

Meeting Takeaways

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Evolution of Ownership and Governance in a Family Enterprise



Presenter

Sara Hamilton

Founder & CEO,
 Family Office Exchange (FOX)



Presenter

Robin Letchinger

Family Enterprise Market Leader,
 Family Office Exchange (FOX)

A capacity crowd of PDA members and guests attended the April 24th program featuring Family Office Exchange (FOX), which focuses on providing best practices associated with the business of managing the family enterprise and the family's wealth across generations. The strength of the FOX network is derived from the collective knowledge and experience of over 500 globally-minded family enterprises and their advisors based in 20 countries.

Sara Hamilton, Founder and CEO of FOX and Robin Letchinger, FOX's Family Enterprise Market Leader, provided their insights as to how boards of family enterprises consider and address challenges.

"Rags to riches to rags" is a cross-border, cross-cultural phenomenon that reflects the difficulty of transferring and preserving family wealth from one generation to another, primarily as the result of the complexity of the enterprise structure, competing interests among family members, and/or poor communication. To be successful, founders and following generations should be mindful of the following challenges:

- Overwhelmed by complexity, second generation owners may feel the need to unwind sophisticated tax and legal structures, not understanding the sound reasoning underlying them; therefore, explaining the reasons for the structures with clear diagrams may help inheritors better understand the rationale for their creation and reduce the desire to unravel and simplify them.

- Branch-centric thinking among competitive children may limit the desire for some siblings to look out for the best interests of the whole family and focus instead on their own branch.
- Grandchildren not growing up in the same household or region may not have common values or shared interests regarding their future together; thus, inheriting shares in a business they don't know or care about may be harmful to the business if the cousins are not properly educated about its value.
- Shared ownership without clear exit strategies can bind family members together in untenable situations, where certain owners might impose their will on others because they think they know better than the rest.

Family Alignment

Successful family enterprises will be aligned around vision, values, and leadership. To create the governance structure that enables this alignment, key considerations include:

- Is this a business-first or a family-first family?
- What percentage of the family's assets does this investment represent? Is this business the core asset or one of many businesses?
- How does communication flow between the board and the shareholders? Between the board and the Family Council?
- Do family board members understand their fiduciary duty to all the shareholders?

- How many different hats is the family board member wearing (board member, grantor, trustee, shareholder, generation leader, etc.)?

Independent Board Members in Family Enterprises

Independent board members add value primarily by bringing in a broader, fresher perspective than family members, particularly with respect to risk management. To be as effective as possible, the independent director should:

- Hear all the voices in the family. The knowledge about the family enterprise and its vision, value, etc. is very limited within the boardroom of the private company you serve. A survey that captures the views of all family members – without attribution – with a report of the findings is a good way to ensure all voices are heard.
- Build trust. Your recommendations are only as good as the receptivity of the family to hear them. Empathy and communication are the two paths to building trust.
- Empathize with the family members. Your job is not only to drive results within the business, but also to realize the vision and values of the family enterprise.
- Establish formal and informal lines of communication. An excellent means of achieving the latter is an "ambassador program" – where independent directors are paired with a family member and the two debrief after each meeting.