

# Family Business Basics

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Family  
Business

TRANSITIONS WEST 2015

November 4-6, 2015 | Marriott Newport Beach | Newport Beach, CA

## Why Do Families Come to Transitions?

- **Learn about family governance**
  - Getting a Family Council organized
  - Develop a plan of action for family meetings.
  - Hear about how to develop a family constitution
- **Develop Communication Strategies**
  - family dynamics
  - separating business & family issues.
  - Promoting cooperation and building consensus
- **Learn about how to develop the next generation** to be responsible business owners and family leaders

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# Why did you come to Transitions?

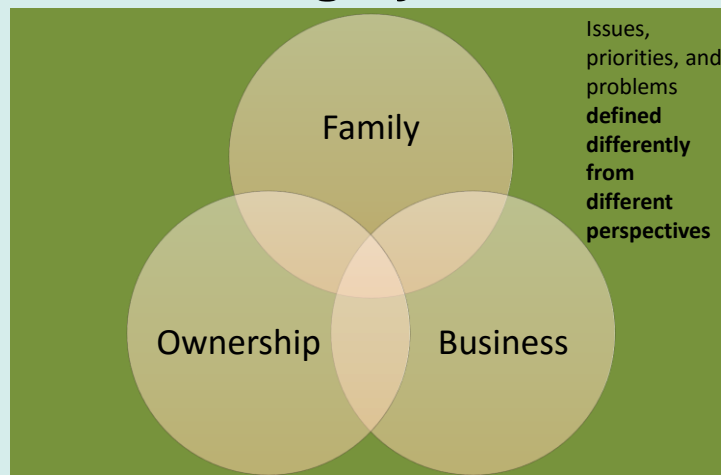
## Profile of Transitions Families

*Data from Transitions West 2015 attendees*

- **How many generations old is your family enterprise?**
  - Average: 3.5 generations
- **How many generations are currently actively involved in management of the family business?**
  - Average: 2 generations actively involved in management
- **What are your family business's approximate annual revenues?**
  - 29% under \$25 million
  - 49% between \$26 and \$300 million
  - 22% above \$300 million

# Key Family Business Concepts

## Seeing Systems



\*The idea that the interaction among three overlapping systems, each with its own norms and rules, creating natural conflict, was developed in the early 1980's and is discussed in *Bivalent Attributes of the Family Firm*. *Family Business Review*, 9(2), 199-208.

# Pathways to sustaining the family business over time:

## NURTURING FAMILY:

- Climate of openness, trust & communication
- Clear, compelling family purpose & direction
- Strong family governance that evolves flexibly with family

## STEWARDED BUSINESS:

- Exit & distribution policies for individual shareholders
- Strategic plan for wealth & enterprise development

## DEVELOPING THE NEXT GENERATION:

- Support development of next generation leaders

## Today's leaders of family businesses need to create room for the next generation

### From:

#### Tradition-Oriented

- This is the way it is.
- PUSH from the top to dictate change
- Riding the big idea that created success

### To:

#### Succession-Oriented

- Instills a culture that welcomes new ideas, where people are not afraid to challenge the way things are done.
- Engages next generation to create a PULL for change
- Looks for next big ideas, and aligns them with the company's values

# Typical Stages of Family Businesses Life Cycle

## 1. Founder/ Controlling Owner



- Ownership control in an individual (or couple)
- Close link between ownership and management

## 2. Sibling Owned



- Ownership control in a sibling group
- Some working in the business, some not ("first" among equals)

## 3. Cousins Consortium



- Many cousin shareholders with different childhood experiences
- Many not working in the business, often dispersed

# Leadership Challenges by Generational Stage

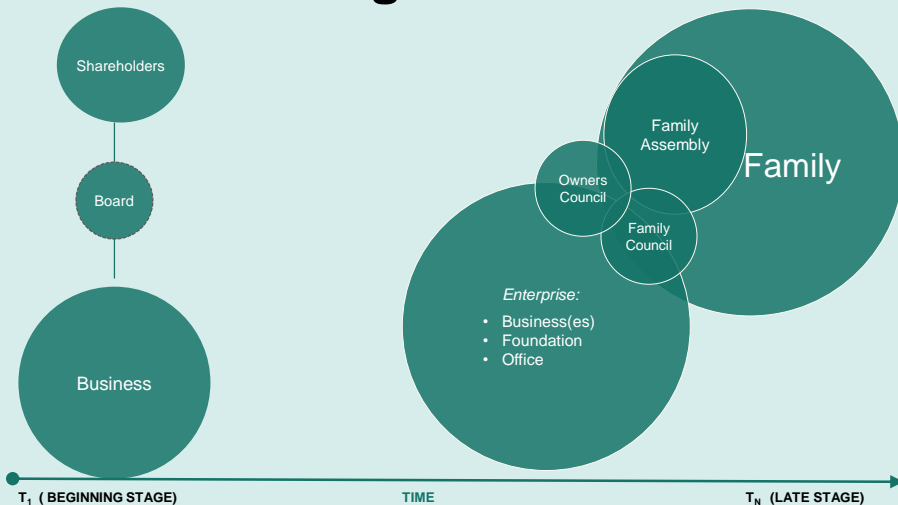
<i>1<sup>st</sup> Generation</i>	<i>2<sup>nd</sup> Generation</i>	<i>3<sup>rd</sup> Generation</i>
<b>Owner Led</b>	<b>Sibling Owned</b>	<b>Cousins Consortium</b>
<ul style="list-style-type: none"> <li>• Entrepreneurship</li> <li>• Unity of decision-making – singular decision maker</li> </ul>	<ul style="list-style-type: none"> <li>• <i>Small group</i> of owners</li> <li>• Potential for challenges to leadership – who's in charge?</li> </ul>	<ul style="list-style-type: none"> <li>• Family branches may dominate</li> <li>• Growing numbers of owners</li> <li>• Return on investment and use of capital/profit</li> </ul>

# **Evolving Governance for Evolving Families: Concepts and Examples**

## **In an older family business, when family stakeholders outnumber seats around the dinner table**

- The need for explicit Governance – *how decisions get made in the best interest of the enterprise* – grows too

# Evolving Governance



## Family Governance: “Typical” Structures and Forums

- Family Mission Statement
- Family Council
- Family Assembly
- Family Constitution
- Family Employment Policy
- Dividend Policy
- Educational Programs
- And more....

# Family Mission Statement:

## Why are we in this together?

The Smith Family is proud of its 160-year heritage as a business-owning family. We believe owning a company together strengthens and sustains our family, the descendants of Elisha D. and Julia M. Smith. We are committed to continued ownership of our businesses as long as it benefits the family, our businesses and employees, and the communities where we operate.

We envision...

- A dynamic, growing family enterprise that generates superior and sustainable financial returns, powered by innovative products and services, a skilled, dedicated team of employees, and family owners who set the highest standards for both business and family.
- A family committed to identifying and cultivating our next generation of leaders, the women and men who will serve in governing and operating positions in our business, family council and corporate foundation.
- A family and business steadfastly faithful to the values embraced by the Smith Family and Menasha Corporation and articulated in the Smith Family Statement of Values:
  - Integrity;
  - Excellence;
  - Community;
  - Entrepreneurship and Innovation;
  - Environmental Stewardship; and,
  - Best Practices of engagement, education, connection and governance.

## Family Council: Composition

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Fair, but not necessarily equal, representation across interests:

- Generations
- Genders
- Descendants and married-ins
- Branches (as a fairness check, not an automatic)
- In and not working in the business



# Family Council: Charter

## What purpose do we serve for the family?

### Smith Family Council Statement of Purpose

To ensure that family ties flourish and our businesses prosper, the family council shall:

**Foster a community that is connected and engaged, respects individual perspectives and works together on shared goals**

★★★

**Facilitate communication within the family and between family and company**

★★★

**Represent the family in working with the board and management on projects of common interest**

★★★

**Nurture strong and effective leadership**

★★★

**Promote continuing education among family, board and management**

★★★

**Uphold our family's values**

## Family Council Tasks

- Plan family assembly meetings
- Plan family social gatherings
- Plan family education
- Discuss current business, ownership and family issues and direction
- Foster communication between the Board and the family
- Develop plans and policies for the family
- Scout family talent for the business
- Fun

## Many roads lead to a good outcome

Each family is unique

No one “structure” works for every family

The process itself is important...

- fosters discussion
- includes multiple viewpoints
- opens up taboo topics

## Getting the Most Out of the Transitions Conference

# Guiding Principles

- By family businesses for family businesses
  - Speakers are family business members
  - Successes and failures
  - Most importantly, lessons learned
- The learning community

# Guiding Principles

## Beyond “Safe harbor”

- No-Sell environment and what that means
  - Sponsors are stewards of the conversation
  - Let us know if you feel the no-sell policy has been violated
- Absolute confidentiality
- Be judicious about social media & the conference
- Any coverage in Family Business Magazine of the conference is general in nature

# Networking / Sharing

## Networking

- The most important opportunity at Transitions is to meet other families, and share experiences
- Table seating assignments during various sessions
- Informal and pre-scheduled networking
  - Welcome reception
  - Group dinner
  - Optional sessions
- Take a risk and share. Ask questions after panel discussions. Participate in Focus Sessions.
- Take advantage of the learning community