

Family Governance – an Introduction

FAMILY GOVERNANCE ASSOCIATES

TABLE OF CONTENTS

- Issues arising in family businesses and the need for family governance (p.3-5)
- Main ingredients of Family Governance (p.6-11)
- What does family governance contribute ? (p.12-14)

Stages of growth influence which shareholder issues become dominant in a family business

Ownership Stage	Dominant Shareholder Issues
Stage 1 : The Founder(s)	<ul style="list-style-type: none">• Leadership transition• Succession• Estate planning
Stage 2 : The sibling partnership	<ul style="list-style-type: none">• Maintaining teamwork and harmony• Sustaining family ownership• Succession
Stage 3 : The cousin confederation	<ul style="list-style-type: none">• Allocation of corporate capital : i.e. dividends, debt and profit levels• Shareholder liquidity• Family conflict resolution• Family participation and role• Family vision and mission• Family linkage with the business

Family member(s) can have multiple roles in the governance of their business

- In a family business, a family member can have multiple roles/responsibilities which may be usually associated with different incentives and controls, thus increasing the governance challenge for family business relative to non-family counterparts
- Some of the roles that an owner (i.e.shareholder) in a family business can have include :
 - Owner only
 - Owner/manager
 - Owner/manager/family member
 - Owner/director
 - Owner/family member/director
 - Owner/family member/director/manager

The need for family governance

- The family plays a crucial role in the governance of its business
 - When a family is still at its initial founder(s) stage, very few family governance issues may be apparent if most decisions are taken by the founder(s) and the family voice is one or unified
 - Family businesses at their multiple generation stage, may face different ideas and opinions amongst the family's members on how the business should be run and its strategy set
- ⇒ Clear family governance structure can bring discipline among family members, prevent potential conflicts and ensure the continuity of the business

Major components of family governance

- The Family constitution/charter articulates the family vision, mission, values and policies regulating family members' relationship with the business
- The Family constitution defines the family institutions through which family governance is implemented
- Family institutions with different forms and specific roles typically include
 - The Family assembly
 - The Family council
 - The Family committees
 - The Family Office

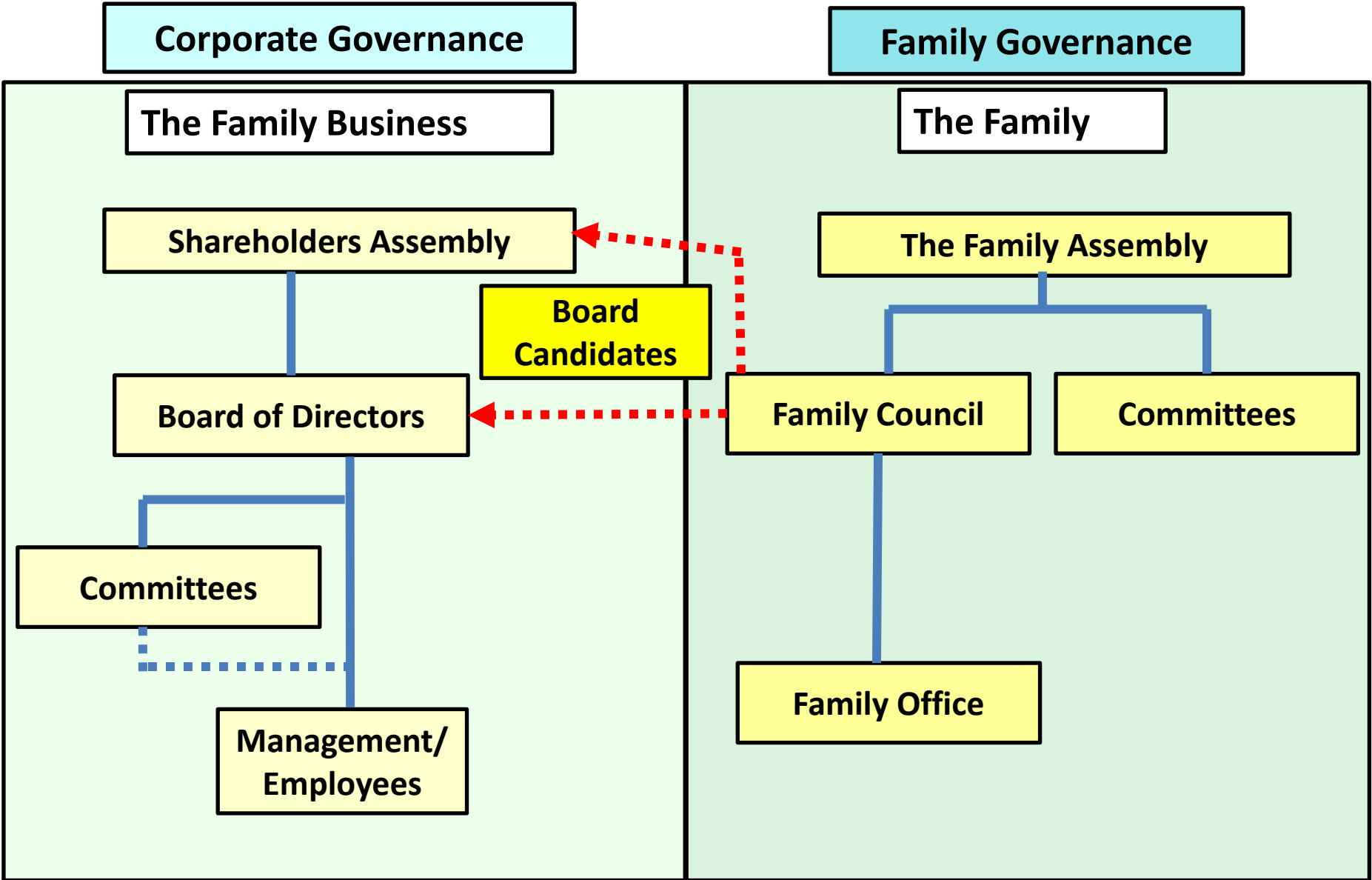
Family constitution

- Family constitution = Family Creed = Family Protocol = Statement of Family Principles = Family Rules and Values = Family Rules and Regulations = Family Strategic Plan
- Family constitution is a statement of principles outlining the family commitment to core values, vision and mission of the business
- Family constitution defines:
 - Roles, composition and powers of key governance bodies in the business (ie. Family members/shareholders, management and board of directors)
 - Relationships among the governance bodies and how family members can participate in the governance of their business
 - Policies regarding important family interaction with the business (e.g. family members' employment, transfer of shares, etc.)
 - Family institutions, including the family assembly, the family council, the education committee, the family office etc.
- Family constitution is a document that evolves as the family and its business continue to evolve; Necessary to update on regular basis in order to reflect any changes in the family and/or the business

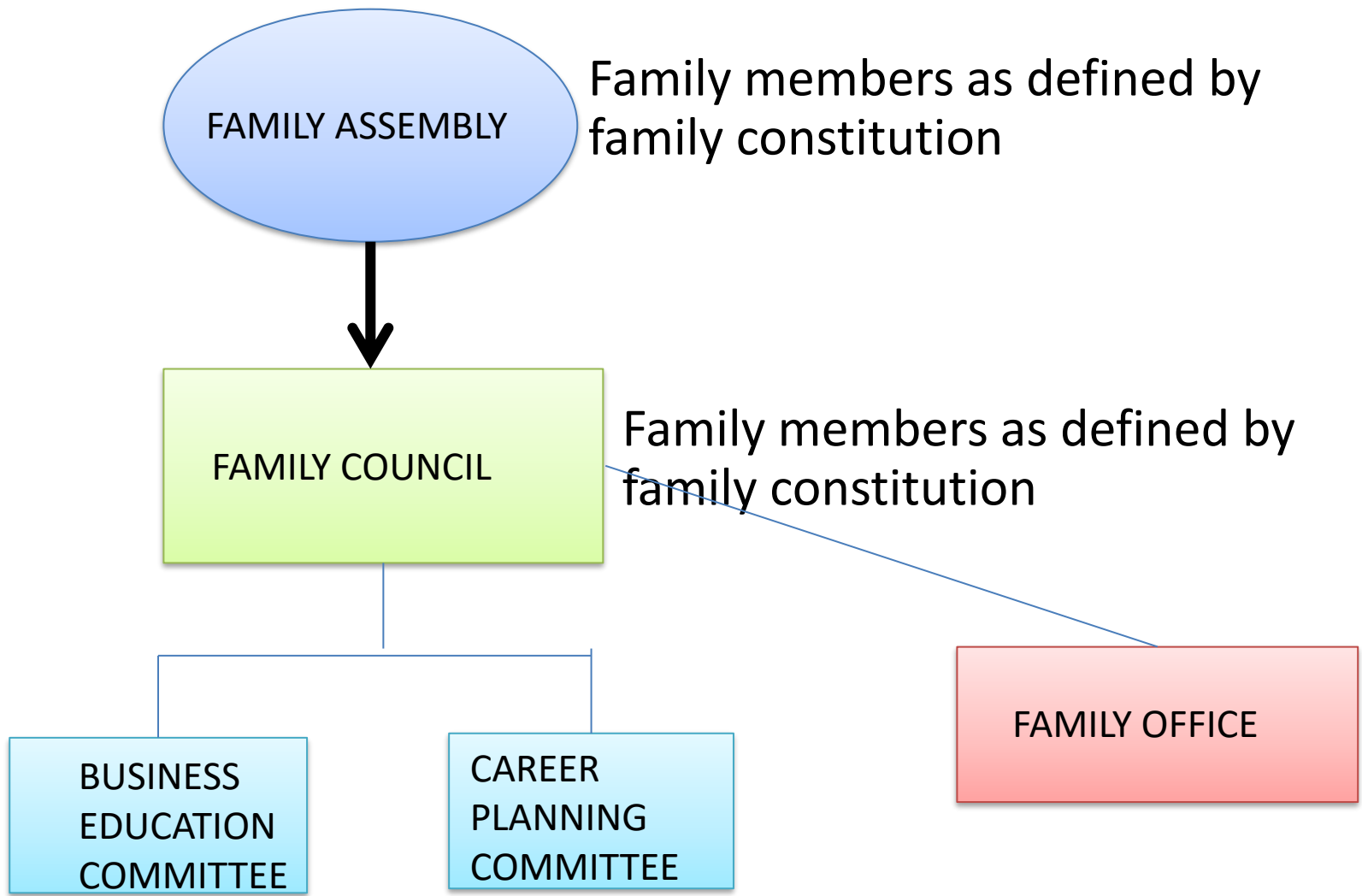
Rationale for Family Governance Institutions

- Family governance institutions help strengthen family harmony and relationship with its business through
 - increased and organized communication links between the family and its business
 - Increased understanding and discussion of issues and consensus building
- Individual families decide what family institutions to have but most common institutions include
 - Assembly = Family Forum
 - Family Council
 - Family Office
 - Family committees

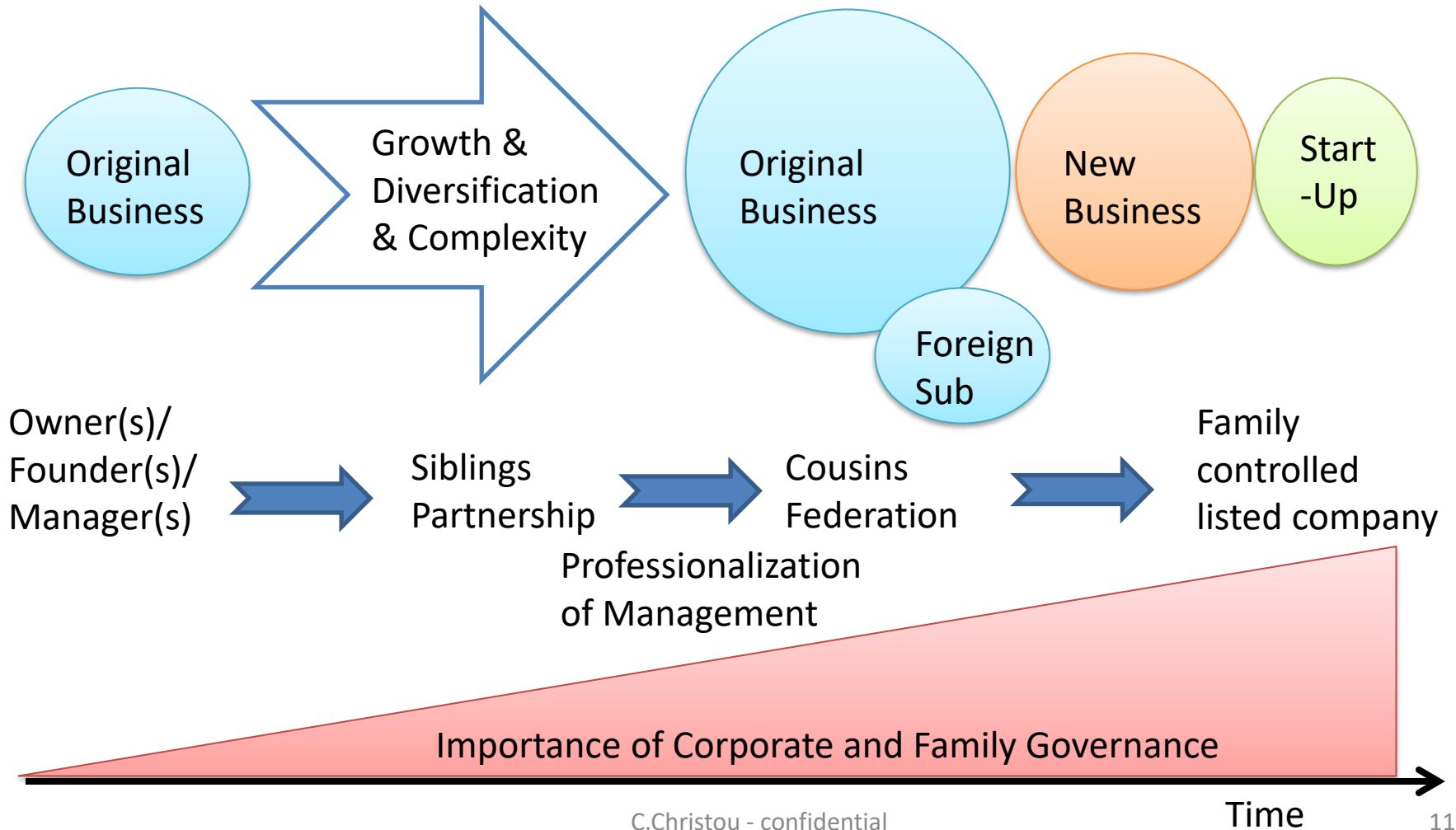
Family governance is the second leg of governance



Simple family governance structure



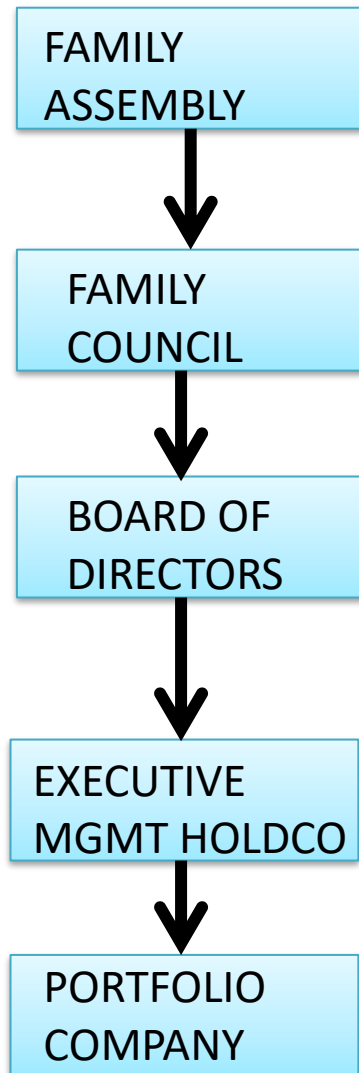
Family governance becomes increasingly important as both the business(es) and the family continue to grow



Attributes of well functioning family governance structure

- Communicating the family values, mission and long term vision to all family members
 - Keeping family members (especially those not in the business) informed about major business successes, challenges and strategic direction
 - Communicating the rules and decisions that might affect family members' employment, dividends, and other benefits they usually get from the business
 - Establishing formal communication channels that allow family members to share their ideas, aspirations and issues
 - Allowing the family to come together and make any necessary decisions
- ⇒ Well functioning family governance helps built trust among family members (inside and outside the business) and unifies the family thus improving viability chances of the business

Simple governance for a diversified family business



- Safeguards long term interests, identity and cohesion of family
- Assembles family, promotes its values and expresses its need)
- Includes family members (as defined in family constitution)
- Oversees business and ensures alignment with family values
- Acts as a forum for family shareholders to formulate unified positions on key issues
- Includes elected family members who are shareholders
- Governs company on behalf of shareholders/family members
- Recruits and oversees top –line management
- Ultimate responsibility for company performance
- Assists in sourcing opportunities
- Sources and executes investments in line with strategy
- Governs portfolio companies through boards or committees
- Portfolio company Board and management with/without family members

Family governance is a necessary condition for longevity in business

