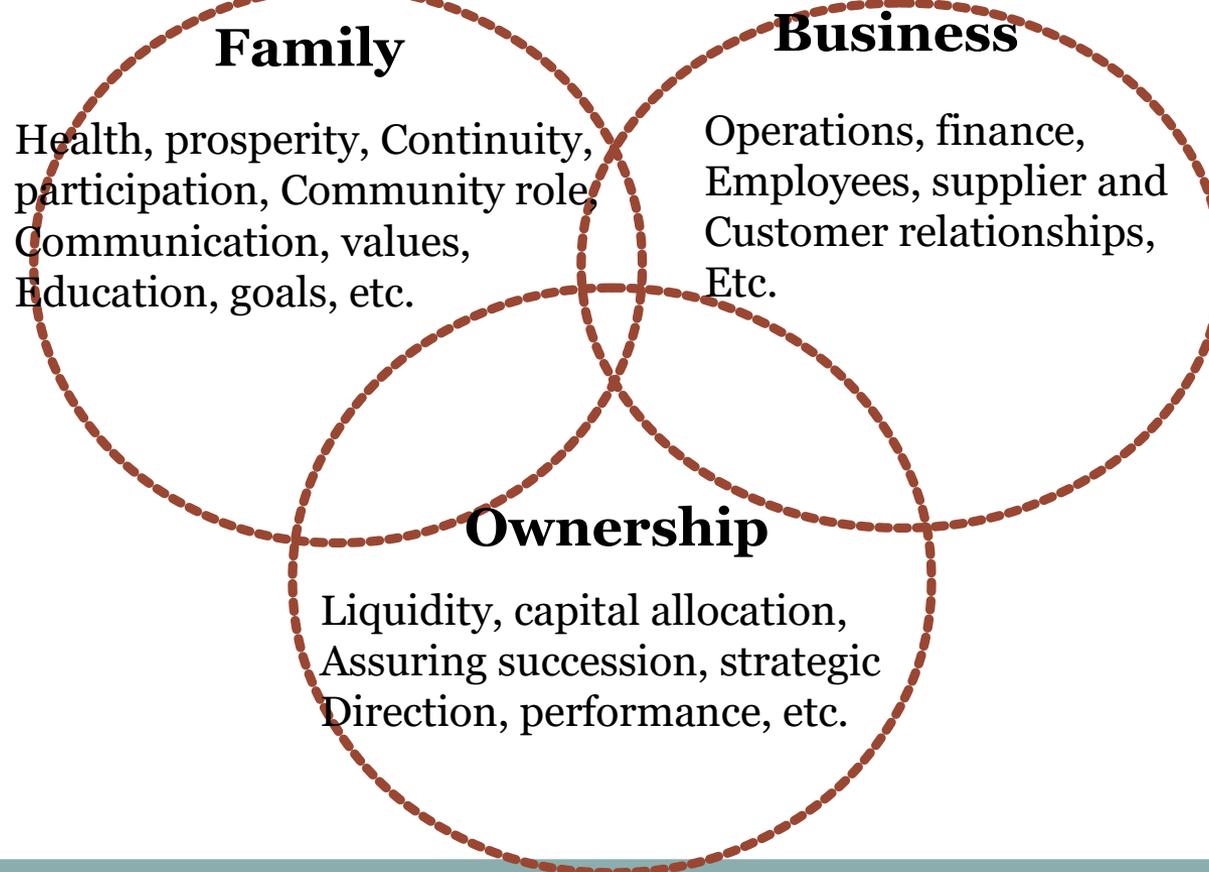


The Perceived Dimensions of Business Governance



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The Three Dimensions of a Family Business Governance





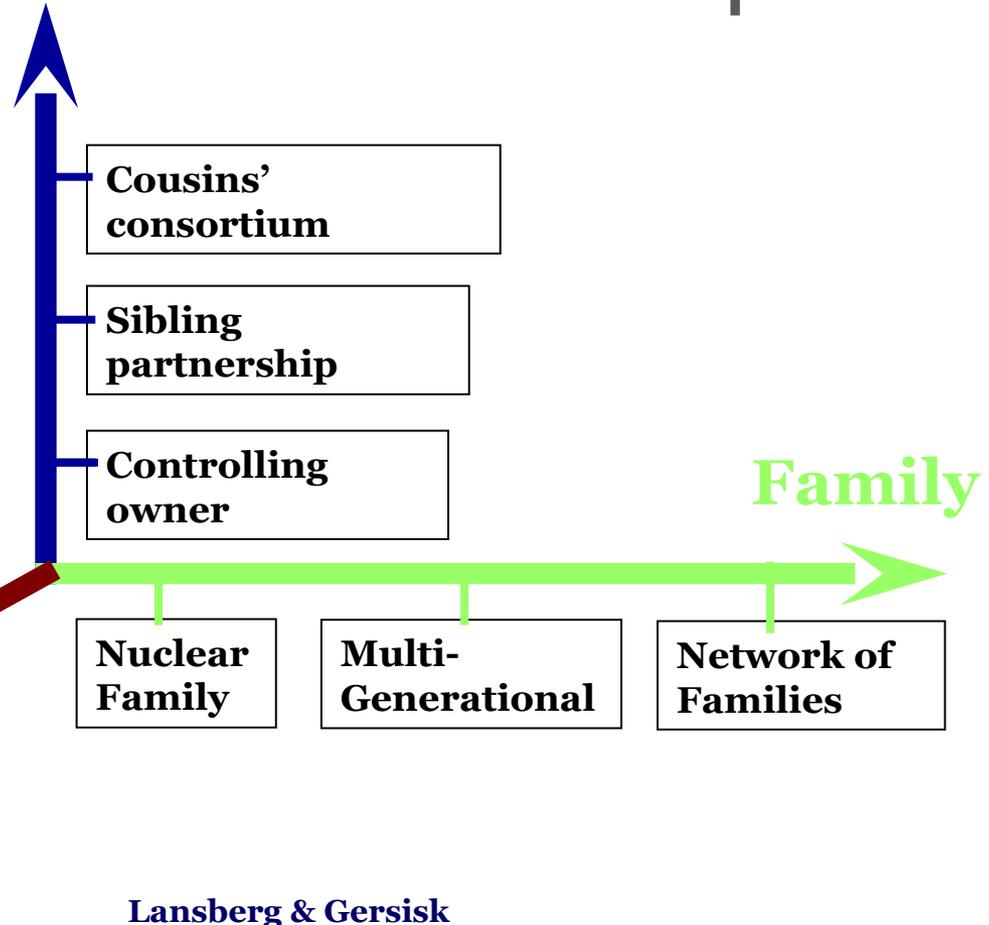
Complexity

- Each part of the family business system usually becomes more complex over time
- Family demographic expands and contracts
- Ownership dilutes or is consolidated (e.g. ownership is passed on to one family member) as it passes down generations or expands by having a greater number of shareholders
- Business has its lifecycle

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It's bound to become more complex!

Ownership



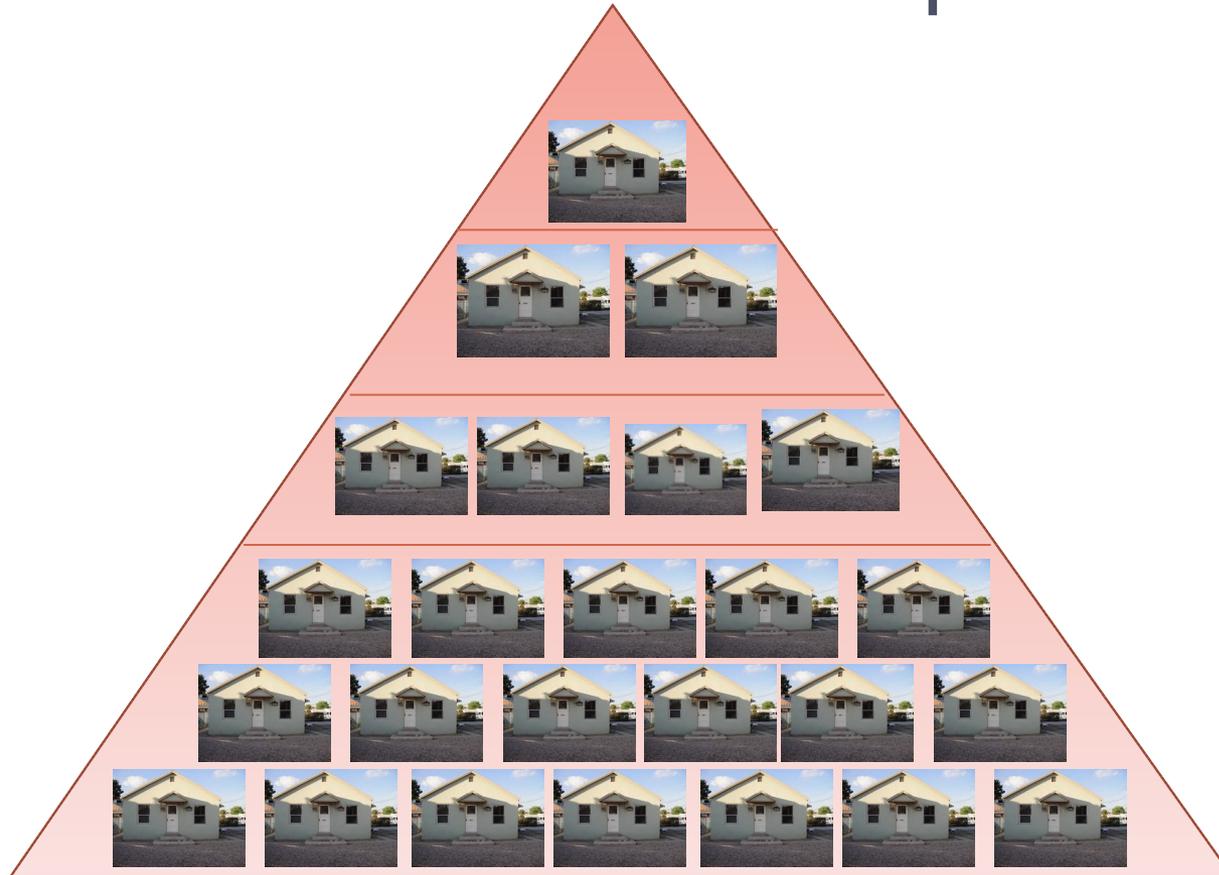
Business

Lansberg & Gersick

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It Becomes More Complicated





What Family Business Relations are Based On

- Assumptions
- Understandings
- Expectations



- Understandings
 - Assumptions
 - Expectations
- (Mis) understandings
 - (Mistaken) assumptions
 - (Unfulfilled) expectations



Getting Organised

‘WHY’ do we want to stay together

‘WHAT’ form of structures do we need to organise ourselves

‘HOW’ will we achieve our objective. Which rules and regulations are we ready to abide with so as to protect our Wealth

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A Case Study

- ◆ A Family Business Owner has started thinking of preparing to pass on the Management and Ownership completely to the next generation
 - ◆ All three children, two daughters and a son have been part of the growth of the business over the years
 - ◆ Also the husband of one of the daughters has been and still is a very important pillar for the organisation, if he leaves it would be a huge blow to the organisation
 - ◆ The father's wishes is to be fair to all his children but at the same time protect the family legacy
 - ◆ All the family agree that ownership of the business has to remain in the direct bloodline descendants' hands
- a) What are the issues that one has to consider?
 - b) What are the options open to the owner?
 - c) What actions in your opinion need to be taken to safeguard the continuity of the FB?

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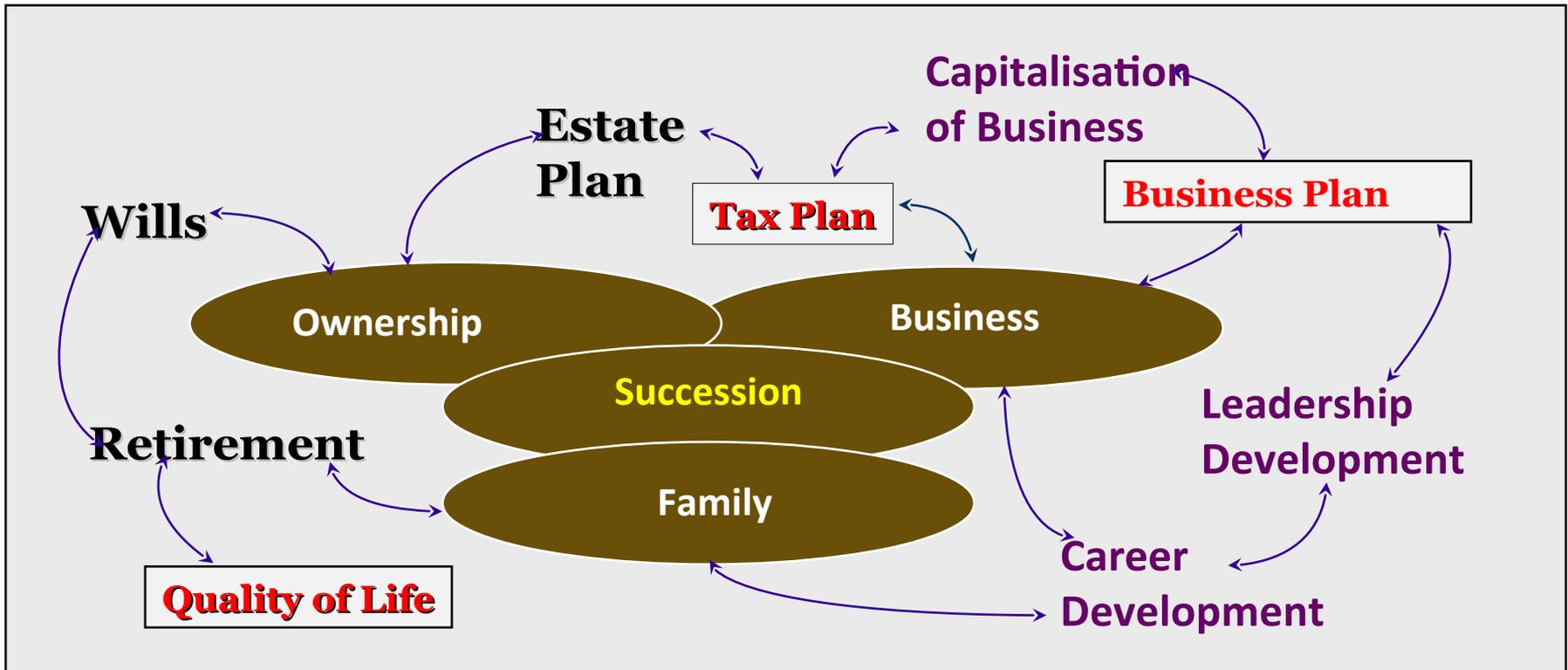


What Policies and Documents would you think will Families with Wealth and Families in Business require as a process of protecting their Wealth and Legacy?

Why do Families need such agreements?



Succession Complexity



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Ownership Policies and Documents

Attitude to ownership

Who can be an owner

Decision making powers

Dividends & Liquidity

Articles of Association or bye laws

Shareholder agreements

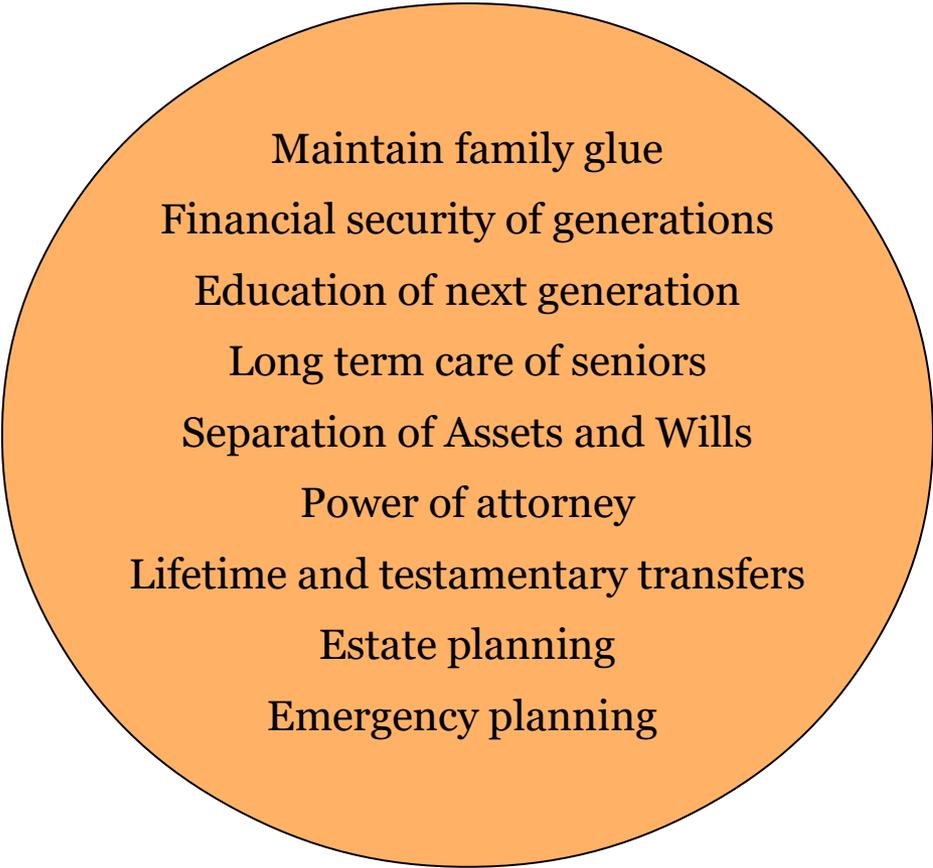
Voting agreements

Buy-sell agreements

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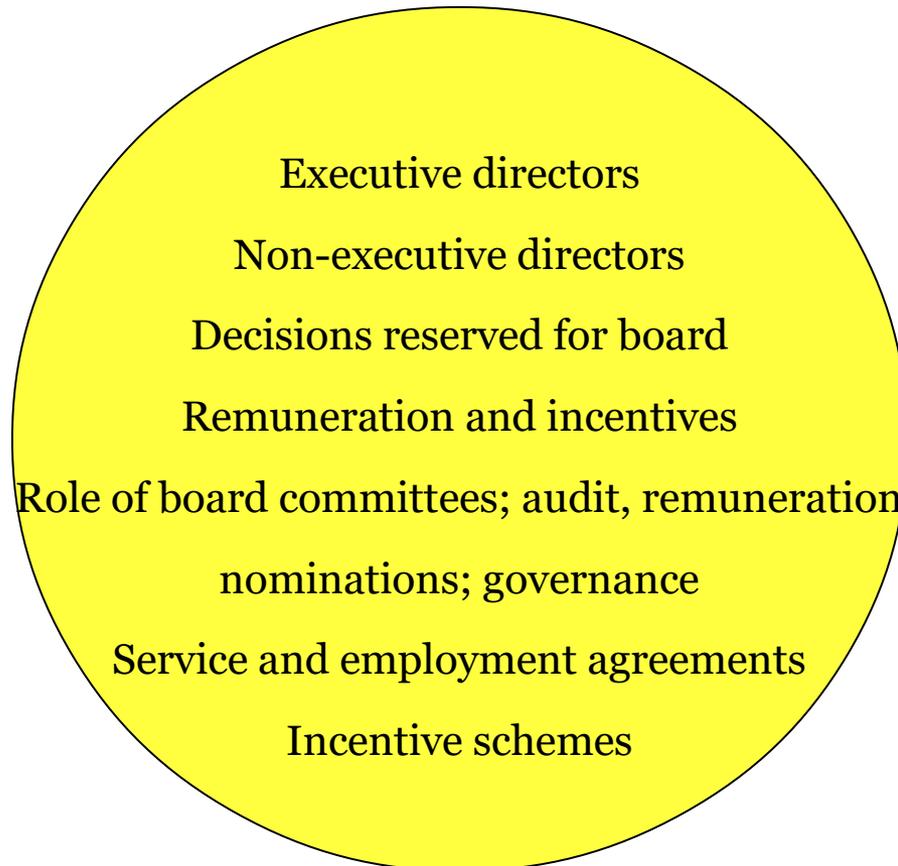
Family Policies and Documents



- Maintain family glue
- Financial security of generations
- Education of next generation
- Long term care of seniors
- Separation of Assets and Wills
- Power of attorney
- Lifetime and testamentary transfers
- Estate planning
- Emergency planning



Business Policies and Documents



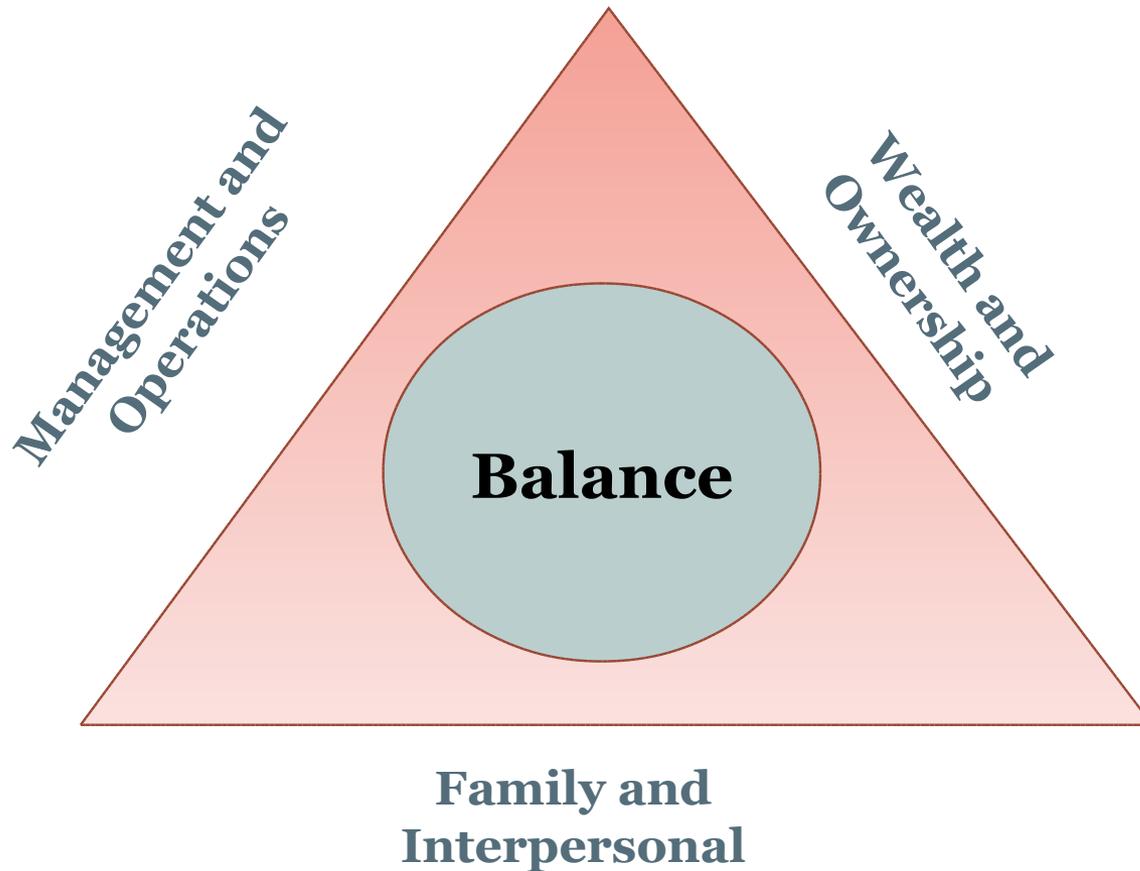


Preserving the Family Wealth, Business and Legacy

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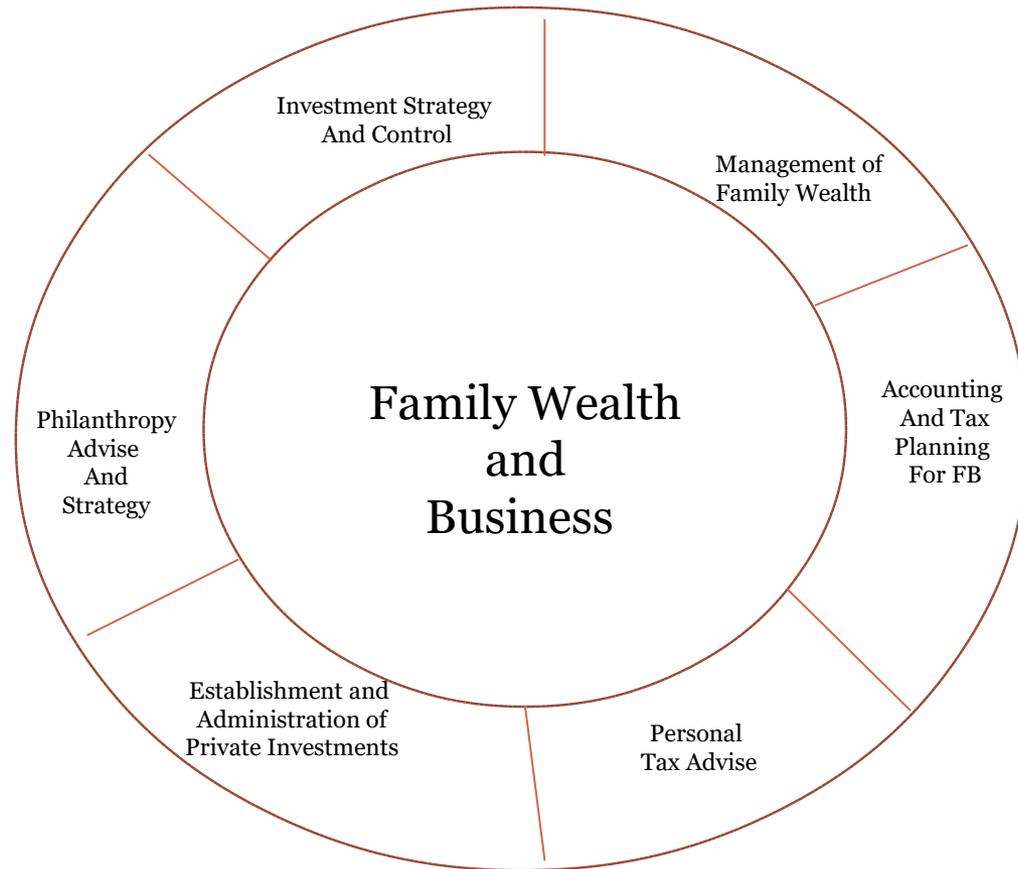
Family and Business / Wealth Balance



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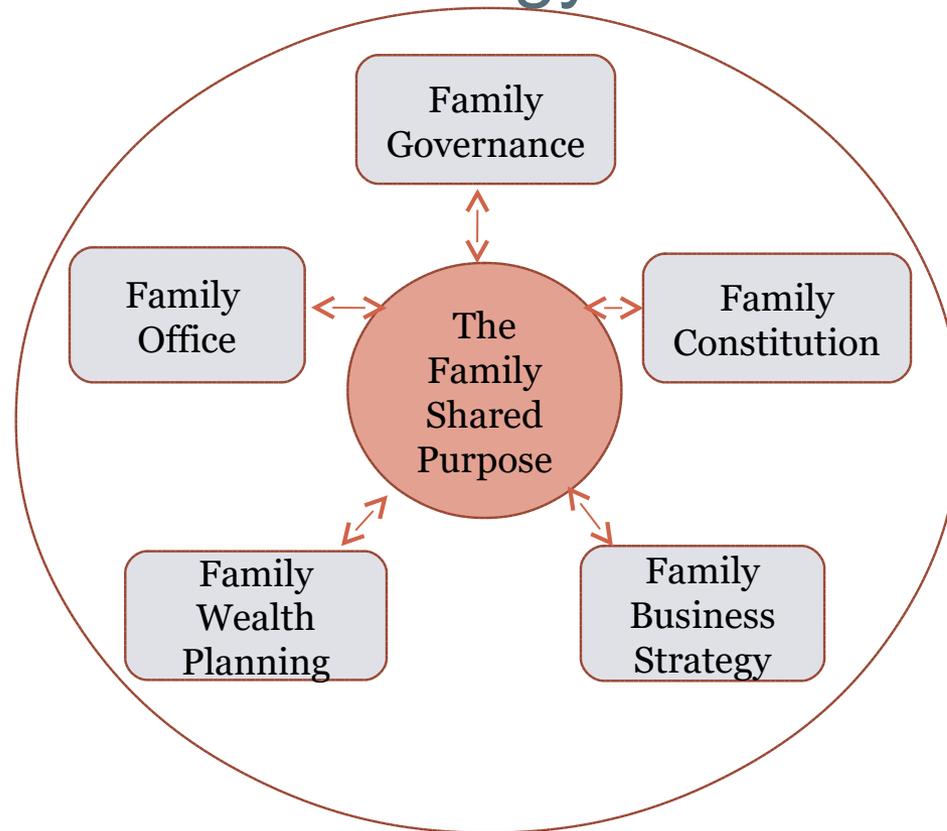


Normal Approach to Family Solutions



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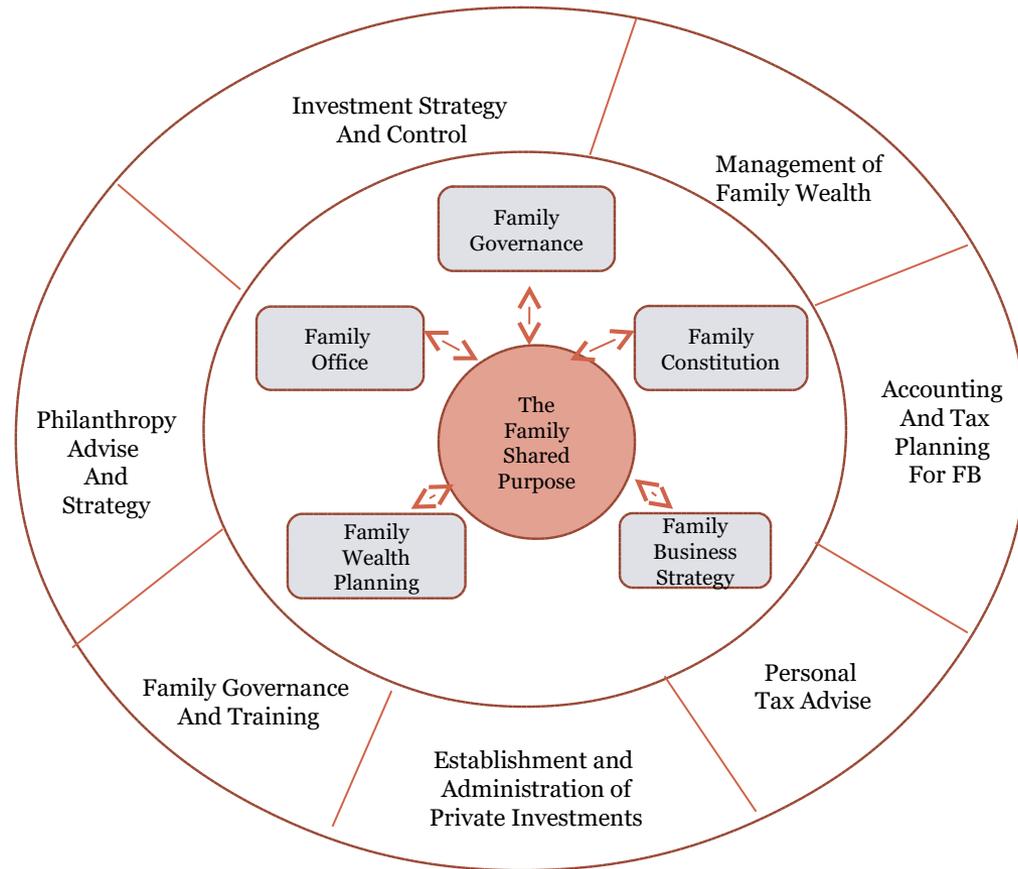
A Family Wealth and Business Protection Strategy



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The Complete Family Planning Process



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A Case Study

- Four siblings who have inherited all shares of their family business following their father's sudden death
- Each has inherited 25% of the company
- Simon the oldest is Director and Chairman of the Board and has two siblings on the Council
- Susan works for the company part time in the accounts department, James is a teacher and Damien has worked in the company for five years and is head of marketing
- Simon has delivered very successful performance of the company, and requested the Board that his package should be considerably improved and a bonus was due (Simon was frustrated that his package was half what his father used to receive as Chairman)
- Simon also proposed to the Board to reduce dividends for the next two years so as to put away cash for future capital investments
- James and Susan reminded that their father's wish was to share the profits equally and they worried that they wouldn't be able to pay for their children's education abroad, if they do not receive dividends

a) What are the issues at play?

b) What are the concerns and from where and why are they arising?

c) What are the options?



The “Brown” Family

A Case Study

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Meet the Family

Family business moving from G3 to G4

4 siblings each own 25% and is each on the board

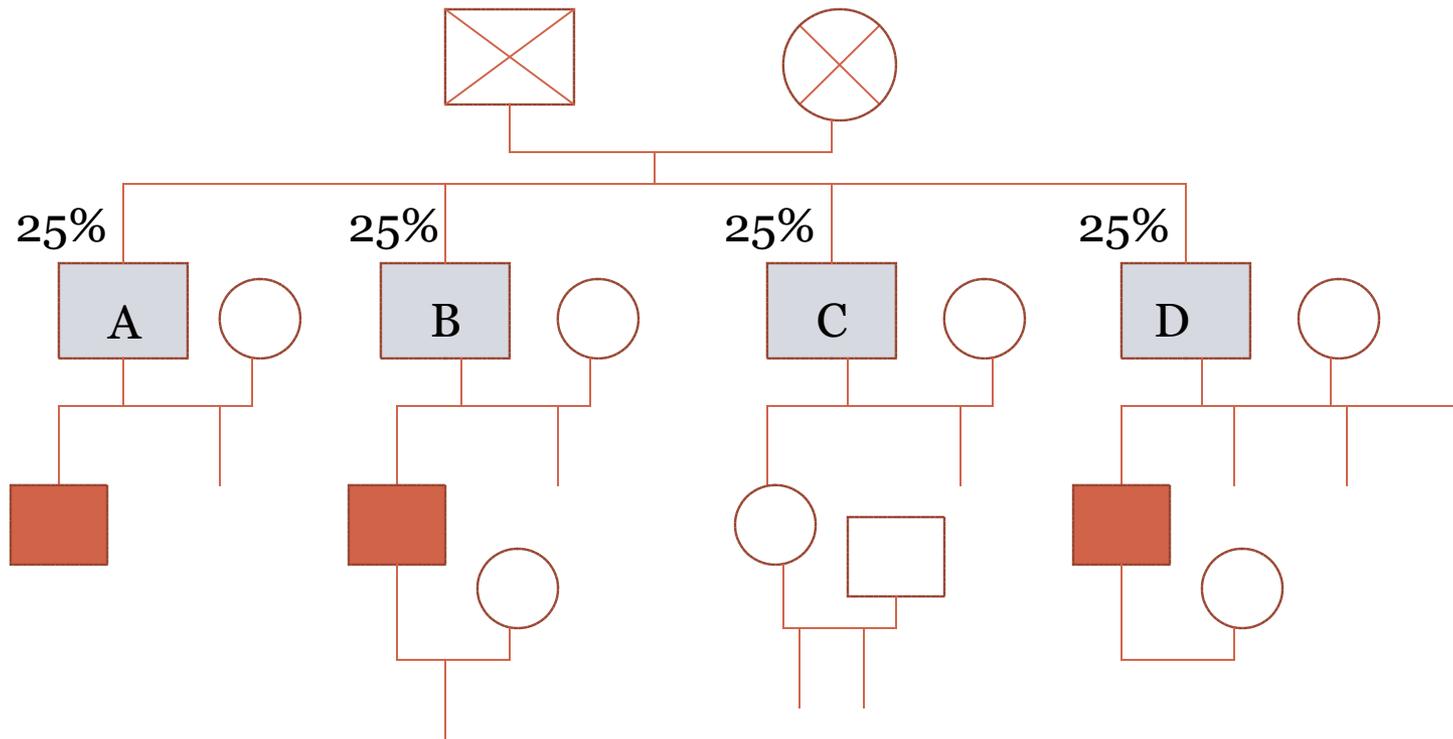
MD (A) is about to retire. His spouse is very unwell

A, B and C each have 2 children and D has 4 (10 cousins)

3 cousins work in the business and 7 do not

3 of next generation are married; 2 of them have families

The “Brown” Family Genogram

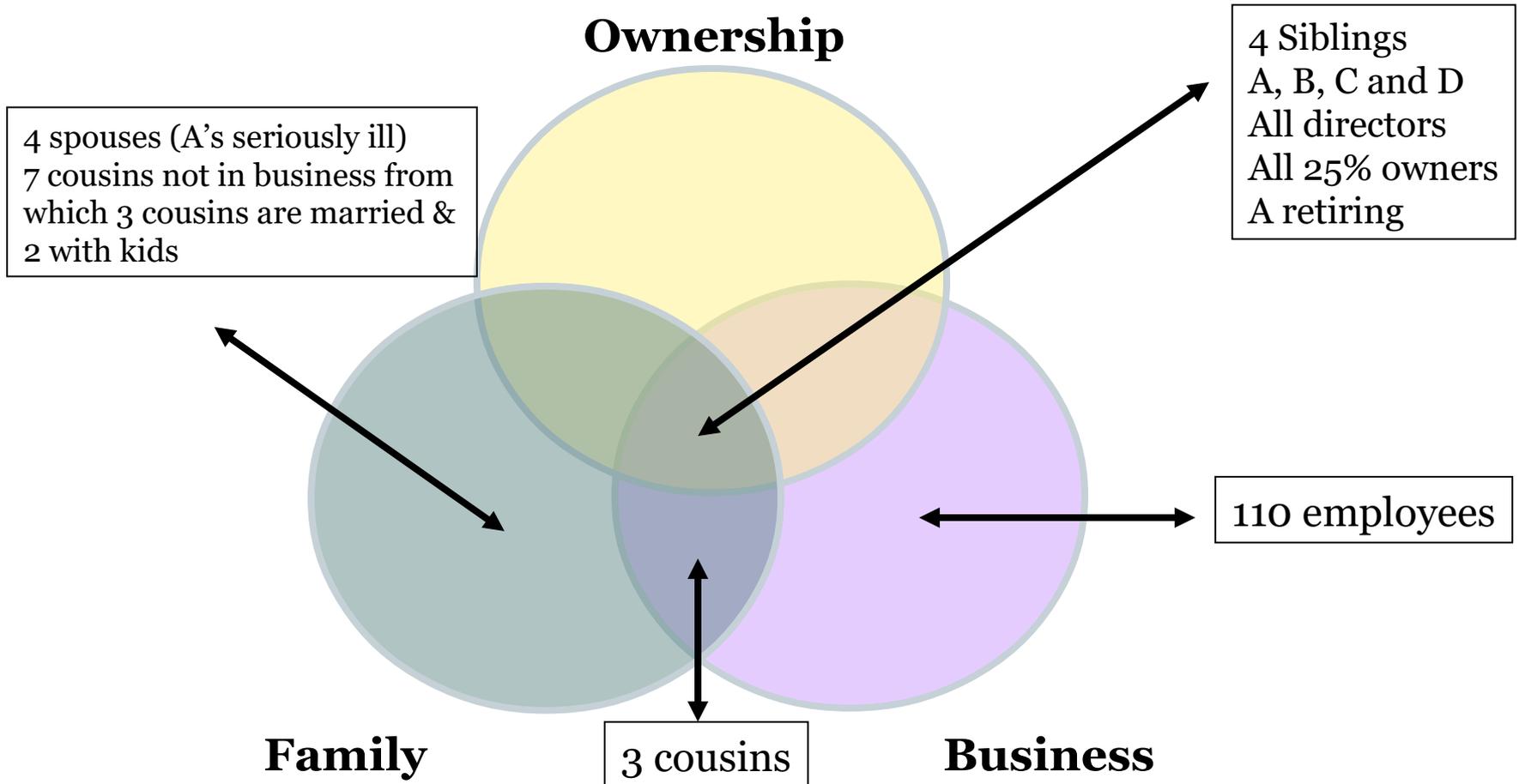


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The Brown Family

Ownership



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Family Complexity

Senior generation – future planning; retirement; health;
financial security; being fair to children

Next generation 10 cousins – lifestyle and career choices
roles and careers in family business; becoming owners

21 adult family members, including spouses
(all need professional advice)



5 Ways To Promote Family Harmony

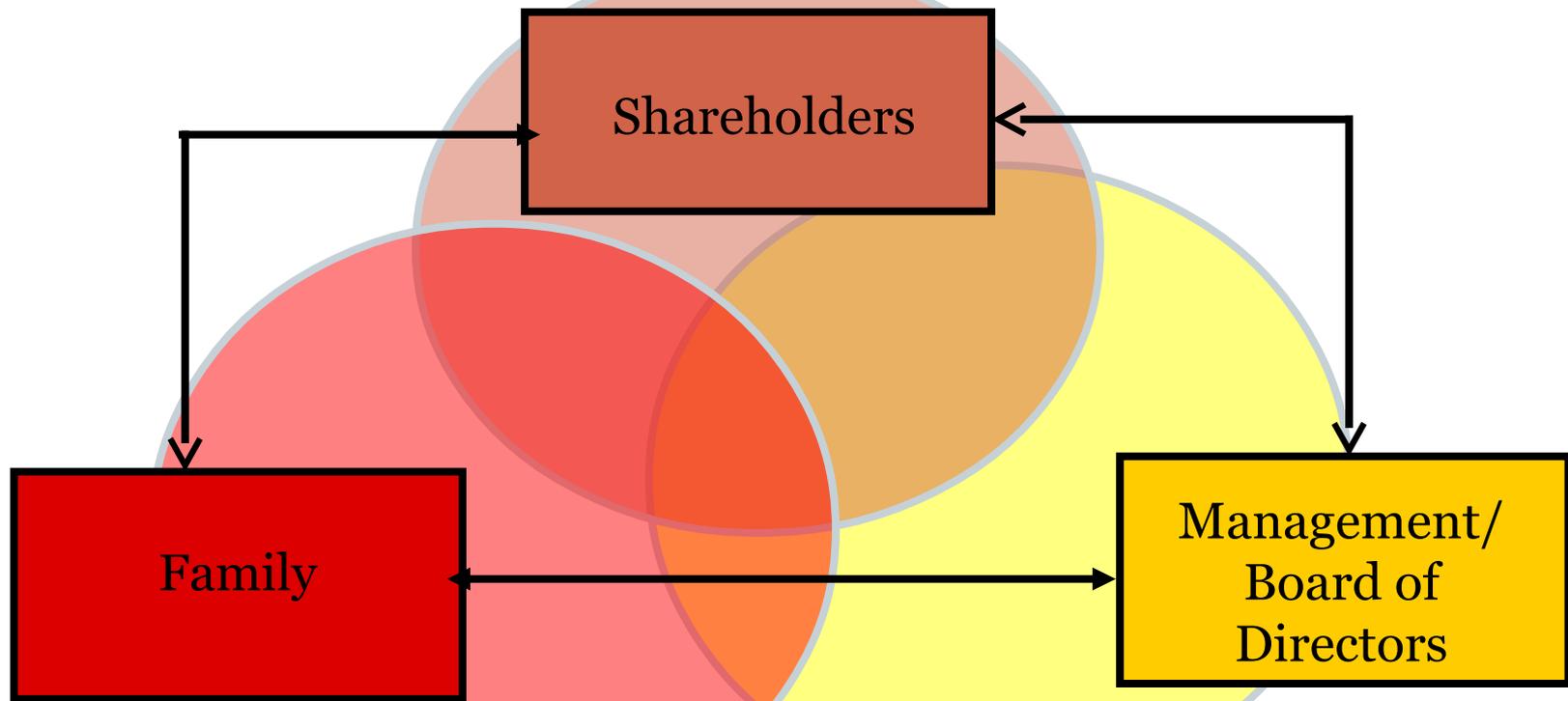
- a) Develop structures and processes such as Family Council and Family Constitution so there is a mechanism for addressing problems and working towards solutions
- b) Establish a code of conduct to ensure a respectful tone prevails at family meetings and everyone has a chance to be heard
- c) Avoid triangulation - complaining to a third party about a problem you're having with someone instead of communicating directly with the individual
- d) Find common ground. Establish a set of shared family values that everyone can agree on, and use them as a guide when making tough decisions
- e) Take a break when conversation goes off track and gets too hot. Agree to revisit the issue later when emotions are not so raw.



How do we Organise The
Family to Prepare in
managing its business and
its wealth?

The Family And Business Governance structures

Ownership



Family

Business

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To Protect Family Wealth

We need to help the Family Get Organised through:

- *Establishing Governance processes for the Family, by answering the 'WHY' 'WHAT' 'HOW' questions*
- *Plan how the family will manage and protect its wealth and legacy, who will be involved, who owns what and who will get what*
- *Tie it all down by having clear family rules through the development of the Family constitution*
- *If you are one of such families it is time to consider to plan for Family continuity now. Doing nothing is not an option*

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A Family Constitution

- A mission & vision that defines the family's fundamental desire to be in business together
- A family code of behaviour that specifies the family's norms and expectations with regards to how the members treat one another and conduct themselves
- Structuring the Governance of the Family through the establishment of the Assembly and/or Family Council
- Policies that will regulate the relationship between the family and the business
- Performance policy
- A retirement policy
- A dismissal policy
- Share transfer policy
- A non-competition agreement that all family shareholders are willing to abide too
- Job descriptions for the key positions in the governance structure
- Funding mechanisms for governance



Thank you for your Attention

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