

Glossary of Enterprise Governance Terminology

The concept of governance is complex, and many governance terms are often used interchangeably, causing great confusion for those who are being governed. This glossary is provided to help clarify the terminology used in discussion of Family governance and Enterprise governance. The topics covered include the following:

- A. Definition of Governance
- B. Types of Governing Structures and Roles
- C. Types of Family and Enterprise Agreements
- D. Key Elements of Governance

A. Generic Definition of Governance:

The National Association of Corporate Directors (NACD) defines "corporate governance" as "the process of establishing, monitoring, and adjusting strategy, and determining and communicating the rules for implementing that strategy. It also includes hiring, monitoring, and evaluating the senior executive team."

When applied to Enterprise Families, the term "governance" includes overseeing a more diverse range of responsibilities: leadership development; Enterprise vision and goals; opportunity and risk oversight; fiscal responsibilities; and an effective decision-making process. The Enterprise governing board may have specific oversight duties that do not apply to other types of governing boards.

B. Types of Governing Structures and Roles

Governance bodies have either a fiduciary role or an advisory role in supporting decision-making. Fiduciary boards have a duty to work in the best interests of the Enterprise, and they have a legal obligation to maintain that trust. Advisory boards are asked to provide advice and counsel, but they carry no legal responsibilities.

Family Assembly or Councils:

Family Assembly or Family Council – Families create a 'general assembly' concept to be inclusive of all members of the family, including spouses and children of a specified age. This is the structure that gives the family a formal voice regarding their collective purpose and identity and reinforces the vision and goals around which they are aligned. This group elects the members of the Family Leaders Council or the Enterprise board, depending on how the governance system is designed.

Example of a Family Assembly Purpose Statement:

"The purpose of the Family Assembly will be to establish the principals and priorities of the Family, to discuss long-term challenges and issues that impact the entire Family, to provide general communication to the Family about family

matters, to reinforce social activities among members of the Family, to provide coordination around collaborative philanthropy, and to bring educational opportunities to all family members."

Family Leaders Council – The Family Leaders Council is an elected (sometimes appointed) body of family members who speak for the family and protect the interests of the family. This group provides direction and nominates (or elects) the members of the Enterprise governing board.

Owners Council or Shareholders Council – In some family governing systems, the Owners Council (sometimes called a Shareholders Council or Family Council) might serve the same function as the

Family Leaders Council but only involve bloodline family members. The Owners Council makes it possible for all owners to have a vote on critical ownership decisions being discussed by the Enterprise Board. In some systems, the Family Leaders Council may function as the Executive Committee of the Owners Council and makes interim decisions between Owners Council meetings.

Family Advisors Council – Some families choose to structure an Advisory Council that invites members from other families with similar experiences or like-minded goals to provide an outside perspective and advice. This board is often most effective at getting the family to consider new ideas and new ways of thinking about the future.

