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Pivotal moments for family enterprises
The art of governance



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EDITOR'S NOTE

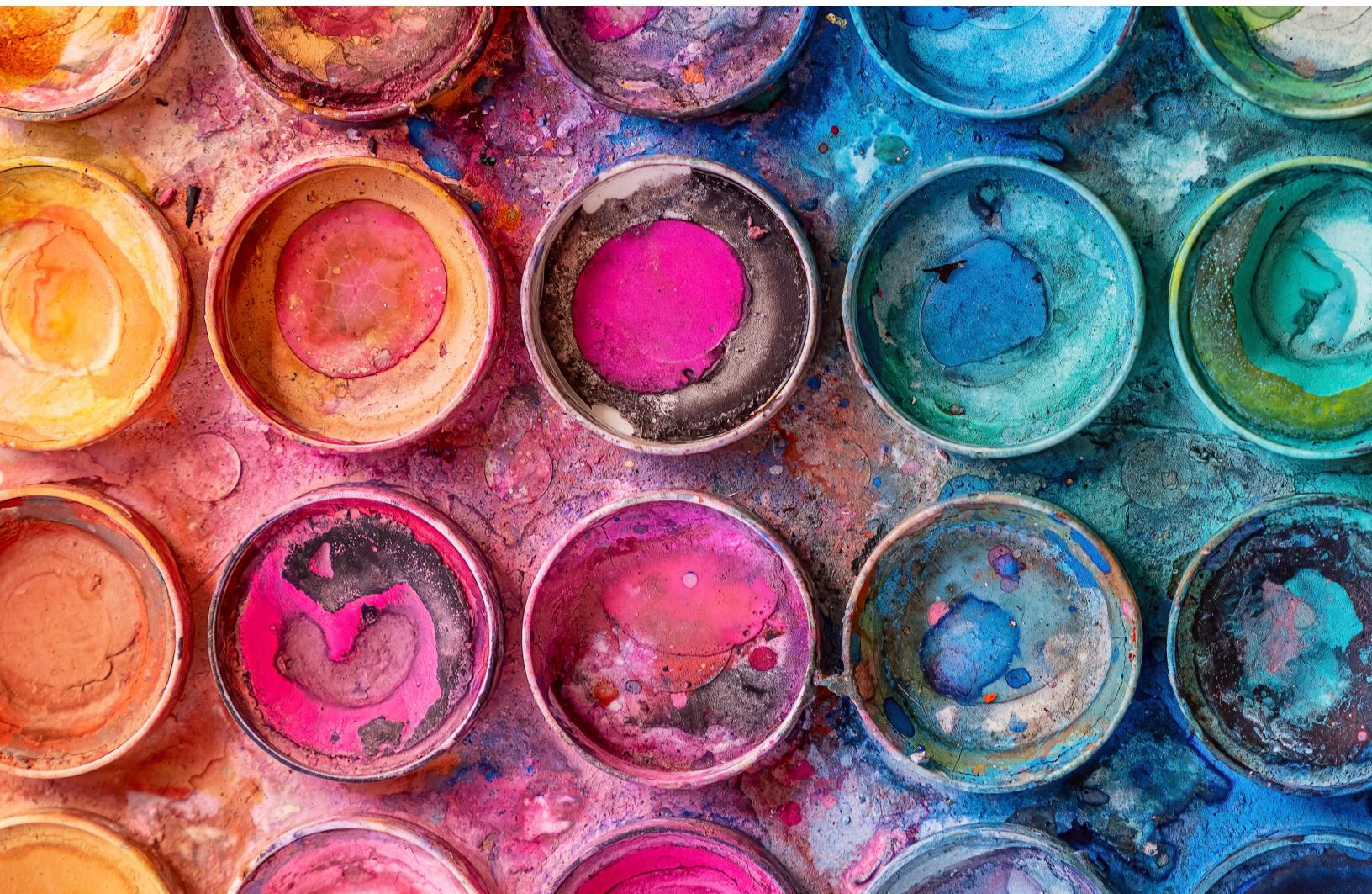
Like a great work of art, family enterprises are unique, crafted over time, and highly valued. While no two family enterprises are the same, they are united by a series of pivotal moments—opportunities to grow, evolve, or transform—and preparation is essential for fully seizing those opportunities. This is the first article in a series exploring the eight foundational elements that can help family enterprises maximize the opportunities that arise. Because, with the right canvas, family enterprises can craft a business that supports its evolving vision, interests, needs, and values for generations to come.

Every family enterprise faces **pivotal moments** that can alter the course of their business, from leadership transitions to external market forces beyond the team's control.

Maneuvering through these challenges, mitigating risks along the way, and embracing new opportunities are at the core of a carefully designed and implemented governance model.

Family enterprises that aspire to reach this objective can channel the same entrepreneurial energy that helped

them build enduring, multigenerational enterprises and business portfolios. A strong foundation of governance can help family enterprises make decisions in areas including capital needs, technology, leadership transitions, and incentive planning. With an informed perspective, enterprising families can unleash the shared vision and values that inspired their business in the first place.



Checking the vitals

One of the first steps family enterprises can take is recognizing the important issues that could affect the family and business over time. As families grow, so, too, does complexity, as companies may now be supporting growing stakeholder groups. They will need to manage the varied perspectives that exist within a family system. As new generations emerge, company leaders should ensure the appropriate legal and organizational structures are in place—such as wills, trusts, and succession plans—to execute on their objectives.

Furthermore, as organizations diversify into new businesses, geographies, and products, they may find themselves at a disadvantage if their governing bodies lack the discipline to adapt to these transitions. Governance helps family leaders anticipate and address challenges by bringing greater discipline, transparency, and accountability to the issues that matter most.

As a next step, it's helpful to decide what needs to be on the governance agenda. To be clear, the goal of family enterprise governance is not to create administrative burdens and bureaucracy, but rather to provide input and oversight on the strategic direction of the business, protect family relationships, and steward an enterprising legacy for future generations.



Agenda items may include expertise and guidance in functional areas such as mergers and acquisitions, marketing, international trade, or technology. Some companies may benefit from improvements in internal communication, while others can build more sophisticated processes to elevate from compliance to smarter governance, ultimately helping to ensure a more sustainable enterprise.

The value of independent oversight
In order to develop these processes, it's important to put infrastructure in place that works for each individual enterprise.

For instance, the addition of independent directors on family enterprise boards can bring fresh perspectives and insights. Some organizations accomplish this through a well-functioning board that offers diversity of thought, experience, and relationships

to influence the strategic direction of the business. Boards are successful when they're accountable to shareholders and stakeholders in delivering the vision, strategy, values, and culture set by the owners. What's more, skilled and objective independent directors can help expand management and shareholder perspectives, serving as a source of encouragement and supporting informed decision-making.

It's important to note that having a board doesn't mean giving up control. Rather, a well-functioning board serves in an oversight capacity—helping support an agreed-upon agenda that helps align family strategy and business strategy. It provides for input from family shareholders, and guidance for executives, to help them remain focused on their roles and responsibilities.

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Multiple governance forums

Enterprising families can benefit from the creation of distinct forums representing various family stakeholders. For example, a Shareholder of Owner's Council provides shareholders with a forum to gather to continually seek and build alignment and consensus around key issues such as purpose, as well as decision-making on areas such as investments and company distributions. This forum also sets criteria for success and key policies such as a company's philanthropic goals and family employment within the enterprise.

These forums, including a Family Assembly or a Family Council, can provide stronger alignment between family strategy and business strategy. For example, a Family Assembly is the gathering of the entire family in which the focus is on family bonds. The purpose of such a forum is to nurture and strengthen family relationships. An annual Family Assembly can help encourage emotional ownership of the family enterprise and reinforce a sense of pride in the family legacy by educating the next generation about the plans, priorities, expectations, and operations of the organization.

A Family Council can serve as a bridge between the business and the family, ensuring the vision and values of the family are influencing the daily operations and opportunities of the business. This forum's design encourages and creates dialogue between the business and the family. By definition, a council is a body that draws on a larger group. The Family Council is often established as the family grows to create a distinct body that represents the evolving needs and interests of the family.

Through strong governance, enterprising families have an opportunity to build on the richness of their legacies for the benefit of current and future stakeholders, thereby helping them manage each pivotal moment, as a family. As we will discuss in future segments of this series, a well-established governance structure can provide channels for communication, independent thought, and varied perspectives, which are all valuable to the success of a family enterprise. Investing the time and resources to establish these structures can be foundational to building agility, addressing unanticipated disruptions, and capitalizing on opportunities.



Questions to ask when considering establishing or refining a governance model

- Does our family have a forum to meet regularly to discuss matters of importance to the family and business, and are those interests represented in our governance model?
- Which types of governance structures and practices best serve us today?
- Do we have the right board composition in terms of background, expertise, independent thought, and leadership potential? How are we evaluating its effectiveness?
- Does our governance model consider the alignment between the short- and long-term needs of both the family and the enterprise?

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Determine the right strategy to meet liquidity needs, including acquisitions, investments, and divestments.

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