The art of managing an entrepreneurial family

Successful leadership, organization and decision-making
Only 3%¹ of all family businesses worldwide remain in business for more than three generations.

We want yours to be one of them

Often enough, a family business has only itself to blame for its demise, whether it is due to the inability of the owners to agree, a lack of succession planning, open conflict or for any other reason. EY wants yours to help family businesses succeed for generations with our Family Governance Services, a tailored consultancy package that enables entrepreneurial families to manage themselves systematically and successfully.
The advantages of good family governance:

► It increases awareness of the links between the family and the business.
► It clearly differentiates issues that specifically concern the management and the owners.
► It provides new opportunities for more effective communication within the family.
► It ensures better basic and advanced training for family owners.
► It documents and addresses the expectations of individual family members.
► It ensures that every family member understands their role within, and their responsibilities toward, the business.
► It sets a reference point for future generations.
Family governance: turning relatives into a team

Our Family Governance Services help families that own and run businesses to manage themselves effectively – for the benefit of both the family and the business.

In an ideal situation, the family that owns the business should be the backbone of that business. The trick is to get all the family members to move in the same direction, make the necessary decisions at the right time and ensure that those decisions take into account both the family's wishes and the corporate goals.

Our Family Governance Services offer a platform that can help you to organize yourselves better as an entrepreneurial family, to evaluate risks systematically and to manage the family ownership of the business optimally – for both the long-term unity of your family and the ongoing success of your business.
Closely related: corporate governance and family governance

Corporate governance lays down the responsibilities and procedures within a company. In entrepreneurial families, this is part of family governance, and it should be carefully managed.

Family governance and corporate governance are interlinked. Just like good corporate governance, good family governance contributes toward sustainable economic growth and enables the long-term viability of a family business.

However, it is important to remember that the more complex the hierarchy or situation is within the family, the more complex family governance becomes.

And the longer a business operates, the greater the number of owners there will be. As we have seen in our consultancy, time and time again, entrepreneurial considerations are not the only factors that count. Emotional aspects also play an important role. We can show you how differing opinions can be guided – with the necessary tact – toward a joint resolution.

Experience has taught us where the significant pitfalls lie and how the individual perspectives of a family can best be integrated into a complete approach.
Family businesses can only be successful across generations if the entire family works together.
The future of any family enterprise depends on the quality of its decisions. This is something we can help you improve.

We can support you in the following areas:

► Business succession
► Family values and strategy
► Compensation models for management and the supervisory board
► Promotion of entrepreneurial skills
► Developing future generations
► Drafting a family constitution
► Fair treatment within the family
► Dealing with advisors
► The family’s influence on decision-making
► Selecting managers from outside the family
► Dividends versus investment
► Transfer of shares within the family
► Inheritance and ownership
► Family involvement
► Communication within the family
► Personal versus business demands
Family governance: our services

As the owner or co-owner of a family business, you have many things to consider. We can put together an individual consultancy package to help you manage your responsibilities and make the right decisions at the right time.

Every company is different. So is every family. That is why we adapt our services to your specific needs. And we work together with you, to help you identify the risks and opportunities. We ask questions and listen closely to what you have to say, both in workshops and in individual conversations. What you tell us is integrated into a tailored solution that will help you, as the owner, to organize your family and your business in the best possible way.

Through a wealth of successfully completed projects, we have acquired an understanding of a wide variety of situations that can develop within entrepreneurial families.

As a result, we are able to recognize potential conflicts early on, and are therefore in a better position to suggest possible solutions.

Our goal is to promote unity among owners and to help them better understand their roles and responsibilities. We can also provide the tools they need, such as an appropriate IT infrastructure, effective risk management for the family, a family constitution and much more.
Knowing where you’re coming from and where you’re going

EY’s Family Governance Services are geared specifically toward the factors that are essential for successful family governance:

1. **Forward planning**

2. **Succession management**

3. **Conflict management**

Whenever one generation hands the corporate reins to the next, changes are inevitable. It is therefore a good idea to develop, as soon as possible, a clear set of regulations to integrate the new situation, and to identify the pillars on which the company’s success has been built to date. Only then is it possible to consider potential strategies and make the right decisions.

1. **Forward planning**

   It is important for every family to have a vision of its own future, as well as of its role in the future of the business. That means finding answers to the following questions:

   ► What is the family’s corporate philosophy?
   ► Is the ongoing existence of the business a declared goal?
   ► Does the family intend to continue running the business?
   ► Are there potential successors within the family?
   ► Is it conceivable that someone from outside the family could run the business?
   ► What are the needs and expectations of the next generation? How can these be met?
Differing goals from one generation to the next can easily lead to conflict. This is a frequent cause of businesses falling apart altogether. So it is essential for all family members to agree on common goals early on – goals that are consistent both with the family’s convictions and the goals set for the business.

2. Succession management
Corporate succession can pose a great danger to family businesses. Sooner or later, everyone – whether they are an owner or a manager – needs to find a suitable successor. Such decisions must be carefully considered.

In our experience, most entrepreneurial families have little idea about how to manage a succession. As a result, the next generation is left in the dark for a long time and eventually finds itself ill prepared for the major challenges that lie ahead. It is therefore crucial to prepare the next generation – as early as possible and in a targeted manner – for the responsibilities it is expected to assume.

It is also possible that the next generation may not run the family business responsibly or that the chosen individual in charge may not receive the necessary support from their family. Such situations should be avoided at all costs – ideally through clear agreements that all owners pledge to uphold.
3. Conflict management

It is sad but true that conflicts within families often tear family businesses apart. This is despite the fact that many families think that this could never happen in their case. “We stick together. We’re a family, after all,” they often claim. But they underestimate the potential for conflict. To reduce this risk, it is important for the next generation not simply to rely on familial ties, but to start creating strong business relationships within the family at an early stage. It is also important for the next generation of family members to be given a clear idea about what roles they can expect to take up in the foreseeable future. This allows them to think about how they will master the different challenges that lie ahead.

These issues can be resolved systematically, and EY developed a model for this purpose that is based on the key elements shown on the right.
Key elements:

► Drafting a family constitution
► Defining the family’s vision and mission
► Organizing the family to enable joint learning, decision-making and communication
► Developing a set of rules for the owners
► Encouraging the training and preparation of potential successors
► Coordinating the family’s charitable activities
► Strengthening family bonds and encouraging the sharing of experiences
► Providing support in the drawing up of pre- and post-nuptial agreements
► Providing support in the drafting of wills and the settlement of claims in relation to forced heirship or intestacy rules
Analyzing the current situation

- Analyzing the family tree and current business structures
- Analyzing the family philosophy and culture
- Selecting the family members who should be involved in drafting the family constitution
- Seeking the family's approval and support

Time frame: about two weeks

Documenting the family philosophy and vision

- Understanding the views of previous family heads
- Pledging members to continuity
- Identifying any significant issues for the family
- Conducting confidential interviews with family members about their personal views
- Participating in workshops

Time frame: about two weeks

Developing the family governance architecture

- Uniting the objectives of the current and future management
- Developing rules and structures
- Agreeing rules for the interim period during succession
- Drafting a family constitution for managing the most important challenges

Time frame: about two weeks

Creating an action plan and other services

- Submitting the family constitution for final approval
- Developing an implementation plan
- Amending existing documents and contracts as required
- Drawing up new documents and contracts to reflect the newly agreed position

Time frame: about two weeks
Your family constitution in four steps

As objective and independent consultants, we analyze entrepreneurial families from the outside. In just four steps, we can help an entrepreneurial family to develop a family constitution that will enable it to fulfill its tasks and responsibilities in a systematic manner.

In working toward individual family constitutions, we focus on a number of key tasks:

► Clarifying priorities
► Understanding values
► Dividing responsibilities
► Making differing expectations visible
► Strengthening team spirit
► Identifying talent
► Preparing the managers of tomorrow for the challenges that lie ahead

It is particularly important that the entire family is aware of its objectives, values, opportunities and risks. We therefore start by conducting joint workshops and confidential interviews. The better we know you and the better you get to know yourselves, the easier it is to recognize opportunities, develop structures and address issues before they become problematic.
“Who are we and what do we want?” How a clear position can strengthen the family

Developing a family constitution can help the family of an owner-operated company to gain valuable insights and to organize and lead its business with greater focus.

In any family business, the managers, owners and family should together form a solid foundation. But this foundation requires a clear division of responsibilities, clear objectives, a clear strategy and unambiguous rules.

Putting together a family constitution is far more than a mere paper exercise. It provides a valuable insight into the family’s – and indeed the business’s – self-image, values and vision for the future.

Addressing the questions arising during this process also provides an excellent opportunity to get to know your relatives better, improve team spirit and overcome possible differences of opinion.
Unity
► Definition of family and appointment of shareholders
► The family’s rights and obligations
► Conflict resolution processes
► Training of the family

Management
► Decision-making processes
► Shifting family agreements
► Performance-related information

Culture
► Values and objectives
► Code of conduct

Supporting the next generation
► Traineeships
► Career planning
► Employment of family members
► Dismissals and new hires

Capital
► Ownership rights and shares
► Dividends and investment
► Value proposition to shareholders
1. The family’s objectives and philosophy

2. Holding a shareholders’ meeting
   ▶ Role of the shareholders’ meeting
   ▶ Right to vote on decisions
   ▶ Membership of shareholders’ meeting
   ▶ Election of a chairman
   ▶ Tasks and responsibilities

3. Representing the family within a holding company
   ▶ Selection procedure
   ▶ Terms of office

4. The family council
   ▶ Responsibilities of the family council
   ▶ Membership and voting rights
   ▶ Selection procedure
   ▶ Terms of office

5. Dealing with family members who want to leave the business
   ▶ Valuation
   ▶ Establishing reserves for departing members

6. Conflict resolution processes

7. Personnel policies within the family
   ▶ Employment criteria
   ▶ Compensation for family members
   ▶ Restriction of the investments family members can make in their own name

8. Charitable work
   ▶ Roles, tasks and responsibilities
   ▶ Possible motives for starting a foundation
   ▶ Membership of the board of trustees

9. The family office
   ▶ The structure of the family office
   ▶ Tasks and responsibilities

10. Guidelines for dividends

11. Confidentiality and the code of conduct

A constitution points entrepreneurial families in the right direction.
The family constitution: laying out a clear future

A family constitution is a written agreement that lays down essential values and principles as well as rules, obligations and decision-making processes.

A family constitution gives the family a fixed set of regulations for central processes that affect both the family and individual members as owners. These clear rules go a long way toward avoiding internal conflict. Even complex special cases can be defined clearly – for instance, where members of the family also manage the business.

A family constitution reduces the potential for conflict and enables decisions to be made on the basis of documented values and convictions. This significantly improves the family’s long-term viability and, therefore, that of the company.

We provide you with a document, individually tailored to your family and your circumstances. A family constitution acts as a link between the family and the business, in that it obliges owners to support the business while at the same time protecting the family’s interests and assets, both now and in the future.
Joint discussion, joint decision: the family council

The long-term success of a family-run business depends to a great extent on whether the family is united. A family council is one way to achieve unity and make fundamental strategic decisions together.

Clear values, clear words: the discussion of issues around the kitchen table now finds its business equivalent in the family council. Fundamental values, responsibilities, objectives, decision-making processes, wealth matters, control functions and much more besides can be discussed and agreed upon openly by the various members. The aim is to create familial solidarity that presents a unified front to the outside world while, at the same time, simplifying managerial work and planning.

It is important to give younger generations a place within the family council and to involve them in the business at an early age so that they can prepare themselves to take on responsibilities in the medium to long term.

Involving all owners in the process increases their willingness to make a constructive contribution and to act in the best interests of the family and the business. Once the owners have defined the objectives clearly, management can set about implementing them. Close and regular communication between the family council members and management is advisable.

We show you how best to set up, organize and optimize your family council. This will ensure that your family stays united and your business remains on track.
Family unity depends on members being able to deal with differences of opinion internally. A family council offers an ideal setting for doing so.
The risks that must be recognized and managed:

- Omissions by long-term executives
- Mistakes in succession
- Lack of capital
- Insufficient entrepreneurial flexibility
- Irreconcilable goals and values among the members
- Conflicts between siblings
A risk radar for the family

Economic crises are not the only threat to entrepreneurial families and their businesses. Often enough, families and their businesses face a mixture of internal and external problems.

A lack of awareness of the risks posed by internal weaknesses and external threats is one of the main causes of the collapse or disintegration of family-owned businesses.

At various levels and stages, opportunities may be missed or important decisions may remain unmade. Overlooked conflicts within the family, open disagreement about the direction of the business or a failure to prepare the next generation as successors can also jeopardize the business.

Having worked with many entrepreneurial families, we have developed a good sense of where the dangers may lurk and where action has to be taken without delay. Clever, forward-looking risk management within the family can help you manage these dangers and avoid potential damage. We provide you with the support you need to develop the necessary structures.
Growth is essential for the long-term future of the business

Few family businesses consider growth a particularly important goal. However, experience shows that those who rest on their laurels are at risk of squandering their future. This is why owners must take action.

Growth is important. And yet, for a large majority of family-run businesses, growth is not one of the most important objectives. Those who fail to drive growth are at risk not only of their business stagnating, but also eventually of it getting caught in a dangerous downward spiral.

As a leader of your family business, it is up to you to create the right opportunities for your company to grow – its continued existence is in your hands.

The following three factors have been shown to be crucial for achieving sustainable growth:

1. Ensuring unlimited support by all stakeholders for the entire undertaking
2. Making cultural and behavioral issues a top priority in order to make change possible
3. Improving the owners’ skills, thereby enabling improvements to, and the successful implementation of, family governance.
Best practices for the growth of a family business

Create a flexible and innovative organization

Increase your capital

Find outstanding external managers and bind them to the business

Define your family’s values

Lay down principles that will enable the owners to lead the business over the long term

Prepare your successor for taking on leadership responsibilities

Capitalize on the unique advantages offered by an owner-operated business

Define your family’s goal, strategy and mission

Involve your entire family

Owners as the enablers of growth

For you as an owner, implementing best practices to promote growth means:

► Creating a lasting set of tools
► Setting up a proper leadership structure
► Consistently upholding your values and convictions
► Seeing yourself as the manager of your family’s assets and being receptive to innovation and an entrepreneurial spirit

Understand developments within your sector
Where we come from and what we can do

We combine the rigor of auditors and risk managers, and the strategic insight of tax advisors and lawyers, with the empathy and sensibility of an independent trusted advisor. Put these characteristics together, and you get a service that helps you to manage the full range of your challenges.

We have been advising entrepreneurs and their families for more than 100 years. We know the special challenges that families face as they seek to secure their wealth. Over the years, this intimate understanding has led more and more families to place their trust in us and the work we do. We are pleased that, today, we serve 75% of 500 of the world’s largest family businesses\(^2\) — both as an auditor and advisor.

Our roots date back to the late 19th century. Since then, we have worked tirelessly on behalf of family businesses, just like those run by the two men who give their names to our organization.

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\(^2\) Family Business Index, Thomas Zellweger, Chair of Family Business at the University of St. Gallen, 2015, Available from: http://familybusinessindex.com/
What sets us apart from the others

EY is one of the world’s leading professional services organizations.

Auditing services, tax advice, transaction advice, legal advice and advisory services are our key areas of activity — for small and medium-sized family businesses and for large organizations.

In order to provide our clients with the best possible advice and support and we supplement our areas of activity with teams that specialize in individual sectors, markets, and in specific issues.

This valuable expertise forms the technical basis that enables us to advise you on structuring your family’s wealth.
Family businesses and EY: how our intimate understanding evolved into solid trust

Specialist knowledge, decades of experience and an instinct for the requirements of entrepreneurial families make our services special. Our commitment to the needs and goals of families goes far beyond that offered by the competition. Our Family Governance Services have been created to complement our well-established Global Family Business Center of Excellence, designed to support family businesses, their owners and their managers, wherever they operate in the world.

The center brings together advisors from the EY global network, to share knowledge and insight, to address family business challenges, and provide seamless service for internationally based family-owned companies.

We know that each family business is unique, yet successful family businesses have much in common; understanding these success factors and taking advantage of our knowledge underpins what we call the “Growth DNA of family business.” Visit our site, ey.com/familybusiness, and find out how we can help you succeed for generations.

We also have a long-standing commitment to providing holistic entrepreneurial services. In 1986, we launched the Entrepreneur Of The Year competition – a showcase for the best-of-the-best and also a forum for many family businesses. In addition, we have published various reference works via this organization.

We also conduct many studies that put family businesses, their situation and their strategy under the microscope. We regularly profile their key players in our Exceptional magazine.

This enables us to understand even better what motivates entrepreneurial families and to tailor our offering to their requirements.
One-stop shop: EY's Family Governance Services offer the latest know-how, support and contacts
Building networks and fostering new talents: sometimes a small circle is a big plus

Many of our clients have already found that exchanging views with companies in a similar situation, and facing similar issues, opens up new perspectives. That's why we're happy to host events at which we not only provide information, but also give our clients an opportunity to meet other family businesses and family office owners, in confidence and in a small circle.

Examples of this are our roundtable discussions, the Entrepreneur Of The Year competition, and presentations and discussion groups held as part of the agenda for SMEs. We are also happy to put you in direct contact with family businesses and family offices in similar situations, on request.

Designed specifically with young talents in mind, our NextGen Academy offers a global platform where potential entrepreneurs can put their skills to the test and exchange opinions and ideas.
Regular events specifically for family businesses and family office owners:

► EY Family Office Roundtables and Family Business Roundtables in various cities around the world
► Summits for family businesses
► Family Business and Family Office thought leadership

EY NextGen Academy is a special feature of our Family Business Services. It consists of international week-long events for young people from entrepreneurial families, where they can find out how much entrepreneurial spirit they have. After the event, the NextGen Club offers the opportunity for participants to keep in touch around the globe.

The programs:

► First program: 16-20 year-olds
► Advanced program: 21-25 year-olds
► Excellence program: 26-30 year-olds
► NextGen Club
► Individual programs

For more details visit: www.ey-nextgen.com
A springboard for the next generation: the EY NextGen Academy

Many entrepreneurs hope that their children will one day take over their responsibilities and lead the family business into the future. Unfortunately, too few young people are prepared to do so. EY’s international NextGen Academy supports the children of entrepreneurs by helping them prepare to take over from their parents.

One of our studies of family businesses found that only 4% of university-educated children of entrepreneurial families want to take on a leading position within their parents’ business directly after graduating. That is hardly surprising given the attractive alternatives for highly educated professionals.

Our exclusive NextGen Academy aims to show the children of entrepreneurs that leading the family business can also be extremely exciting and fulfilling. This international training program for potential corporate successors promotes personal development and interaction among participants. During the week-long training events organized in conjunction with the world’s most renowned business schools, young people learn more about themselves, about being an entrepreneur and about responsibility. They also have an opportunity to exchange ideas with potential successors from other family businesses around the globe.

The programs are divided into age groups and are aimed at 16 to 30 year olds. After completing the program, participants can then stay in touch via the NextGen Club. This exclusive global network connects young family business entrepreneurs and offers them somewhere they can find support and advice when they need it most.
One family, one team

Only 3% of family-run enterprises remain in business beyond the third generation. In most cases, the business’s demise is due to problems within the family – problems that could have easily been resolved, for example, by way of a family constitution.

A family constitution can play a crucial role in the long-term viability of a family-run business, because such constitutions govern all the matters that are important for the successful organization of an entrepreneurial family. My team and I will gladly support you in drawing one up for your family.

Every year, we assist hundreds of families in shaping their corporate succession processes. You can benefit from EY’s vast experience in this field by calling on us to help point your family and your business in the right direction.

We can help you resolve highly emotional issues in a calm and objective manner, and can support you in making strategic decisions at the right time and for the benefit of everyone concerned.

To get more information about our Family Governance program in Norway, see separate brochure.

Eirik Moe and Mette Ballari
Heads of Family Business and Family Business Private Client Services in Norway.
For us, working for a family business can go far beyond acting merely as an auditor or advisor. We often serve as a moderator to bridge opposing views. Sometimes, we help families search for the values that keep them together, even across generations. And sometimes, we even take on the role of a psychologist, bringing to light not only hidden fears, but also hidden talents.

It is a wonderful task, one in which we gladly invest our expertise, experience and enormous personal dedication. And it would be our pleasure to accompany you, your family and your business on your way to a successful future.
About EY
EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

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