

Governance and the Enterprising Family: Helping Families Prosper Across Generations

Estate Planning Council of Central NJ
Jumping Brook Country Club

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Family Business/Wealth Consultant – Blum & Savlov, LLP

Two Types of Clients

- Reactive
- Proactive

Defining Our Terms

Family Business

Versus

**Business Family
(Enterprising Family)**

Governance Is Key to Sustaining **Family AND Wealth!!!**

- Widely misunderstood term
- More than bunch of suits around a table (“Board”)
- NOT necessarily handing over control to someone else
- “Papering up” vs. **Deliberately Developing Family:**
 - Vision
 - Culture

Great Quotes by Professionals working with Families and Wealth

- You can't "paper up" family relationships"
- You can't litigate love
- I can't do with paper what you could not do in 25 years of raising your kids

Agenda

- Governance – General
- Governance – Family Specific
- Reverse Engineering – Cases (Reactive and Proactive)
- Governance – Specific Models (simple and complex)

Governance In General

- What is governance in general???
- Hint: look at USA
 - Founding Fathers
 - Vision
 - Framework

The Complete Idiot's Guide to a Successful Family Business

Governance is the method or system of sharing the rights and responsibilities of a family business with its various participants including owners, managers and family

Business Family Governance

Process of formalizing and managing the interplay of:

Family relationships/shared emotional life...

AND

Shared economic life

Business Family Governance



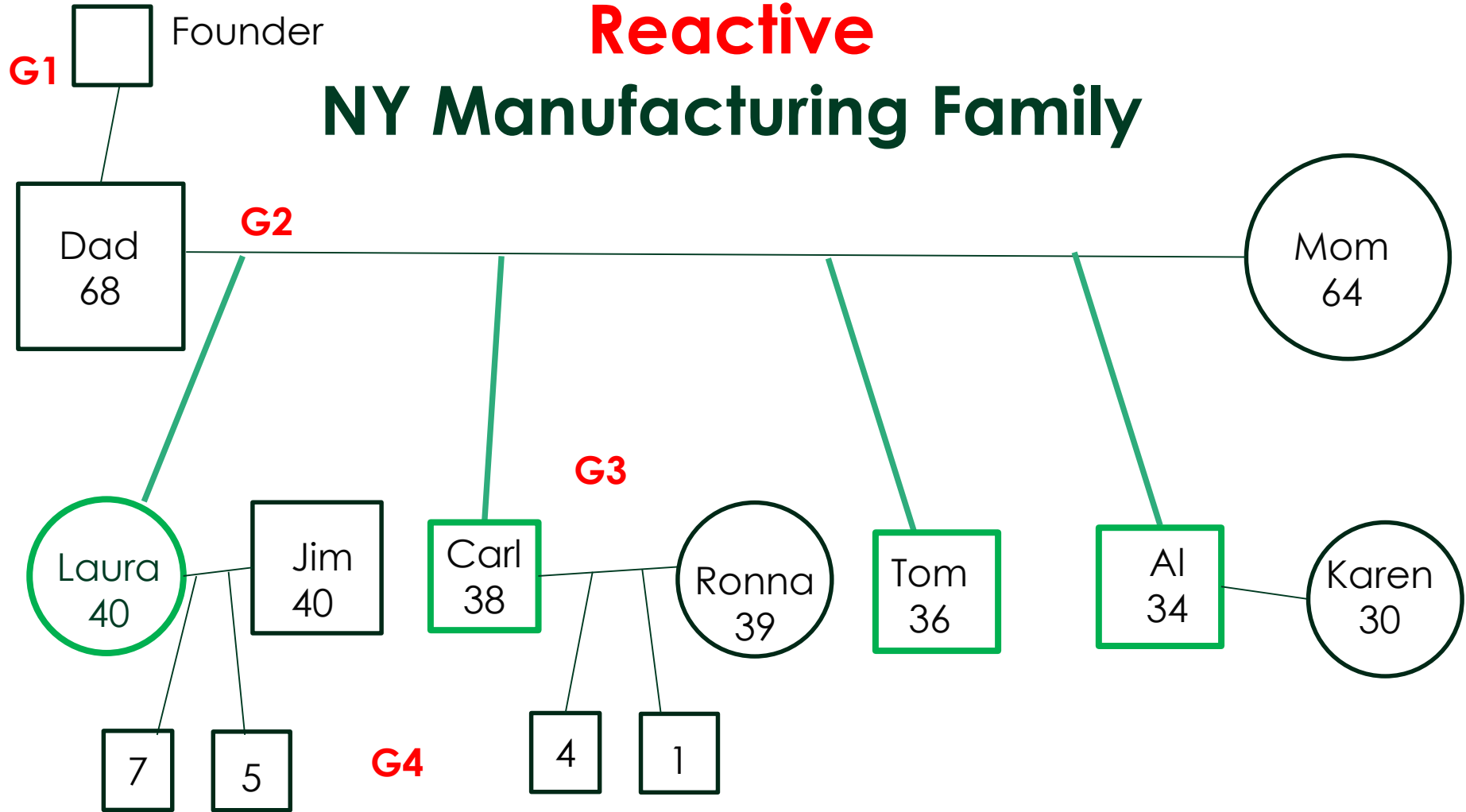
Can't be done purely from top down!!!

Reverse Engineering

Quick cases

2 reactive - work backwards into governance

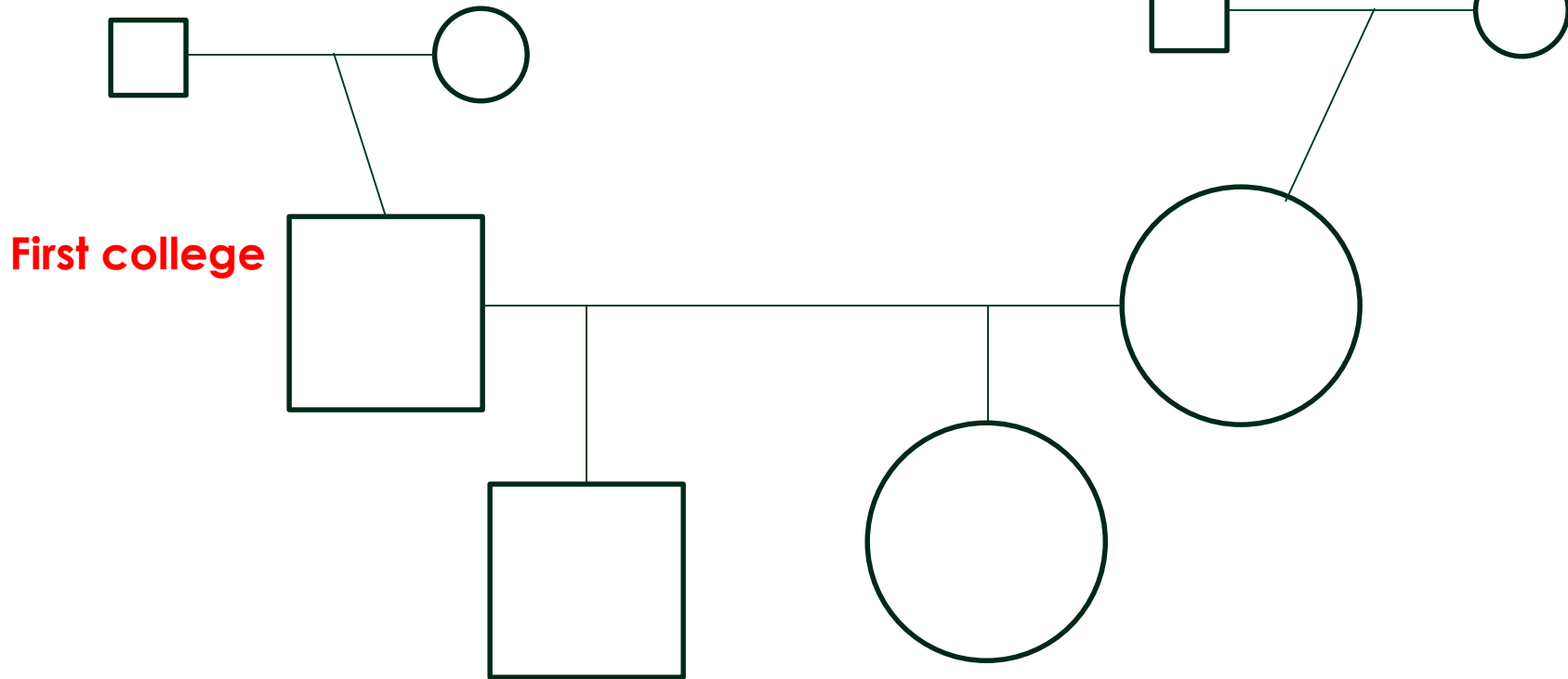
1 proactive and demonstrate the power of early governance process



Reactive Mixed Marriage

\$\$\$ - Jewish
1850's deep south
Invest 1970's Berkshire
Hathaway

Blue-collar
Irish-Catholic



Family Governance

TOXIC INFORMALITY

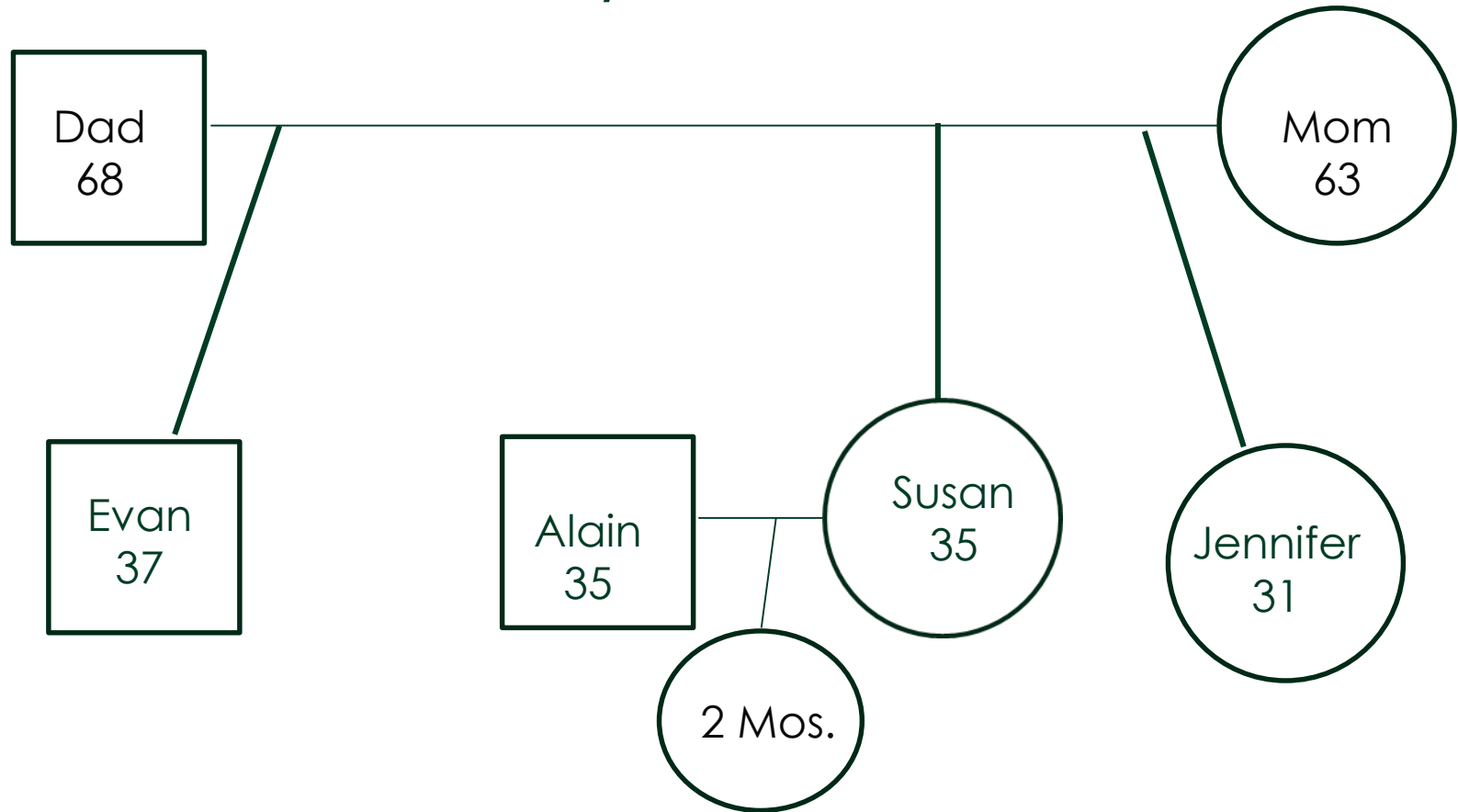
The cure?

Be:

- Deliberate
- Purposeful
- Intentional

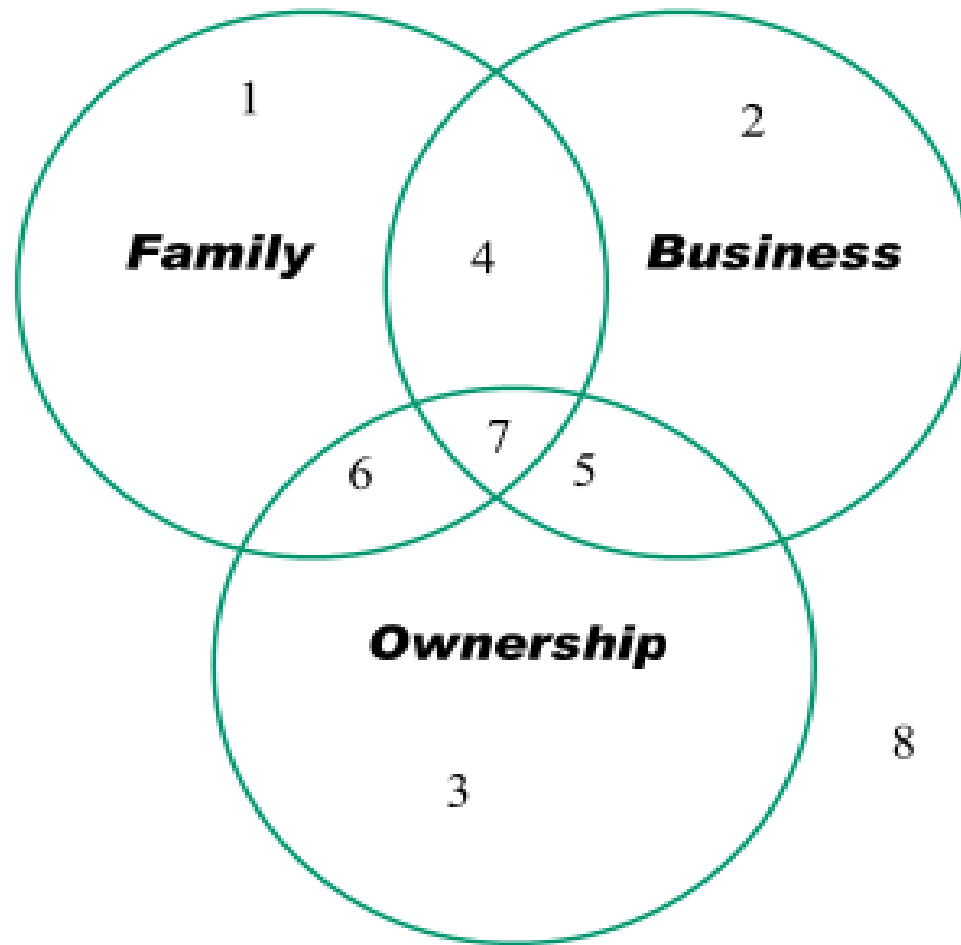
Proactive

Chinese Family – NYC Real Estate



Family Governance

- How many of you get involved in developing family governance?
- What forms?



Taguiri & Davis

Family Governance

John Davis – Harvard Business School

- Corporate governance is difficult enough...
- Add the complexity of family...
- Business, Ownership group AND **FAMILY** all need governance

Family Governance

John Davis – Harvard Business School

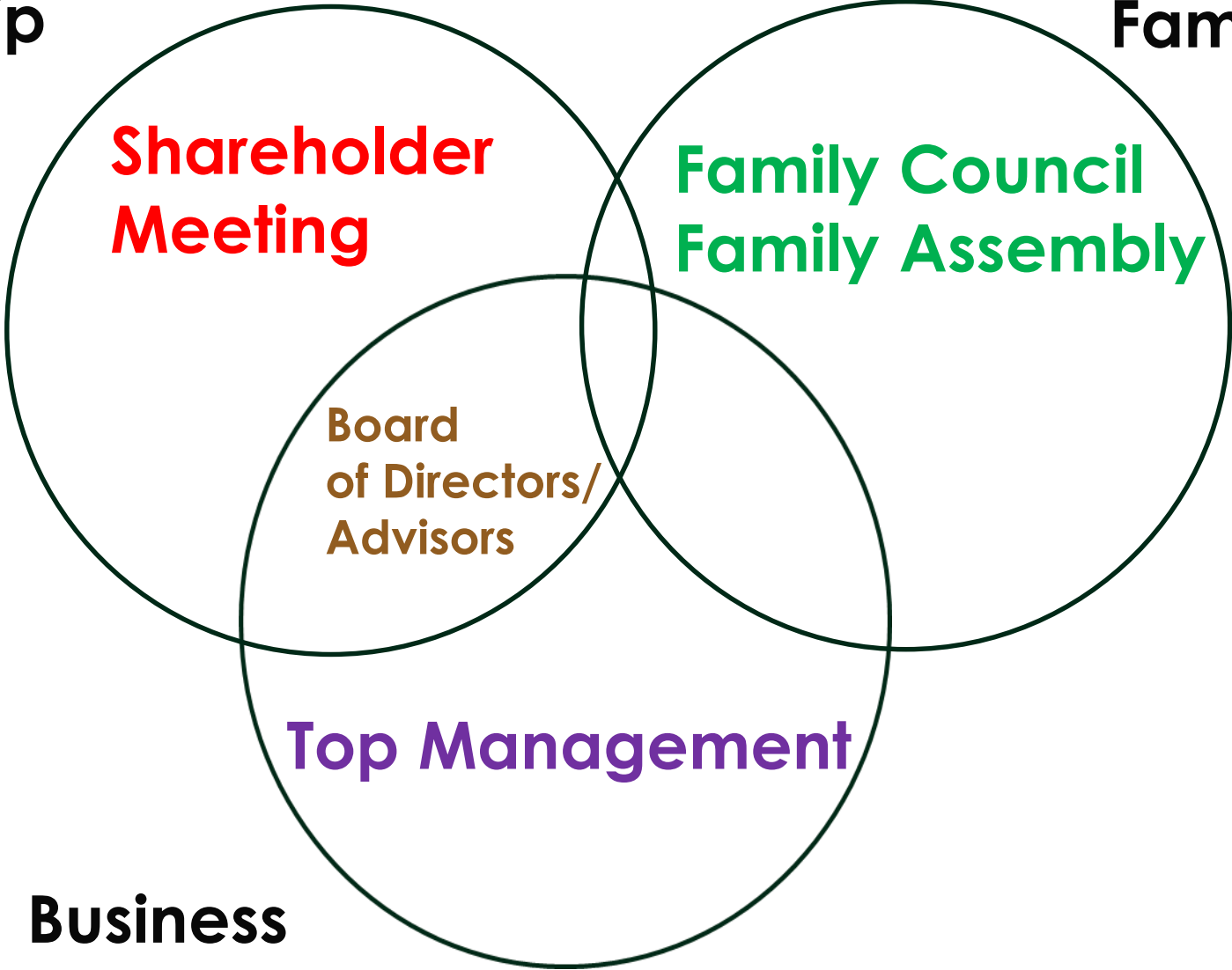
- Generates a sense of direction, values to live by or work by, and well-understood and accepted policies that tell organization members how they should behave or what they should do in certain circumstances.
- Brings the right people together at the right time to discuss the right (important) things.

Family Governance
John Davis – Harvard Business School

Simplest form that
does the trick

Ownership

Family



Business

Family Governance

The Simple Things

- Annual meetings with all professionals
- Advisory Board (later – fiduciary)
- Policy for family entering the business
- Development plans for family members
 - Milestones, evaluation, non-family involvement (safety)

Family Governance

The Simple Things

- Agreement on meritocracy
- Common vision and mission
- REAL values statements
- Clear options for family who do not want to participate
 - Family and not “business”

Family Governance

The Simple Things

- Family story – lessons, wisdom, values
- Ethical wills
- Operating agreements
- Shareholder/Buy-Sell agreements
- By-laws

Family Governance

High-Level Ideas

- Develop the positive
 - Deeply held values in action
- NOT only manage downside
- Family culture
- Senior generation focus???
 - A voice does not equal a vote!!!

Family Governance

Family Constitutions



Family Constitutions

- Typically not legal
- Morally binding if created in a representative manner
- Often signed/memorialized by family
- **Elements:**

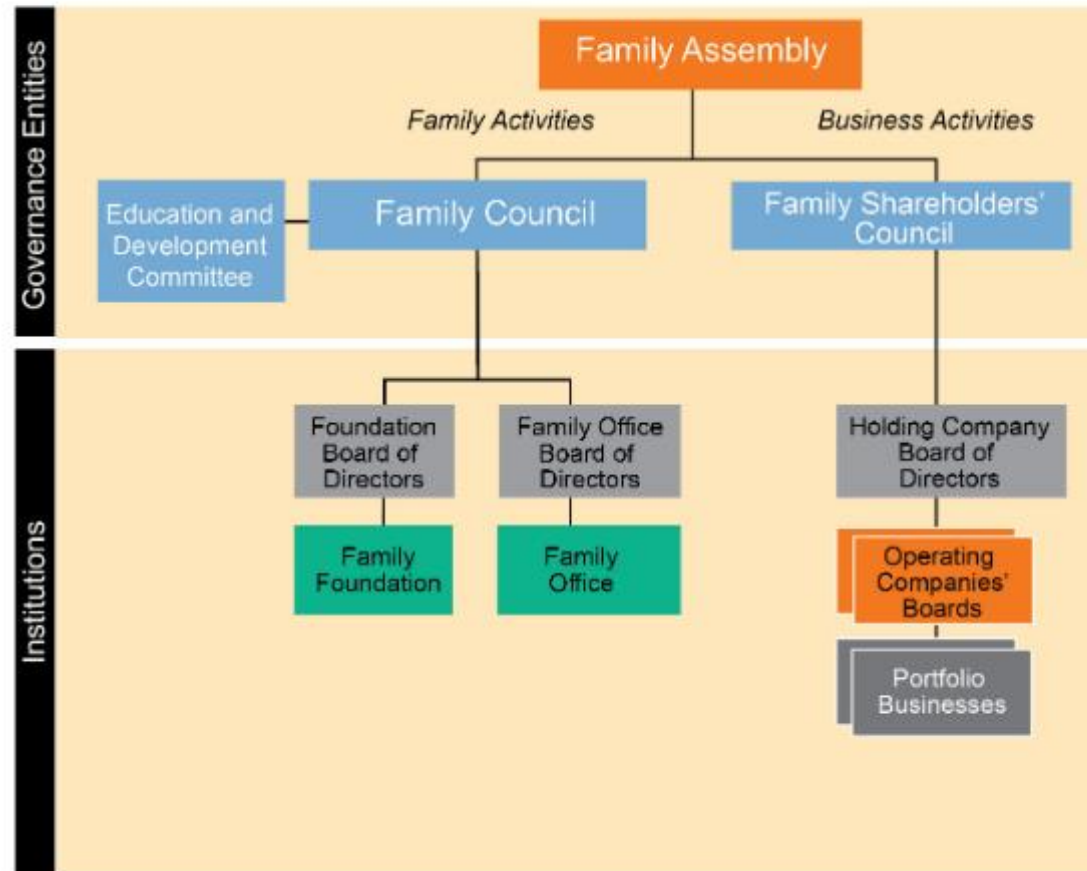
Family Constitutions Elements

- Preamble – why?
- Process before specific structures
- Understand family VALUES & GOALS
- Rules for ownership
- Shareholder rights
- Dividends
- Employment

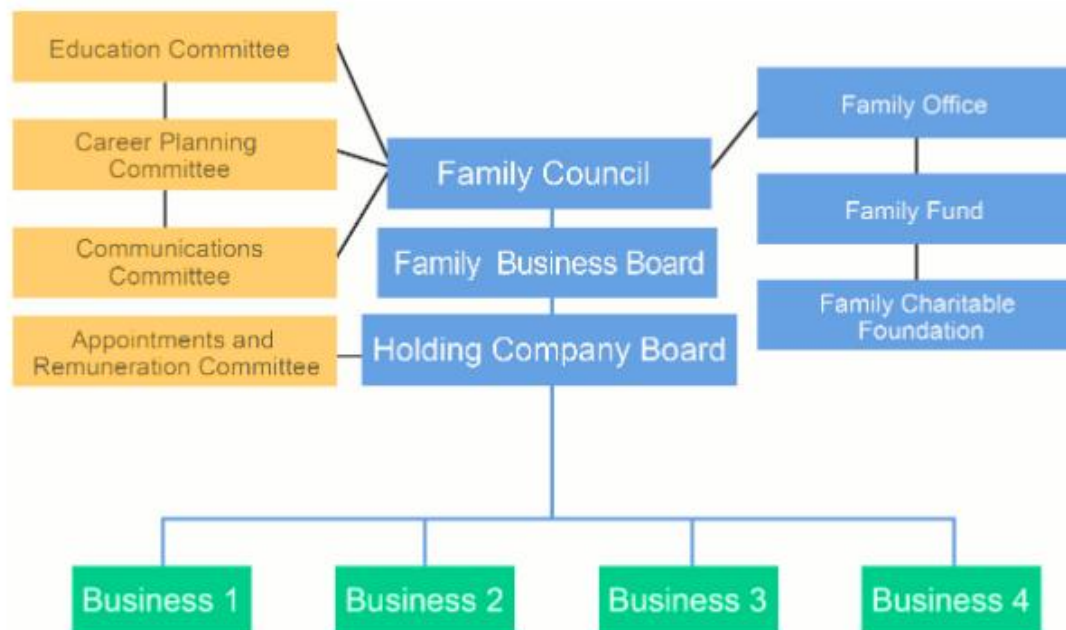
Family Constitutions Elements

- Shared family vacation homes
- Create family council
- Committees (investment, education, internships, reunion, philanthropy)
- Define family
- Family bank
- How amended
- **Process, Participation, Positive modelling**

LESSON 2 2.1.2 First example of complex family governance architecture



LESSON 2 2.1.3 Second example of complex family governance architecture



Learn More - Organizations

- Family Firm Institute
 - Certificates and education
 - Peer reviewed journal
 - Family Business Review
- Purposeful Planning Institute
- Business Families Foundation (free)
 - Excellent brief videos, interviews, experts
- Family Business Consulting Group (concise books, variety of topics)

Learn More - Books

- **Wealth in Families** (Collier)
- **Family Wealth: Keeping It in the Family** (Hughes)
- **Generation to Generation: Life Cycles of the Family Business** (Gersick, Davis, McCollom, Lansberg)
- **Succeeding Generations: Realizing the dream of families in business** (Lansberg)

Learn More - Books

- **Family Business Governance: Maximizing Family and Business Potential** (Aronoff, Ward)
- **The Balance Point: New Ways Business Owners Can Use Boards** (Tutelman, Hause)

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