

When Governance Grows Beyond a Family Business

October 2021

DEFINING THE ENTERPRISE GOVERNANCE PROCESS

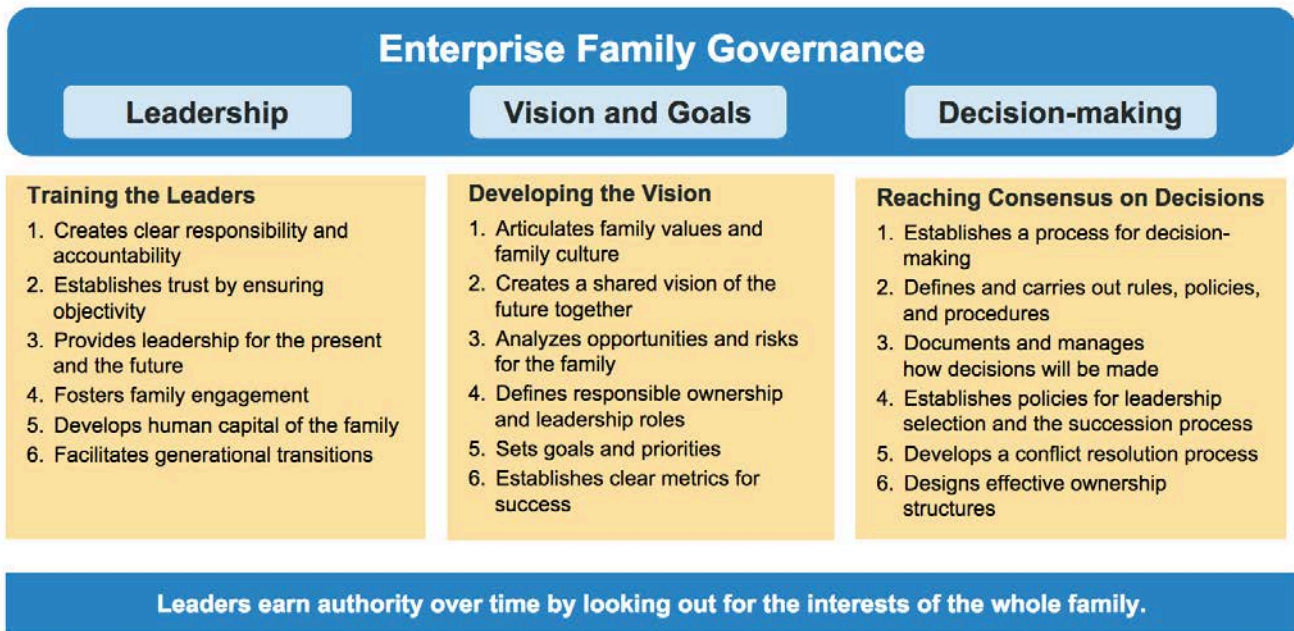
Enterprise families are unique because they share ownership and stewardship of more than just family businesses. In addition to co-owning operating companies, they are the guardians of family legacy, family trusts, shared philanthropy, and joint properties. As leadership moves from founders to siblings to cousins and family priorities change, the decision-making structures must evolve to stay relevant. The journey from one family business to many areas of shared ownership and stewardship requires different thinking and a different form of governance – one that encompasses the “sum of the parts.”

To learn more about the complexities of enterprise families and their governance, consider attending the FOX Enterprise Family Planning Workshop, held in Chicago each year.

1) WHAT IS “ENTERPRISE THINKING”?

Thinking beyond business governance is important for families who have myriad ways of sharing ownership, stewardship, and philanthropic goals, in addition to business goals. Thinking holistically about managing these shared interests requires “enterprise thinking” about the collective goals of the owners group. When the enterprise continues past the founders, collaborative decision-making is needed for siblings and eventually cousins to manage the many forms of capital they own together. The owners must agree on the goals, and the strategies and resources they will allocate to reach these goals.

Exhibit 1



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Families of European, Asian, and Latin American descent have been viewing themselves as enterprise families for generations and sometimes centuries. They adopt a “united we stand” philosophy and put what’s best for the family above what is best for any individual. They often speak about family legacy to the younger children and tell stories of success and failure. They create a sense of belonging to the journey, which includes both the history and the future as part of the family’s evolution.

2) WHAT ARE THE DIMENSIONS OF GOVERNANCE FOR ENTERPRISE FAMILIES?

Three critical components make up the governance framework in a multigenerational private family enterprise. First, having strong, properly trained leaders is essential. Second, developing a shared future vision that owners commit to sets the

direction for the enterprise. And third, using a consistent decision-making process the family learns to trust creates stability during times of leadership succession.

3) WHAT MAKES ENTERPRISE OWNERSHIP AND GOVERNANCE SO CHALLENGING?

For multigenerational families, a large and diverse family must manage diverse goals and priorities. Getting all the owners on the same page so interests are aligned, and strategies are agreed upon, is a complex and time-consuming process. Defining the shared vision and deciding how to implement it is the ultimate test of a family’s sustainability. Setting clear goals and allocating resources is the next critical step in the process. And ultimately agreeing on how owners will measure performance and celebrate their success is the final test of family cohesiveness.



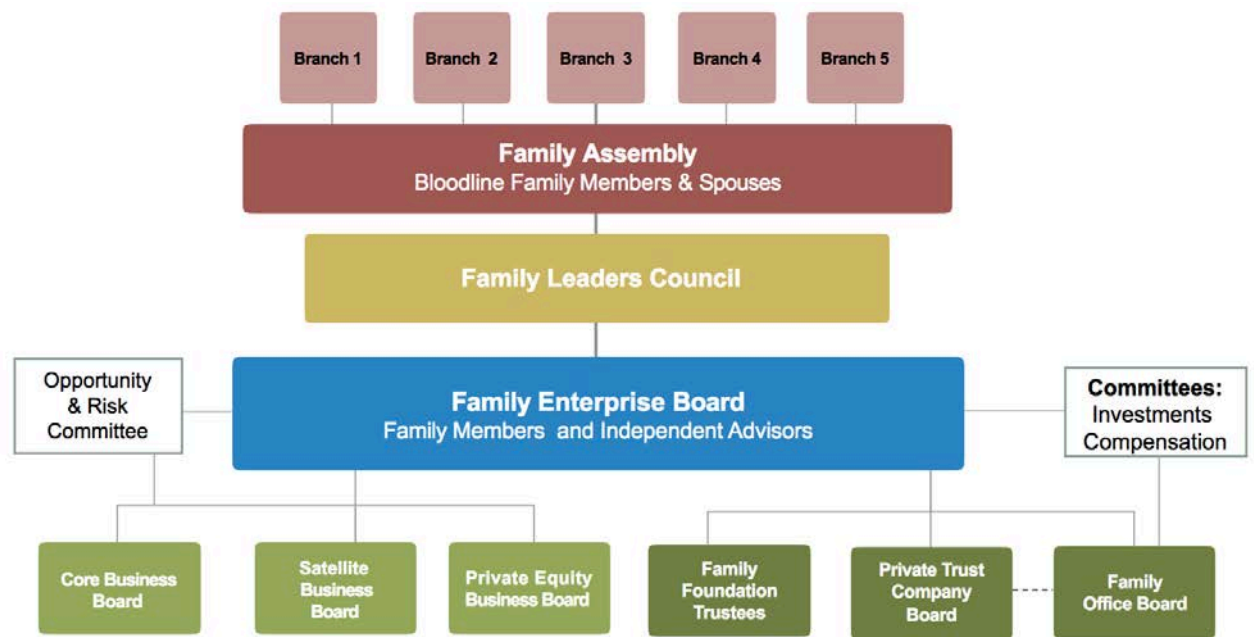
FAMILY OFFICE EXCHANGE INSIGHT

4) WHAT ARE THE ORGANIZING PRINCIPLES FOR EFFECTIVE ENTERPRISE GOVERNANCE?

The enterprise mindset leads to a governance framework that clarifies ownership roles and ties together disparate parts. The Family Assembly appoints or elects representatives to a Leaders Council, which is responsible for protecting the best interests of the family. They define family priorities and elect candidates for the Enterprise Board. The

Enterprise Board oversees the performance of all shared ownership areas – the business entities that create the wealth (Exhibit 2, left side) and the endeavors that preserve and distribute the wealth (Exhibit 2, right side). This Board selects and oversees the boards or committees for each operating entity – core businesses, private equity investments, portfolio investments, family office services, trust services, and joint philanthropic endeavors.

Exhibit 2



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Source: Family Office Exchange Research



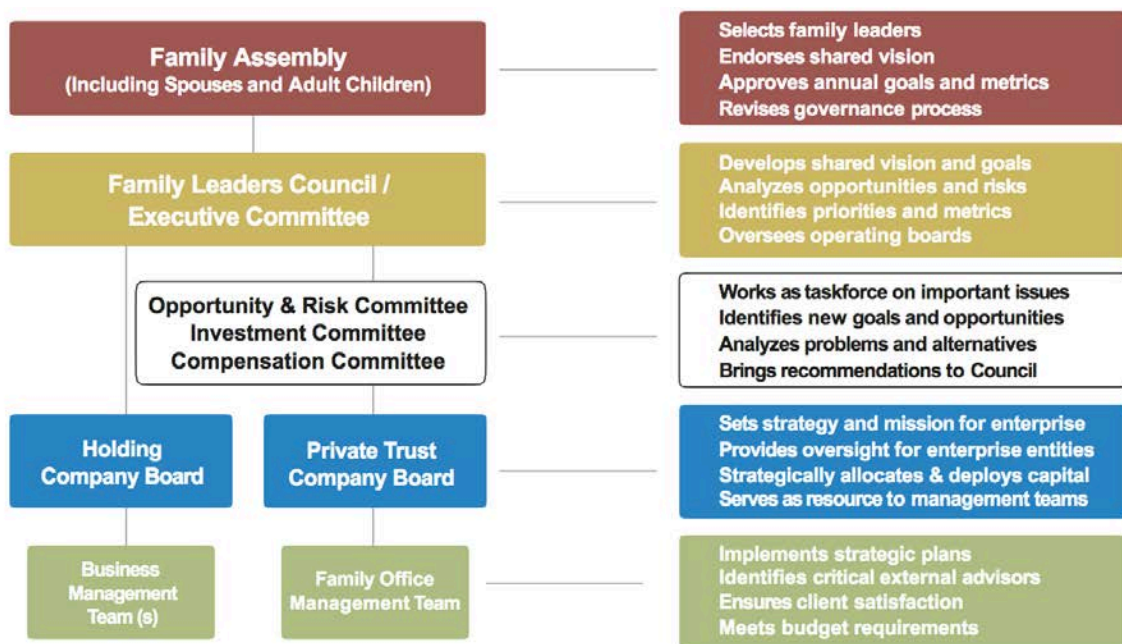
FAMILY OFFICE EXCHANGE INSIGHT

5) HOW DOES A FAMILY EXPLAIN GOVERNANCE TO THE RISING GENERATION?

Reaching agreement on when and how to explain the family's decision-making process to the rising generation is a complex process. Decisions need to be documented in the family charter once consensus is reached. Overseeing a large enterprise involving many owners of diverse ages requires a sophisticated set of rules about who controls what decisions.

Explaining the layers of governance in a clear manner will help younger generations see the benefits of organized decision-making. And because the process is understandable and predictable, training future owners on effective decision-making methods can build family trust. If the next generation is taught these concepts from adolescence, they will develop a deeper affinity for the enterprise and genuine appreciation for its value.

Exhibit 3



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Source: Family Office Exchange Research



FAMILY OFFICE EXCHANGE INSIGHT

6) HOW DOES THE FAMILY OFFICE SUPPORT THE FAMILY ENTERPRISE?

Many successful families set up a family office to oversee family financial affairs, manage family complexity, and mitigate family risks. This structure supports the family's values and guiding principles and often is involved in educating family members about history and financial responsibility. For many offices, their primary role is to serve as a risk manager, identifying downside risks that could harm the family or the enterprise (Exhibit 4).






7) HOW DO ENTERPRISE FAMILIES MEASURE THEIR SUCCESS?

Enterprise families use a great variety of metrics to measure their success. Certainly, business performance and impact are common themes. But beyond business success, other rewards exist in enterprise families. Investing family assets into thriving, self-confident

owners is a unique opportunity for these families, having a positive impact in society by filling specific needs is rewarding. As one FOX member has shared, "I can have a much greater impact as part of the family enterprise than I would attempt on my own. Together we can tackle bigger problems and come up with better solutions, and that is more fun and more rewarding."

Building your family's governance process isn't a one-time event, front-loading your efforts by laying the proper groundwork makes a difference down the road. Family members feel heard, bonds are strengthened, and the likelihood of your family staying together across generations becomes much greater. But it can be challenging to know where to start. So it helps to consult other families and trusted advisors who have traveled this road before and can guide you past common roadblocks and predictable risks. You don't have to do this all on your own, so reach out to others – your family will thank you for it.

Exhibit 4

GLOBAL MACRO FACTORS	Extreme Weather Events & Environment	Cyber Security & Technology Gaps	Geopolitical & Economic Uncertainty	Pandemics & Healthcare Capacity	
DIMENSIONS	ALIGNMENT and ENGAGEMENT	SHARED FAMILY VISION	ENTERPRISE GOALS and RISKS	STRUCTURE and GOVERNANCE	LEADERSHIP and LEARNING
ENTERPRISE VISION 	Lack of a Clear Enterprise Purpose or Guiding Principles	Lack of Exploration or Understanding of Possible Future Scenarios	Inadequate Opportunity and Risk Assessment	Unclear Levels of Authority in Enterprise Structure	Improper Succession Planning or Subjective Selection Process
FAMILY CAPITAL 	Misalignment in Family Values and Culture	Divergent Family View on Enterprise Vision	Imprudent Allocation of Family Capital	Distrust in the Governance Process	Lack of Learning Opportunities or Unprepared Family Leaders
BUSINESS CAPITAL 	Lack of Family Support for Business Direction	Lack of Planning for Industry Disruptions	Inadequate Return on Invested Capital for Risks Taken	Lack of Clarity about Ownership and Exits	Not Attracting and Retaining Strong Leadership
FINANCIAL CAPITAL 	Unclear Purpose or Ambiguous Roles for the Family Office	Suboptimal Structures to Support the Vision	Unclear or Inconsistent Wealth Goals and Investment Strategies	Lack of Depth and Board Experience Related to Finance and Family Dynamics	Ineffective or Inexperienced Internal or External Talent
PHILANTHROPIC CAPITAL 	Lack of Support for Family Values Social Responsibility	Inability to Identify Meaningful Philanthropic Vision	Unclear or Disjointed Philanthropic Goals	Lack of a Thoughtful Process to Support Grant-making Process	Insufficient Family Involvement in Philanthropic Endeavors





Sara Hamilton

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Founder and Board Chair of Family Office Exchange (FOX), Sara is a recognized visionary in the private wealth community. While a trust officer at Harris Bank in Chicago in the late 1980s, Sara witnessed the emergence of family wealth management as an industry. Hundreds of U.S. families became centi-millionaires overnight through leveraged buyouts that spawned private financial offices commonly called family offices, to manage family assets and educate wealth owners. Sara was the first professional to recognize family offices as a complex market segment in wealth management.

Sara founded the Family Office Exchange (FOX) in 1989 as a peer network for family office executives. Within 10 years, FOX could see that families needed help with their enterprise vision and managing financial transitions. As a result, FOX evolved into a strategist for family enterprises, a platform for sharing family wealth best practices, and an industry advocate for the importance of private capital in a global economy.

Today, Sara provides strategic direction for FOX and leads the development of new programs and services supporting family enterprises, family office executives and wealth advisory firms in more than 20 countries. She was named one of the Top 50 Women in Wealth Management by *Wealth Manager* from 2010-2012 and 2019 Outstanding Thought Leader for Wealth Management by *Family Wealth Report*.

Sara is the co-author of *Family Legacy and Leadership: Preserving True Family Wealth in Challenging Times* and serves on the executive education faculty of the University of Chicago Booth School of Business where she is an adjunct faculty member for their Private Wealth Management course, offered twice per year in Chicago. She is on the founding boards for the Private Directors Association in Chicago and the Foundation for Gender Equality in New York.

FOX has built a unique resource team dedicated to serving multi-generational families, led by 15 technical experts who are supported by a dedicated team of 20 additional employees based in Chicago, New York, and Madrid.



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Family Office Exchange (FOX) leads a vibrant community of families and trusted advisors guiding them to see around corners of what lies ahead in this dynamic and ever-changing world. FOX provides advice and solutions in an unbiased manner, through its thought leadership, community of peers and tailored learning programs.

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