Governance and Decision Making in the Family Enterprise

Judi Cunningham MA, FEA

April 19, 2018

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Agenda

1. *The What and the Why of Governance*
2. *Family Enterprise System Governance*
   - *Business*
   - *Family*
   - *Ownership*
3. *Integrating Governance*

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PART I

THE WHAT AND THE WHY OF GOVERNANCE

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What is Governance?

Structures and Processes that promote and support effective

Communication & *Decision Making*

VOICE

≠

VOTE

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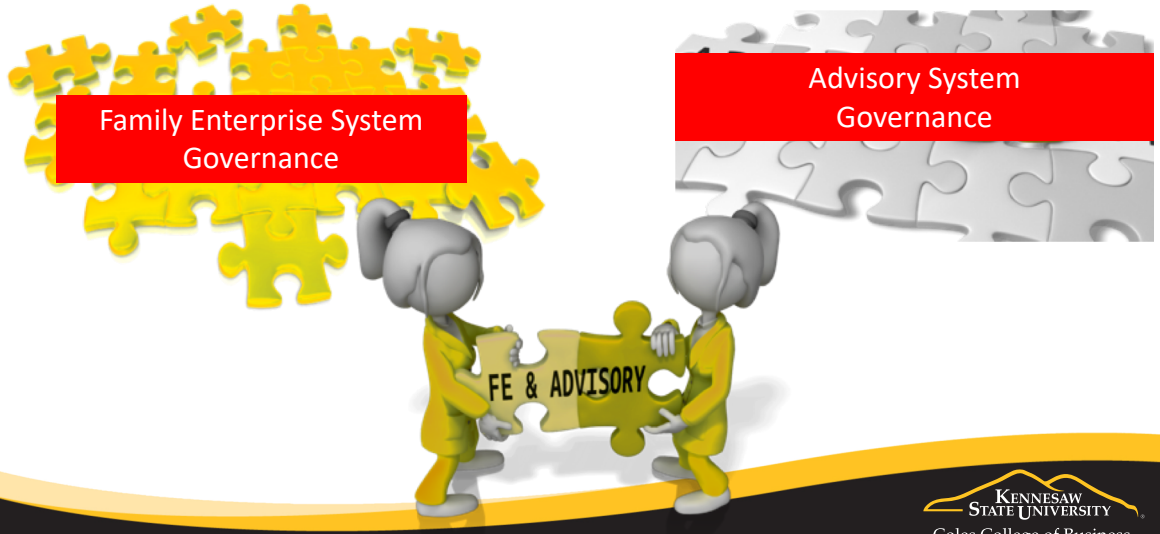
A Systems Approach



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Why Governance? Complex Decisions

Who is the best to lead the business? How do we decide?

How do I create liquidity *and* leave a legacy?

When and how do we talk to our kids about our wealth?
If I tell them how much there is will they get lazy?

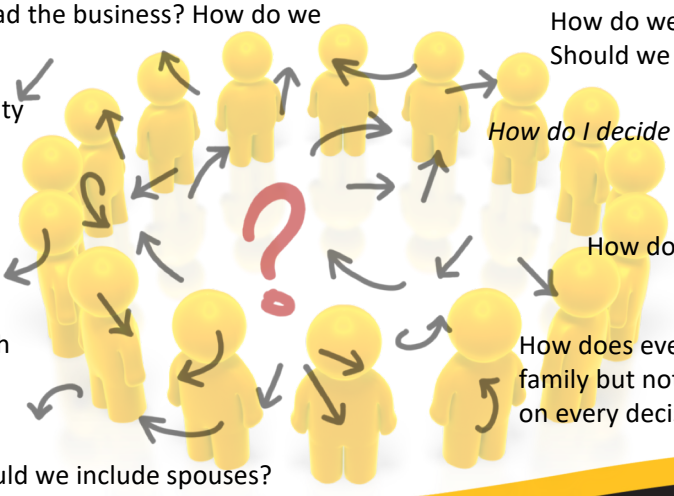
How should we include spouses?

How do we protect our family wealth? Should we do prenups?

How do I decide how to divide up my estate?

How do we make *fair* decisions?

How does everyone feel included in the family but not necessarily have a vote on every decision?



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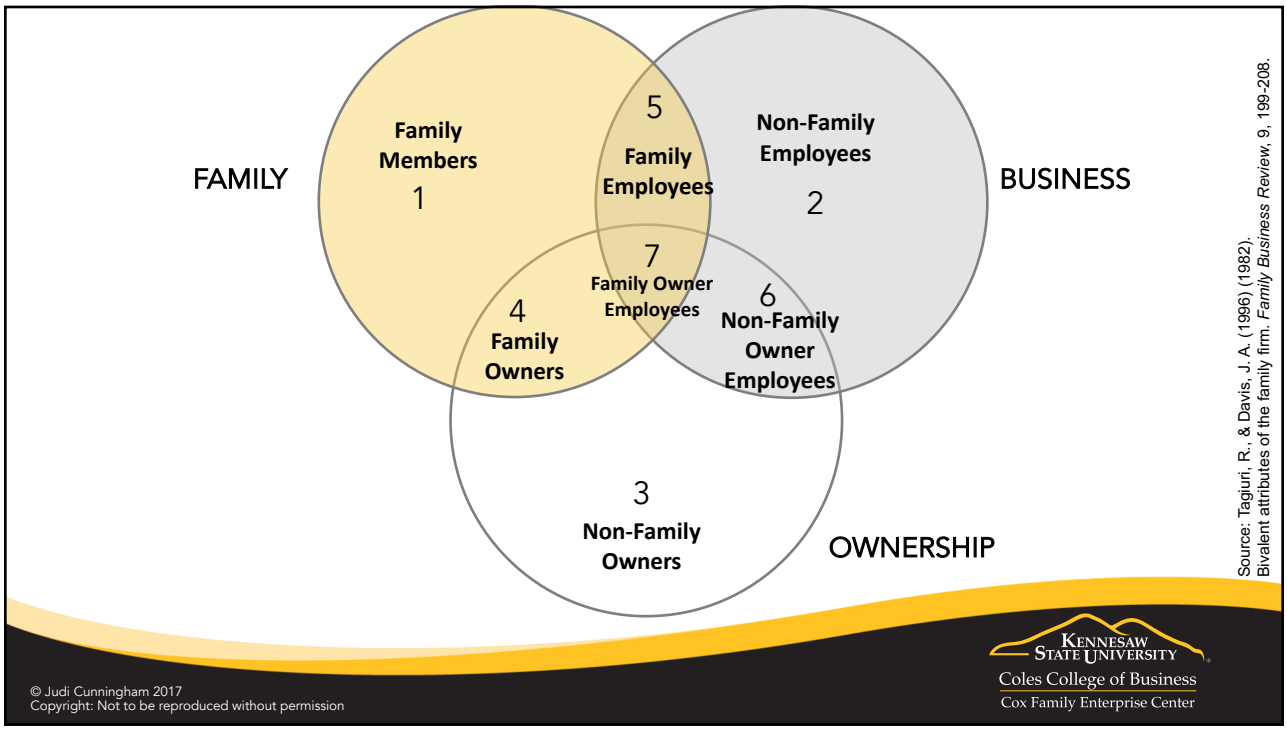
FAMILY
Family Members
1
5
Family Employees
Non-Family Employees
2
BUSINESS
7
Family Owner Employees
4
Family Owners
6
Non-Family Owner Employees
3
Non-Family Owners
OWNERSHIP
Source: Tagiuri, R., & Davis, J. A. (1996) (1982). Bivalent attributes of the family firm. Family Business Review, 9, 199-208.
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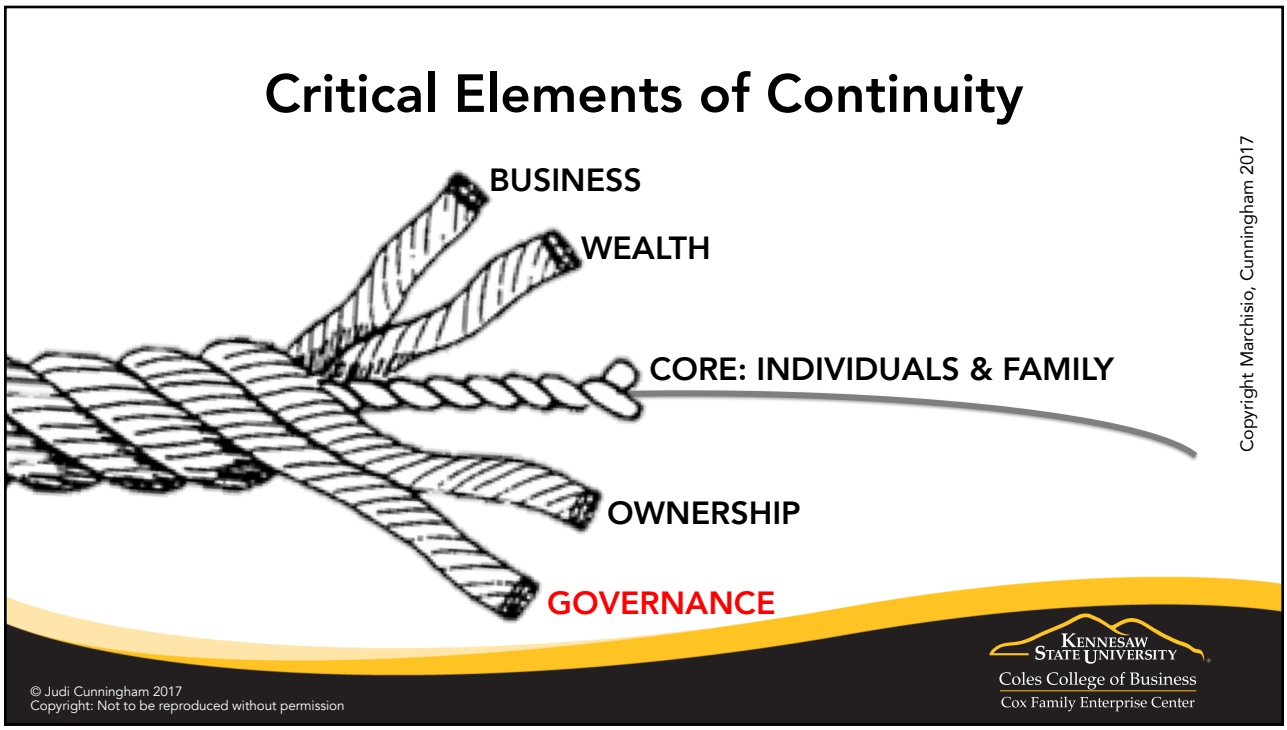
Critical Elements of Continuity
BUSINESS
WEALTH
CORE: INDIVIDUALS & FAMILY
OWNERSHIP
GOVERNANCE
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PART II

FAMILY ENTERPRISE SYSTEM GOVERNANCE

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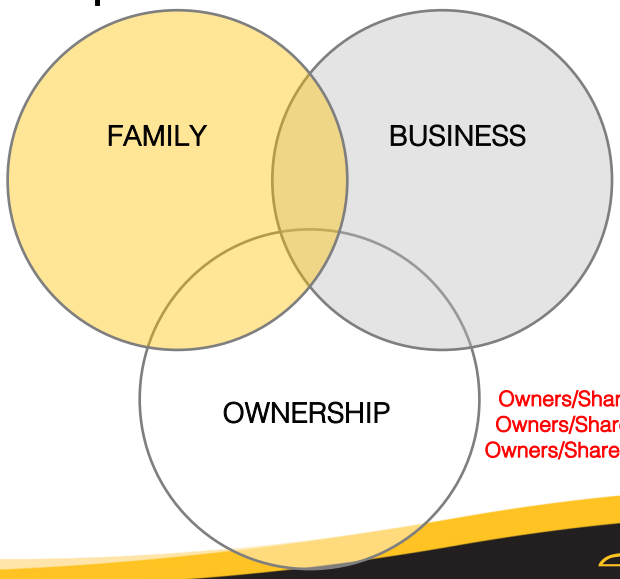
Family Enterprise Governance *Forums*



Family Meetings
Family Council
Family Assembly
Philanthropy Board
Family Office

Board Meetings
Board of Directors
Advisory Board
Management Team

Owners/Shareholder Meeting
Owners/Shareholders Council
Owners/Shareholders Assembly

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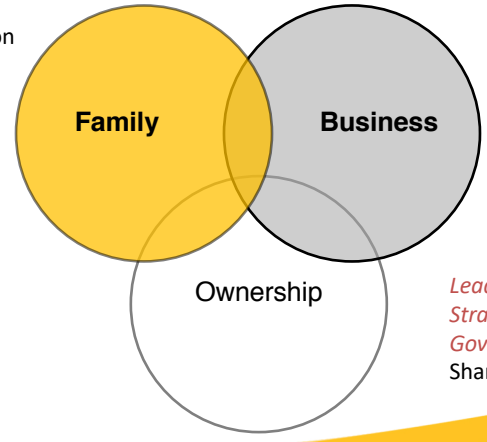
Leadership, Strategy & Governance

Leadership: Family Leader
Strategy: Family Legacy and Vision
Governance: Family Meetings; Council; Assembly



Leadership: CEO/President
Strategy: Strategic Plan
Governance: Board of Advisors or Board of Directors

Leadership: Steward
Strategy: Owners Direction and Goals
Governance: Owners Meeting; Shareholders Assembly

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Structure *AND* Inter/Intrapersonal

Structural, Policy or Procedural Change		Personal/Interpersonal Change
• Family institutes regular family meetings with clear agendas and purposes	↔	• Family understands why they should have family meetings and participate fully
• Family policies have been created for better decision making in the family	↔	• 2nd generation member decides to do her MBA as a result of the policy discussions
• Shareholders agreement is in place	↔	• Owners agree on how family members can become owners.
• Insurance policies have been purchased	↔	• Family has discussed the will and estate plan and is in agreement about how to move forward.

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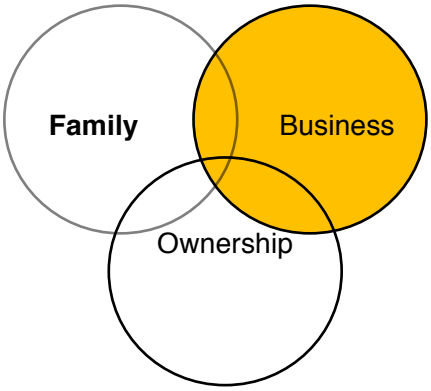

BUSINESS SYSTEM GOVERNANCE

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Responsibilities of Business Governance

- Fiduciary oversight
- Oversee strategic direction
- Select and appraise CEO
- Coordinate with family governance
- Represent the owners

Source: Adapted from John A. Davis, 2007. *Governance of the Family Business.* Harvard Business School Publishing.

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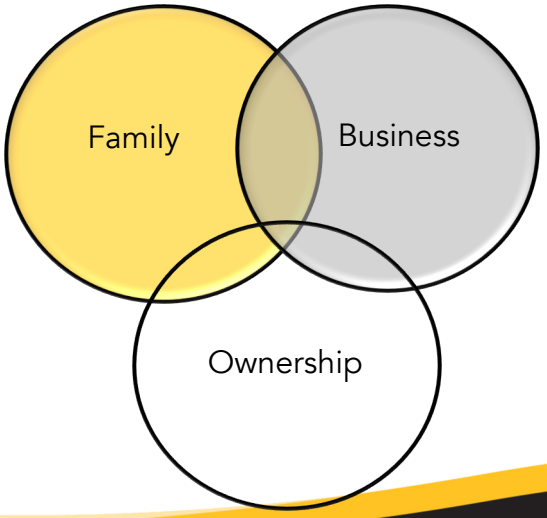
Business System Governance *Forums*



Board Meetings
Board of Directors
Advisory Board
Management Team

Source: Add (2015)

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Discussion Topics for Business Governance

- Role clarity
- Compensation
- Business performance
- Business growth
- Functioning board of directors
- Inability to separate business and personal things
- Work/life balance
- Leadership development
- Intergenerational dynamics
- Management succession
- Risk tolerance
- Performance feedback to family members
- Common vision and goals
- Performance of CEO & Mgmt Team

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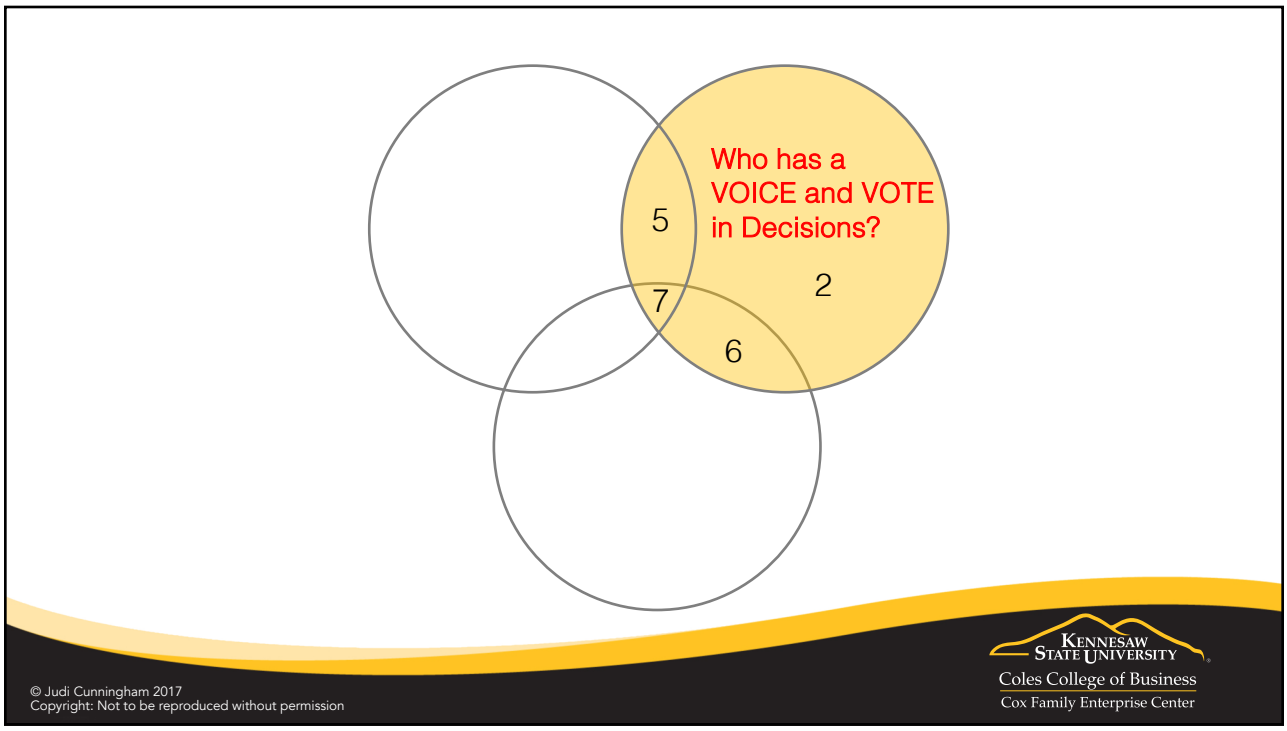
Who has a
VOICE and VOTE
in Decisions?
5
2
7
6
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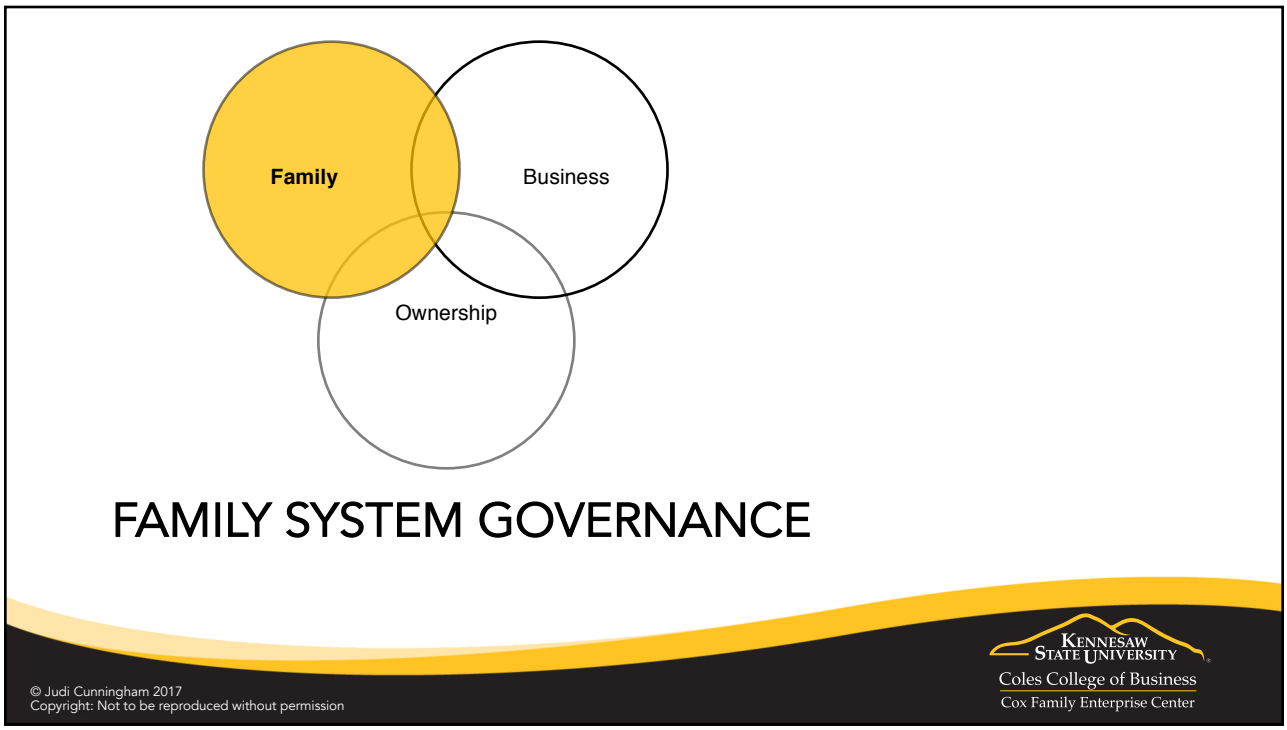
Family
Business
Ownership
FAMILY SYSTEM GOVERNANCE
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Why Family Governance?

1. Developing strength and connection in the family
2. Family education
3. Family skills development
4. Strengthen/repair family relationships
5. Plan with the family rather than for the family
6. Give voice to all family members
7. Differentiate the three circles

Source: Gersick and Kelin (2007)

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Discussion Topics for Family Governance

- Legacy: Family Vision and Values
- Code of Conduct
- Education
- Communication
- Philanthropy
- Family fun
- Individual needs and wants
- Intellectual and social capital
- Spiritual development
- Family fun
- Skill building
- Relationship to money and wealth
- Divorce and blended families
- Spousal participation
- Wills and estate planning
- Planning (retreats, gatherings etc.)
- Family Policies (inform and consult)

Adapted from Sage-Hayward and McGrann

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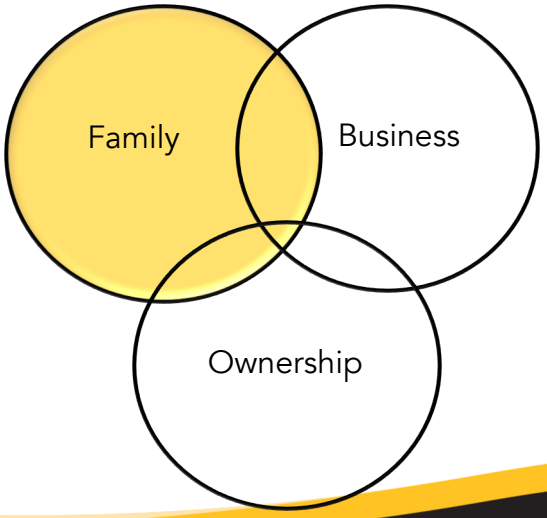
Family System Governance *Forums*

Family Meetings
Family Council
Family Assembly
Family Office
Philanthropy Board



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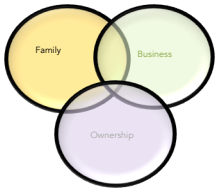
Family Governance Structures



- Family Meetings – Usually all family members including spouses (G1/G2)
- Family Council - Subset of larger family group; Brings recommendations to larger group; More formal
- Family Assembly - Larger family (cousin stage); Less frequent; More formal
- Family Office - Centralized management or oversight of investments, tax planning, estate planning, development, and philanthropic planning

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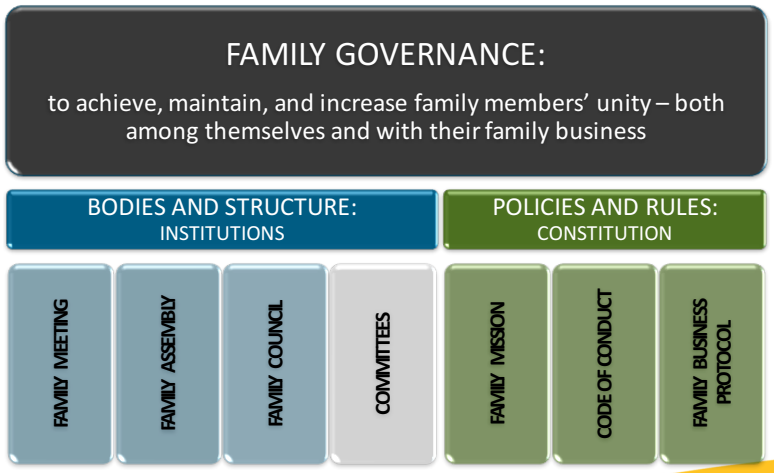
The Big Picture



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Family Governance Guiding Principles & Policies

Family Constitution

- Family Mission/Vision/Values statement
- Family Code of Conduct – how we engage with each other
- Strategy
- Policies
  - Employment
  - Education
  - Compensation
  - Pre-nups & co-habs
  - Etc.

Formality is your friend

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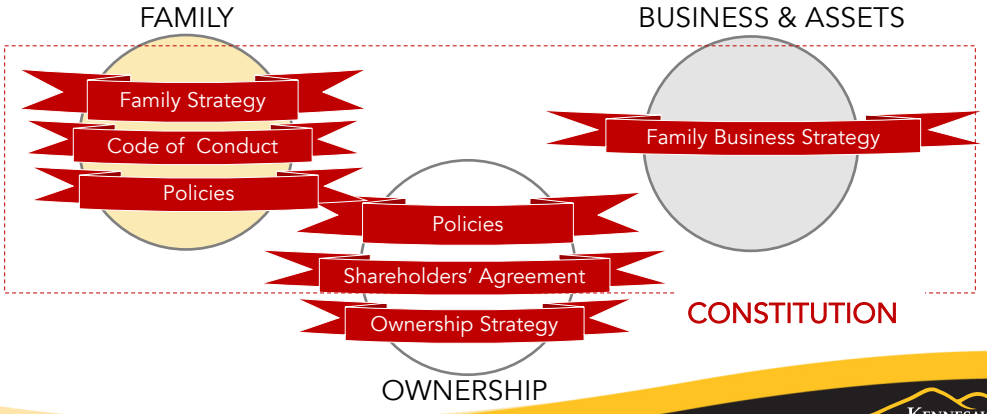
Purpose of the Constitution

Defines and regulates the relationship between and within



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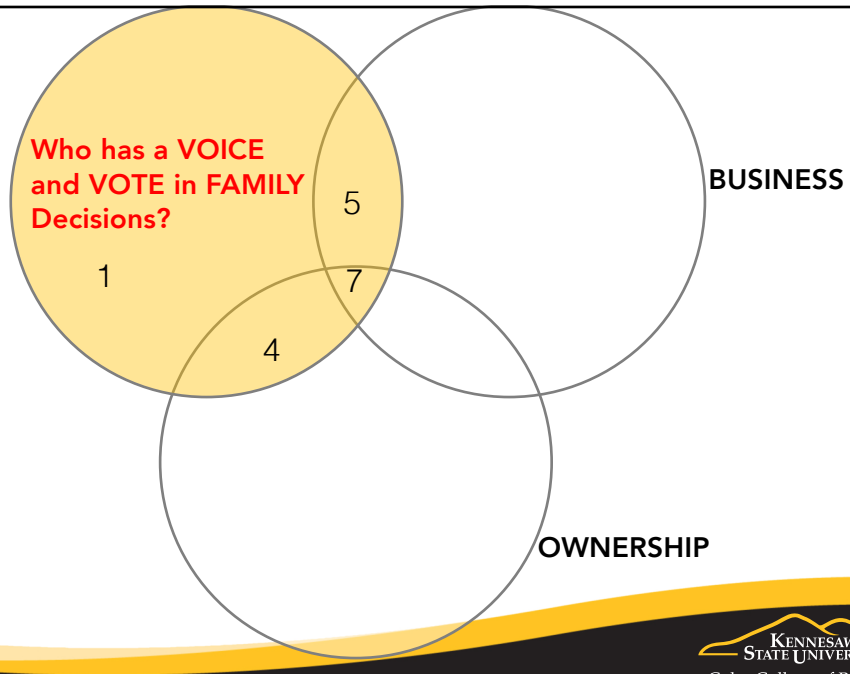

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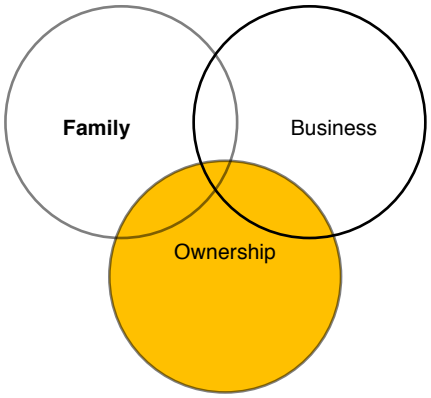

OWNERSHIP SYSTEM GOVERNANCE

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Why Ownership Governance?

- Instils the discipline of separate bodies for each circle
- To address the "Accidental Partnership Syndrome"
- The foundation of the governance system for the family enterprise

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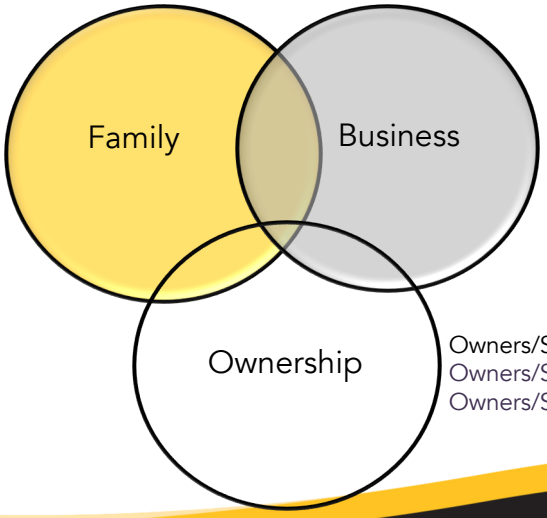
Family Enterprise Governance *Forums*



Owners/Shareholder Meeting
Owners/Shareholders Council
Owners/Shareholders Assembly

Source: Add (2015)

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Discussion Topics for Ownership Governance

- Ownership goals and direction
- Ownership policies (e.g., dividend, redemption, insurance)
- Trusts
- Control issues
- Intergenerational Dynamics
- Growth versus harvest
- Electing board of directors
- Liquidity
- Family Participation Policies (decide)
- Letting go
- Shareholders agreement
- Education of owners
- Transfer of shares (e.g., voting and non-voting shares)
- Management transition principles
- Risk management
- Estate planning
- Buy-sell agreement
- Election of Ownership Steward

Adapted from Sage-Hayward and McGrann

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Role of a Responsible Owner

- Establish vision and goals that will guide the business
- Speak with one clear voice
- Understand responsible Ownership: become educated
- Assure excellent governance in all three circles
- Initiate policies to guide the business and the family in their relationship with each other
- Transparent about Ownership succession
- Prepare next generation of Owners

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Ownership Governance

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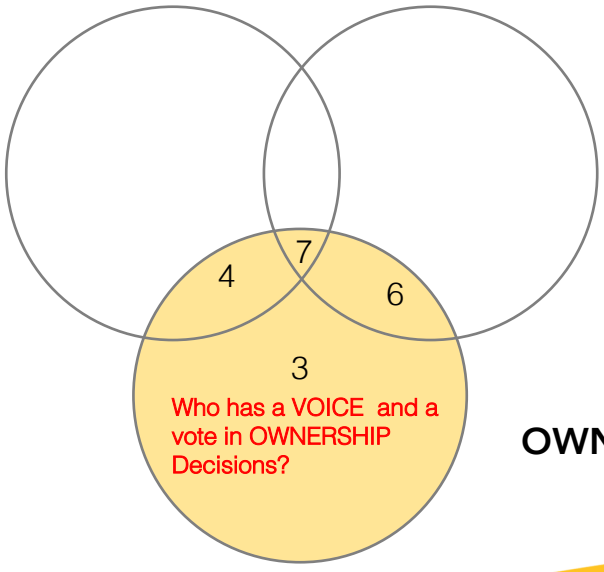

OWNERSHIP

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Decision-Making Inside Each Forum

Participatory Management			
Leader Decides		Followers Decide	
Autocratic	**Consultative**	**Group Decides**	**Delegation**
Decide and Tell	Decide after consultation and/or recommendation	Followers share in decision	Delegate to others
Style #1: Autocratic •Decide unilaterally and announce decision.	**Style #2: Consult** •Almost decided, check reactions before final decision.	**Style #4: Majority** •Majority vote with leader having one vote, no veto power.	**Style #6: Delegation** •Delegate the decision with clear parameters of freedom.
	Style #3: Recommend •Solicit inputs before deciding.	**Style #5: Consensus** •All agree after discussion	

Source: www.primarygoals.org

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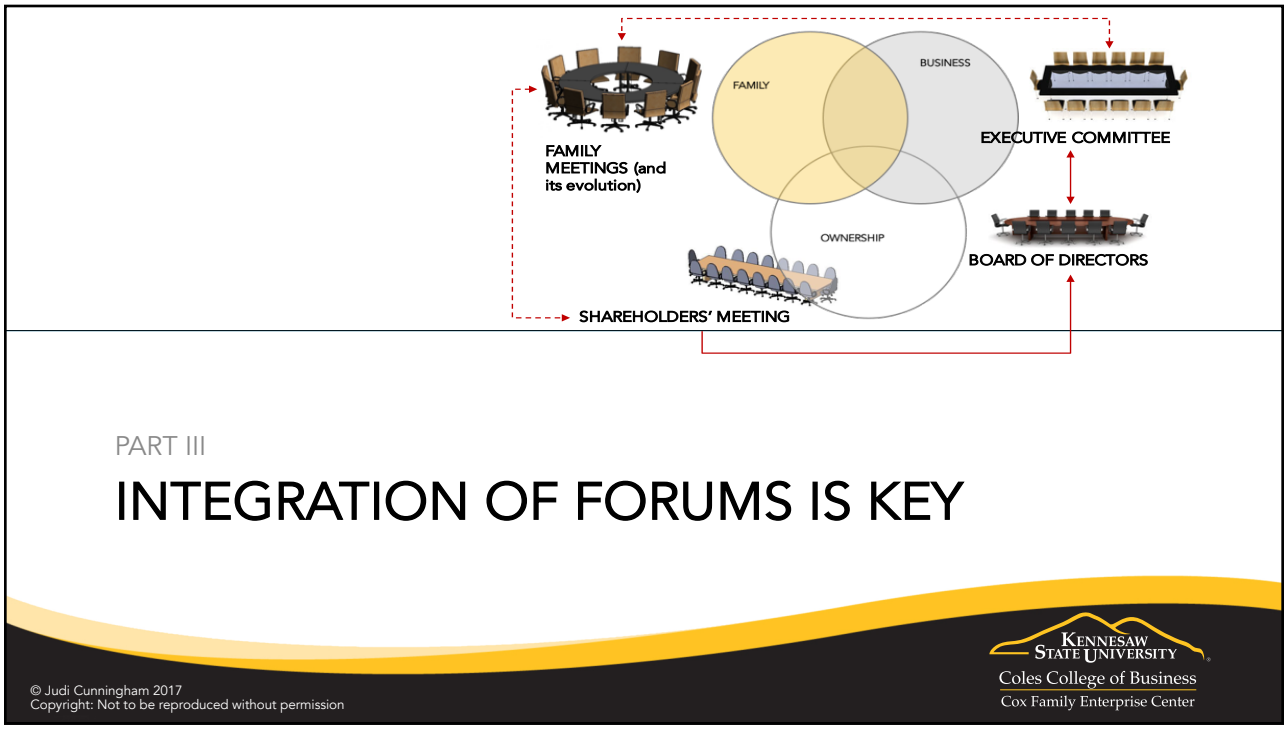

PART III

INTEGRATION OF FORUMS IS KEY

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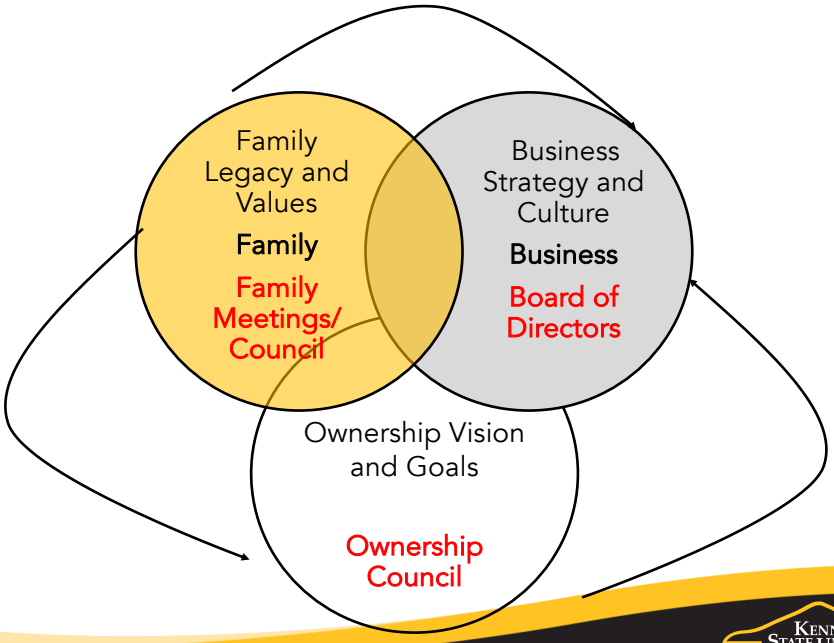

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Notes on Governance for the Family Enterprise

- **Grow governance structures slowly and commensurate with the need – complicated is not better**
- **Prepare members to grow with the evolving system**
- **Size Matters - Don't create structures that are not needed**

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Governance is NOT the Solution!

Governance without:

- **Strong Relationships**
- **Integration with other governance bodies**

. . . . . Doesn't work

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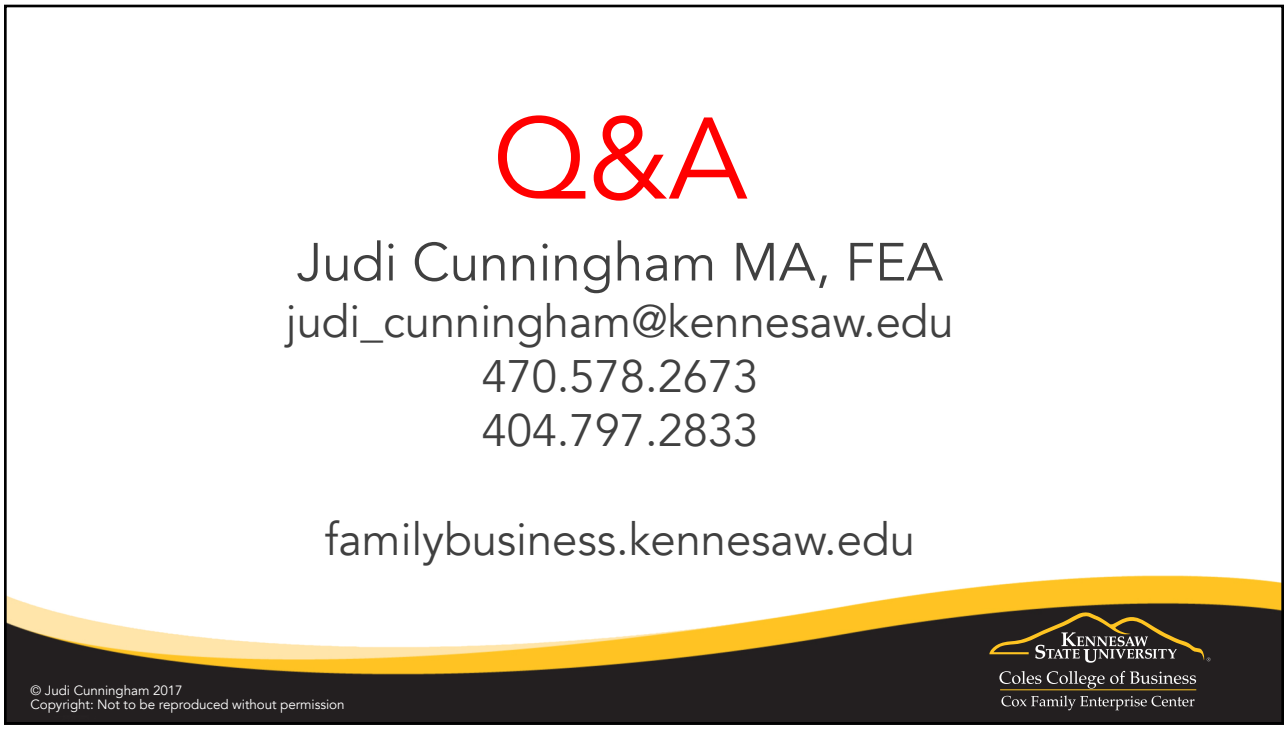

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