



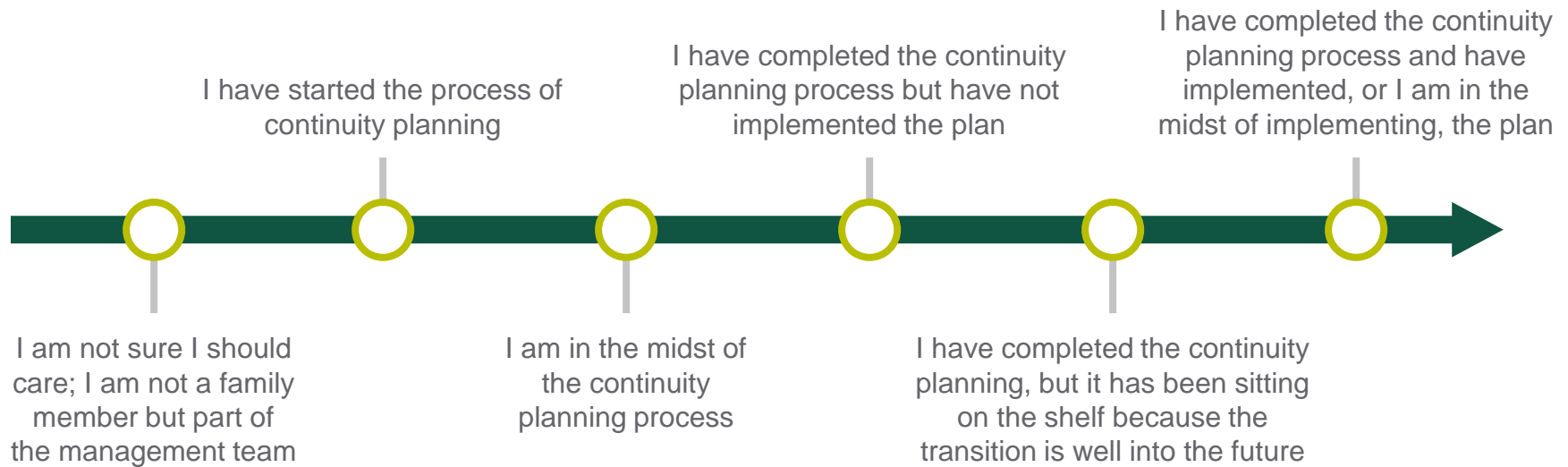
Family Matters

How Business-Owning Families Can Work Together for a Unified Future

PRESENTED BY:

Claudia B. Sangster
Sr. Vice President
Director, Family Education & Governance

Where are you in planning for the future continuity of your family business?



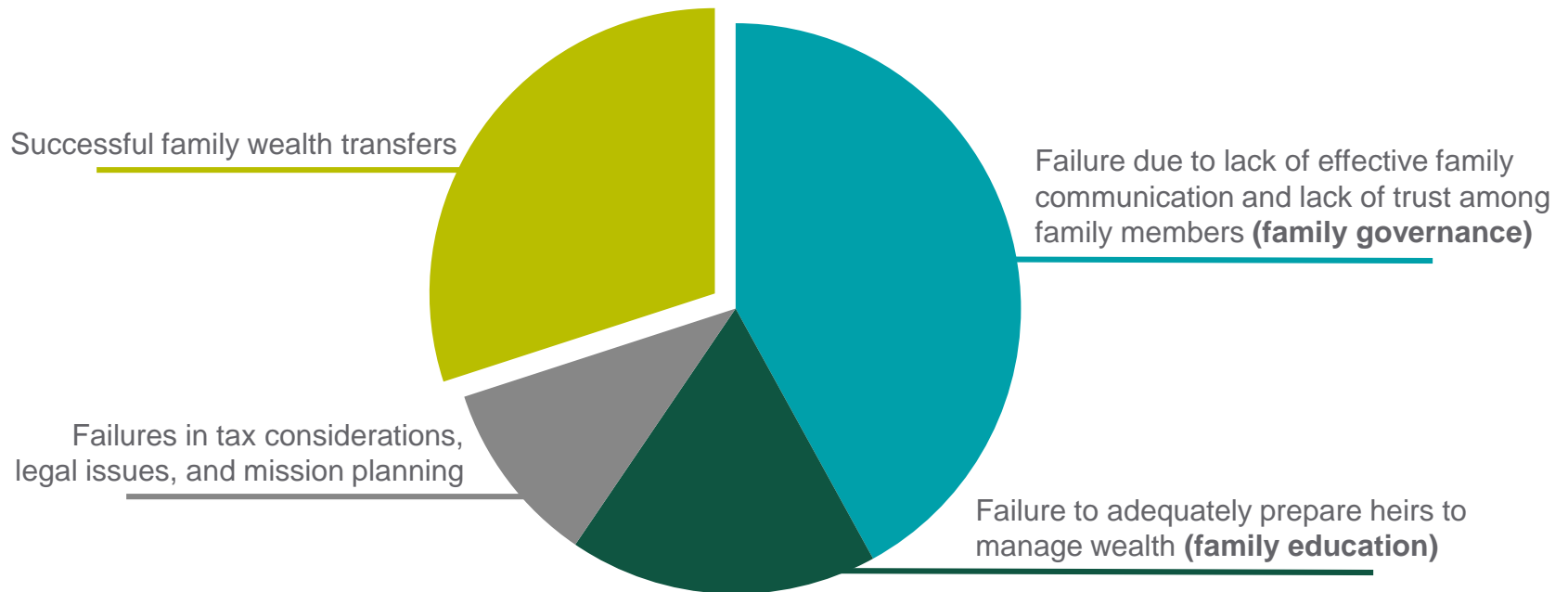
Successful Family Best Practices

- **SUCCESSFUL FAMILIES** understand there are different kinds of family wealth and develop it all!
- **SUCCESSFUL FAMILIES** provide education and tools to prepare each generation for successful stewardship of their individual resources as well as the shared assets of the family.
- **SUCCESSFUL FAMILIES** clearly define their shared vision and values/guiding principles. This also helps them recognize where their paths should naturally diverge.
- **SUCCESSFUL FAMILIES** institute systems to assist in communication and decision-making.

What's at Stake?

About 70% of all estate transfers fail within three generations*...

MOST OF THESE FAILURES ARE NOT DUE TO FLAWS IN THE ESTATE PLAN, LEGAL OR TAX PLANS



* "Failure" defined as heirs involuntarily or unintentionally losing control of the transferred assets.
Data: The Williams Group, 2005.

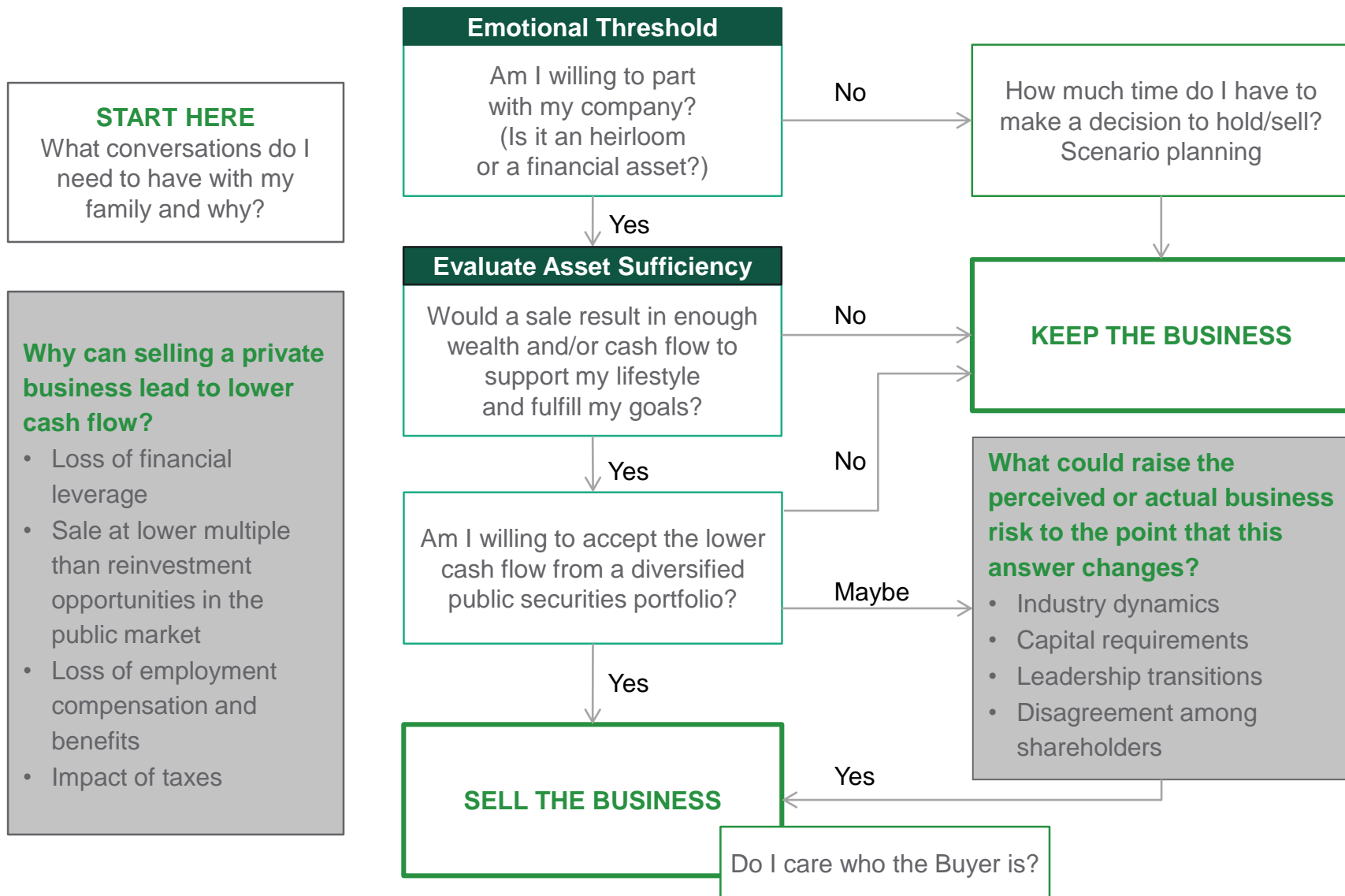
Successful Family Businesses Plan for Transitions Well in Advance of the Transition Event

The sooner, the better!

THEY FIRST ASK AND ANSWER THE BIG QUESTIONS

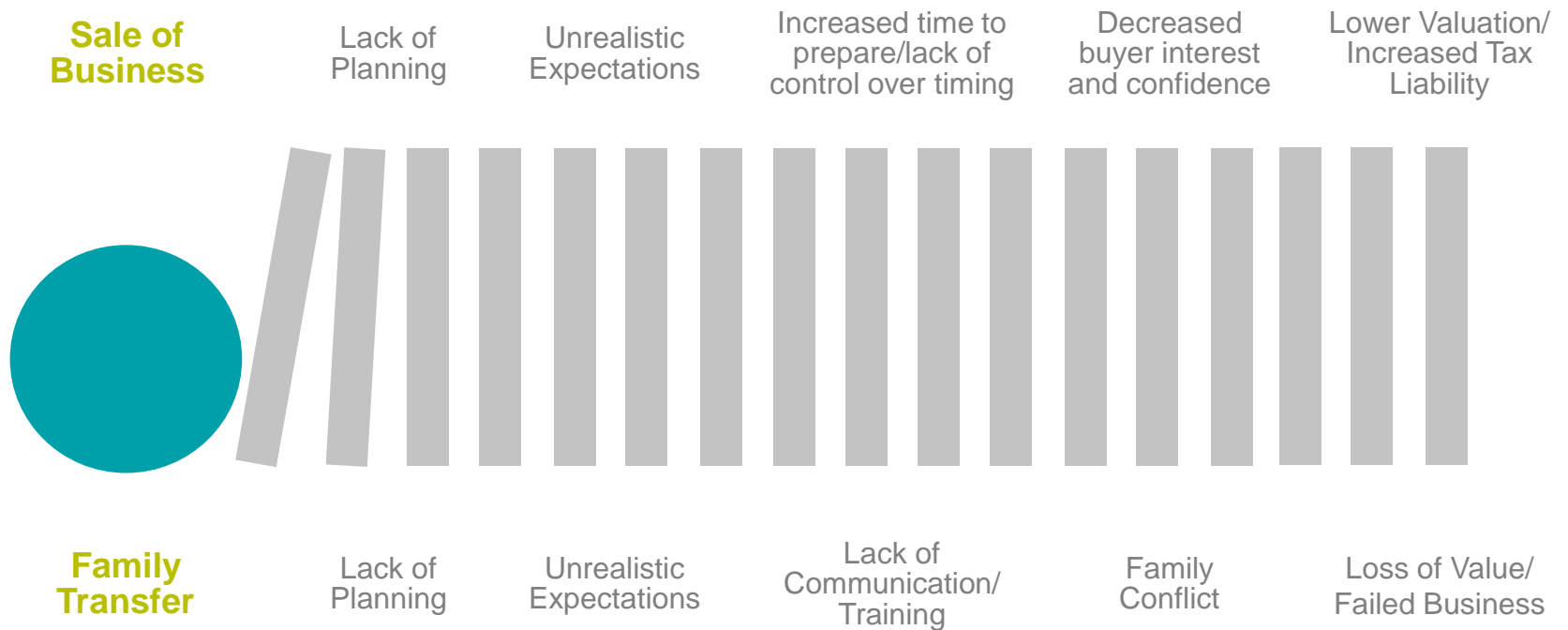
- Should the family retain the business? If so, why?
- What conditions must exist for the family to consider the sale of our business?
- Requires clarity on two things
 - What is important to the family
 - What is necessary for the business to maintain its competitive edge

Decision Tree



Northern Trust Business Owners Research

Business owners do not understand the complexity of the transfer or sale process, which creates a domino effect resulting in potential negative outcomes.



Family Governance: A Truly Systemic Endeavor

The Realities

COMPLEXITY

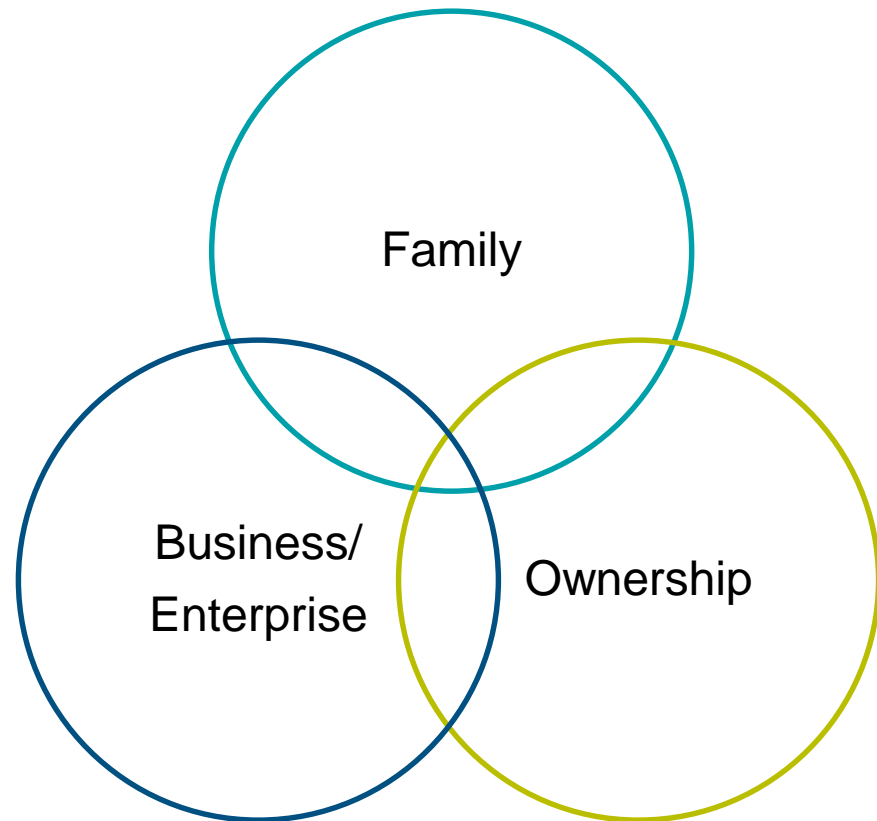
- Interlocking systems
- Different “life stages”
- Multiple roles
- Emotional dimensions
- Competing goals and priorities
- Transitions are especially high-risk points

REQUIRES COMFORT WITH PARADOX

- “Yes, and” rather than “no, but”
- Advanced leadership skill

MANAGING A MULTIGENERATIONAL FAMILY BUSINESS/ENTERPRISE IS NOT “NATURAL”

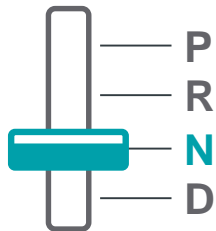
- For even the most talented families
- Requires continuous learning and change



Family Dynamics in the Family Business: Common Dilemmas

DILEMMA #1

Stuck in
Neutral



Getting Through
Planning
(or Planning-to-Plan)
Mode

DILEMMA #2

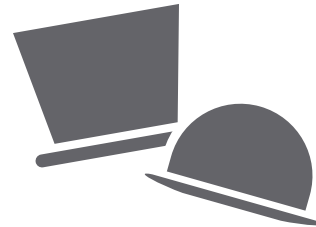
Parents,
Paychecks, and
Prodigal Sons



Family Member
Employment

DILEMMA #3

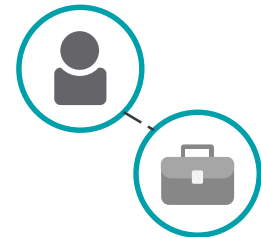
Many Hats



Managing Multiple
Roles at Their
Boundaries

DILEMMA #4

Keeping It
Together

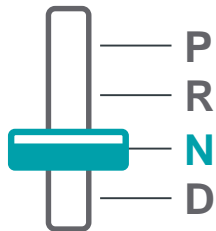


Connecting
(Not Fusing)
Family and Business
Over Time

Stuck In Neutral: Getting Through Planning (Or Planning-to-Plan) Mode

DILEMMA #1

Stuck in
Neutral



Getting Through
Planning
(or Planning-to-Plan)
Mode

SYMPTOMS

- Avoiding the planning process
- Postponed succession or business stagnation
- Debate and disagreement that is “going nowhere”

ROOT CAUSES AND SOLUTIONS

- Readiness
 - Values/Vision/Commitments
- Lack of effective communication & team skills
 - Education + Governance
 - Decision-making
- Anxiety
 - Education

The Big Questions: Answer These First as a Family



Who are we?



What matters to us most?



How long do you want the
business to stay in the family?
For how many generations?

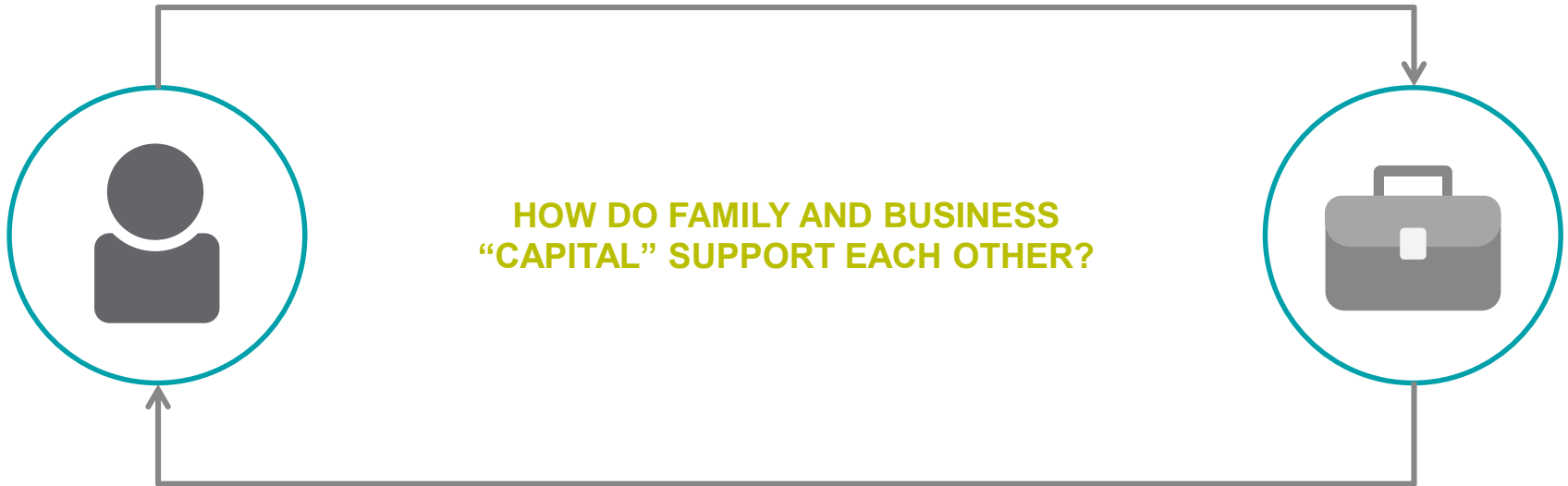


What kind of future
do we want – and
why?

Strategic Planning for Business-Owning Families

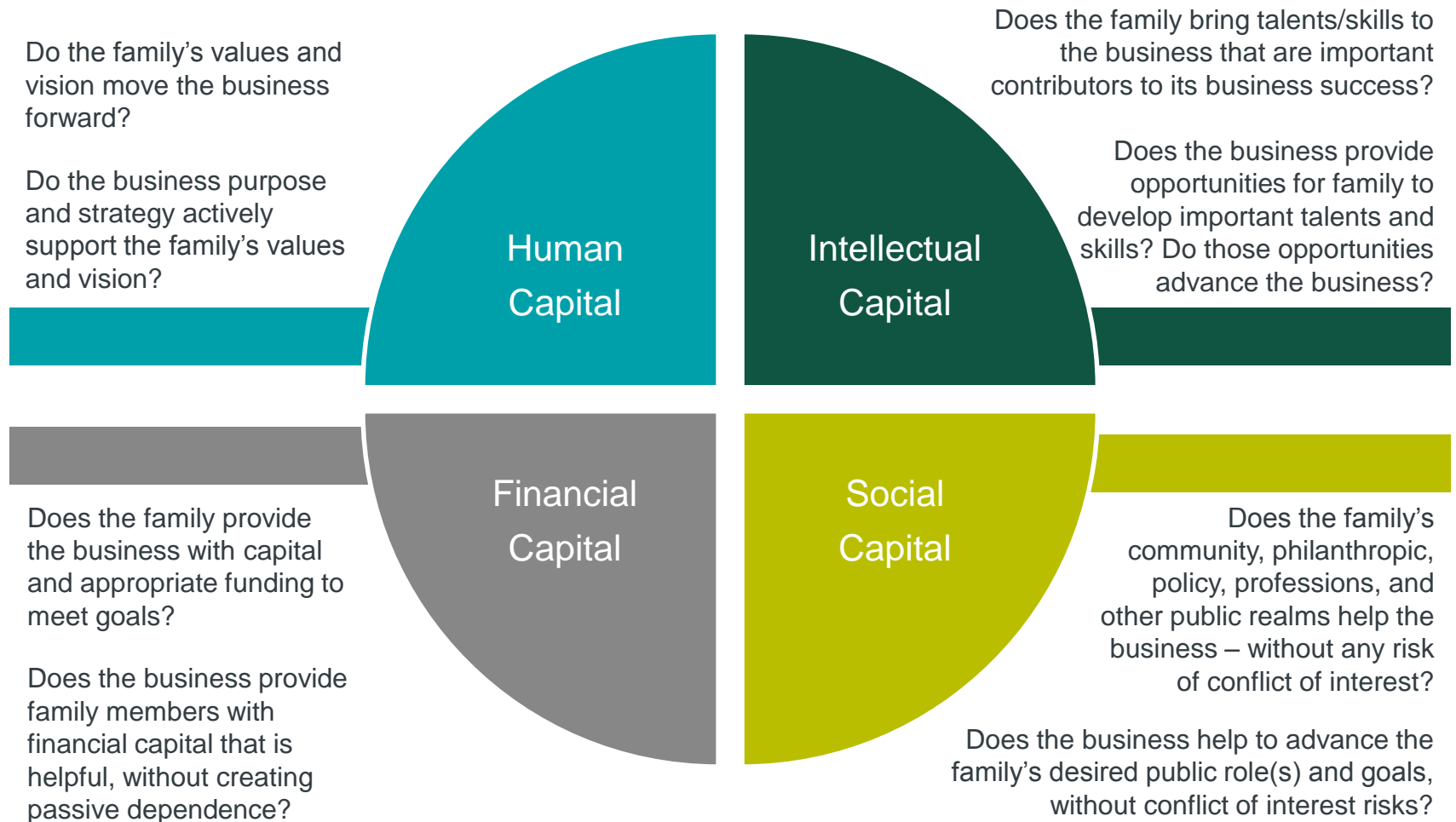
Key Questions

WHY DOES THIS FAMILY HAVE A BUSINESS?
What benefit does this family derive from this business?



WHY DOES THIS BUSINESS HAVE A FAMILY?
What benefit does this business derive from this family?

Strategic Planning for Business-Owning Families



A Phased Approach to Governance

GOVERNANCE + GOVERNMENT

"Dynastic" families

FORMALIZING "FIRST THINGS FIRST"

Some second (and most third) generation families

AT THE HEART OF THINGS

Virtually every family



OPERATIONAL GOVERNANCE

- Structure, Membership
- Decision-Making and Conflict Resolution Processes
- Roles, Expectations, and Requirements
- Meeting and Communication Frequency, Times, Formats



PROCESS GOVERNANCE

- Key Processes Policies
- Ownership Types and Expectations
- Entry/Exit Options
- Employment, and Leadership Policies Compliance

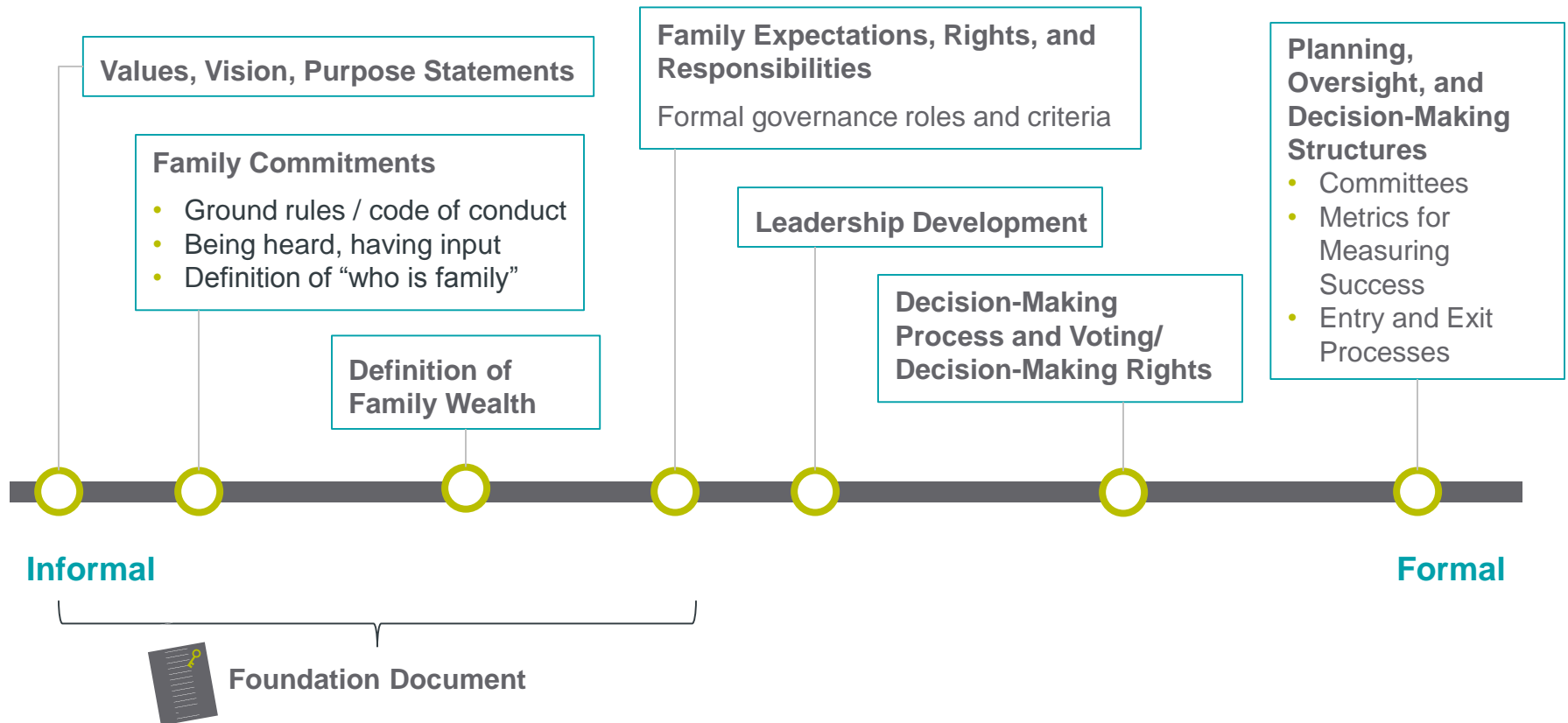


MEANING, PURPOSE, AND CULTURE

- Family Mission, Vision, Values
- Key Goals
- Strategies and Objectives
- Family Code of Conduct

Strategic Planning: Family Constitution

Do you have a Family Constitution or other document(s) that summarize your family's strategic vision and plans? If so, who created it? What does it include?



Communication and Team Skills

A place to communicate, learn and make decisions together—the family meeting

USE FAMILY MEETINGS TO “TUNE UP” COMMUNICATION SKILLS BEFORE, DURING, AND AFTER BUSINESS TRANSITION PLANNING

DEVELOP COMMUNICATION SKILLS

- Listening
 - Reflecting
 - Developing empathy
- Presenting
 - Identifying key interests and desired outcomes
 - Summarizing ideas, rationales
 - Create and use family compact/ground rules
 - Do not underestimate what family members will not bring up



Parents, Paychecks, and Prodigal Sons: Family Member Employment

DILEMMA #2

Parents,
Paychecks, and
Prodigal Sons



Family Member
Employment

SYMPTOMS

- Who gets a job in the family business?
- “I want to leave the business to my children... but I don’t think they are ready.”
- How many family members in the business is “too many?”
- Conflict between family members working in the business and those “outside.”
 - “Why is _____ making so much?”
 - “Why is _____ making so little?”
 - “Why is _____ spending time on X/Y/Z?”

Family Employment

Charting a path of entry into the family business

PUT POLICIES IN PLACE BEFORE HIRES ARE IMMINENT

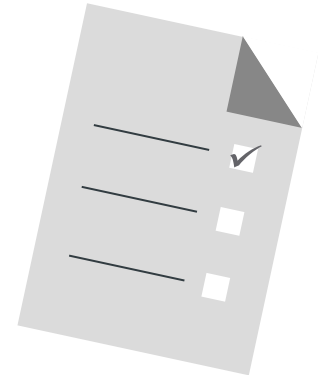
Define family employment criteria, with outside help

- Will it be “open casting” or not?
- Publicize

Create policies for family member employment in general

- Criteria
- Require transparent ownership from family member employees
- Try to avoid creating positions for family members

In 2nd generation and beyond, consider a board-mandated balance between outside and family business leadership



Family Member Involvement: Succession Planning

Preparing Family Successors

PREPARING POTENTIAL FAMILY SUCCESSORS

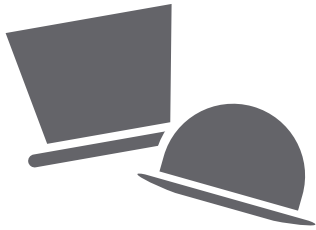
- Publicly outline process and criteria for choosing successor
 - Stages, time frames can help
- Encourage interested family members to get experience in the company's revenue-generating and client/public-facing roles
- Board interviews – including external board members
- Mentoring and career development for all interested family members
- Identify transition-out points for current leadership
 - No “retiring, more or less”



Many Hats: Managing Multiple Roles at Their Boundaries

DILEMMA #3

Many Hats

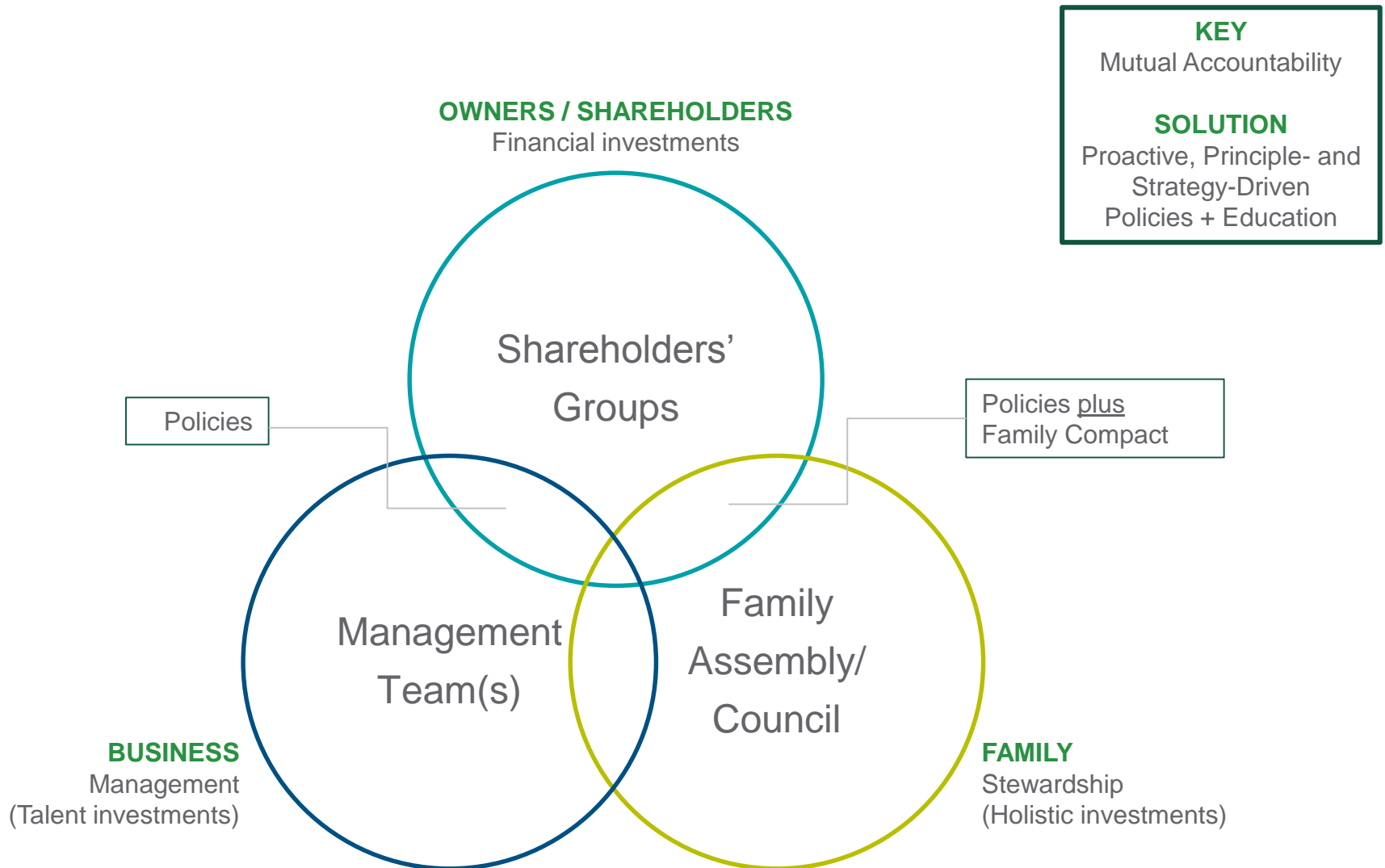


Managing Multiple
Roles at Their
Boundaries

SYMPTOMS

- Owners who get excessively involved in management decisions
- Management working “around” family owners
- Family members feeling their voices are not heard or not considered
- Family shareholders who are consistently dissatisfied with the business
- Indications from trusted or ex-employees that role tension is a factor for the business

Overlapping Roles: Managing at the Boundaries



Overlapping Roles: Managing at the Boundaries

Education and governance help ensure the interests of all three groups are met

ESSENTIAL EDUCATION FOR FAMILY MEMBERS

- Family values, mission, vision
- Strategic direction of the family
 - Dynamic connections between family and business
 - Other, non-business goals
- Business fundamentals and financials
 - Business history and family legacy, strategic direction, current goals and metrics
- Family owner roles and responsibilities
 - Employment options and limits
 - Your holdings: type, amount, voting rights, entry/exit options
 - Communication and dispute resolution channels



Overlapping Roles: Managing at the Boundaries

Policies should support roles and boundaries

FAMILY OWNER

- How to have a voice in business opportunities, concerns, business decisions
- How to have a voice regarding family management
 - Refer to policies for appropriate channels (e.g., Family Business Committee or Board)
 - Commit to family compact for all family members – including managers
 - Recognize when owner-manager choices are “out of bounds”
- Use of company resources
 - Keep services separate (Legal, reputational, tax risk management)
 - No “perks” that would not be transparently allowable for a non-family shareholder



Overlapping Roles: Managing at the Boundaries

FAMILY SHAREHOLDER

- Learn about business fundamentals, financials, performance
- Understand your balance of interests and how the investment “pays” you
- Understand entry and exit opportunities from the start



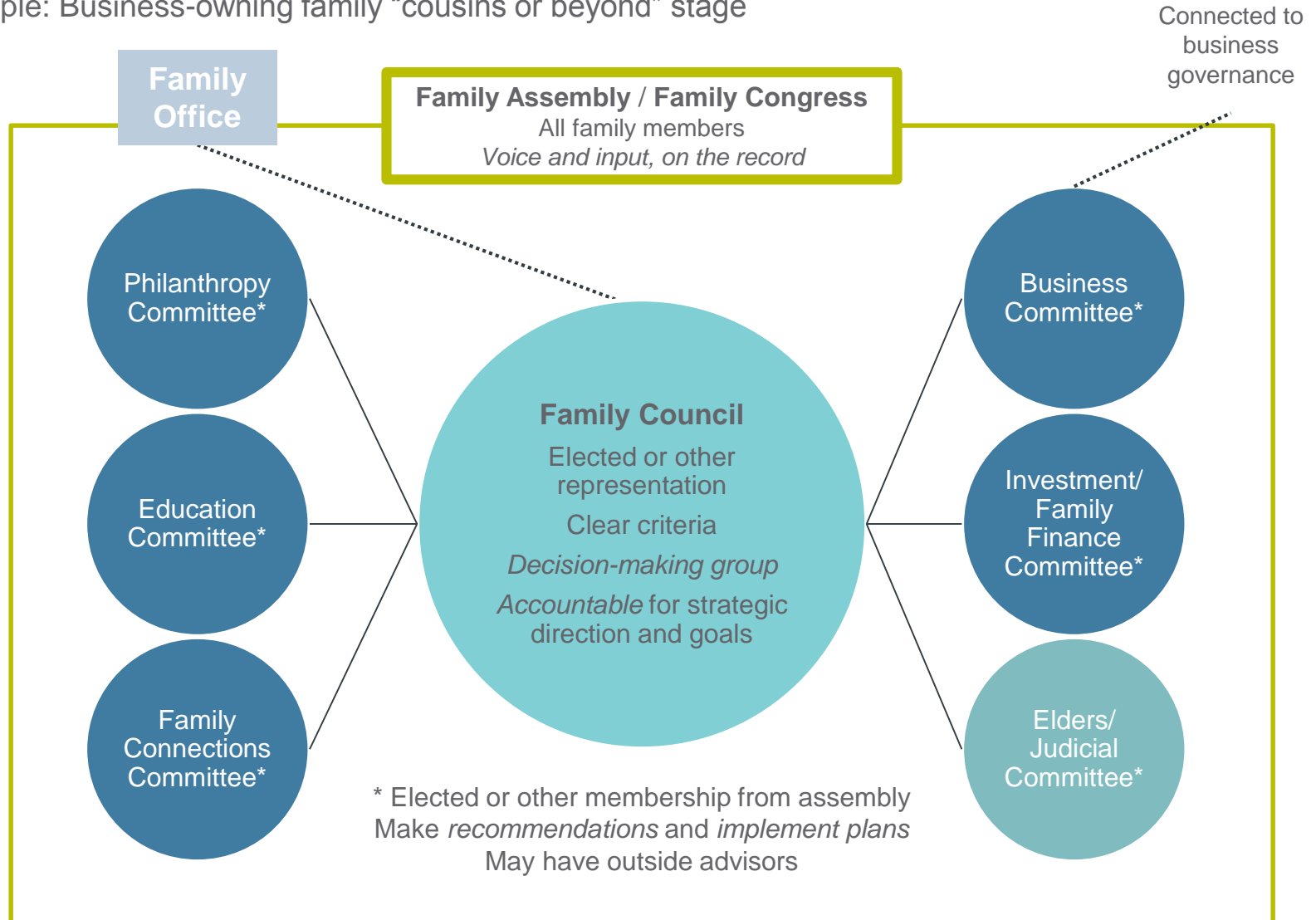
FAMILY MANAGER

- Provide transparency to all shareholders, not just family
- Appreciate and respond to honest inquiries regarding management matters, from anyone



Overlapping Roles: Managing at the Boundaries

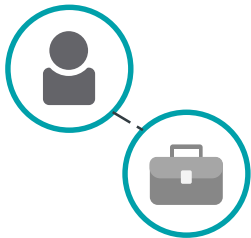
Example: Business-owning family “cousins or beyond” stage



Keeping It Together: Connecting (Not Fusing) Family and Business Over Time

DILEMMA #4

Keeping It
Together



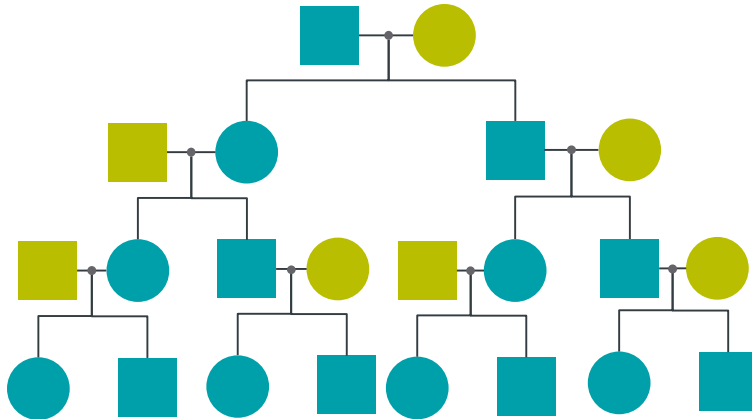
Connecting
(Not Fusing)
Family and Business
Over Time

SYMPTOMS

- Family dependence on business-related income
- Lack of family leadership outside of the business
- Problems managing life transitions
- “Golden handcuffs”
- Orientation toward the past – efforts to recreate “what was”

Staying Together Over Time: Long-Term Essentials

Multigenerational best practices



- Continue generational strategic planning and check the “yes, and” value statements
- Need for multigenerational families and/or mature family businesses: clear and neutral ownership entry and exit opportunities
- Separate family wealth management from family business
- Letting go and moving forward... life transitions
- Identify and recognize/support family continuity leaders, not just business leaders

Staying Together Over Time: Long-Term Essentials

Ownership Stage	Dominant Shareholder Issues
STAGE 1: THE FOUNDER(S)	<ul style="list-style-type: none">• Leadership transition• Succession• Estate planning
STAGE 2: THE SIBLING PARTNERSHIP	<ul style="list-style-type: none">• Maintaining teamwork and harmony• Sustaining family ownership• Succession
STAGE 3: THE COUSIN CONFEDERATION	<ul style="list-style-type: none">• Allocation of corporate capital: dividends, debt, and profit levels• Shareholder liquidity• Family conflict resolution• Family participation and role• Family vision and mission• Family linkage with the business

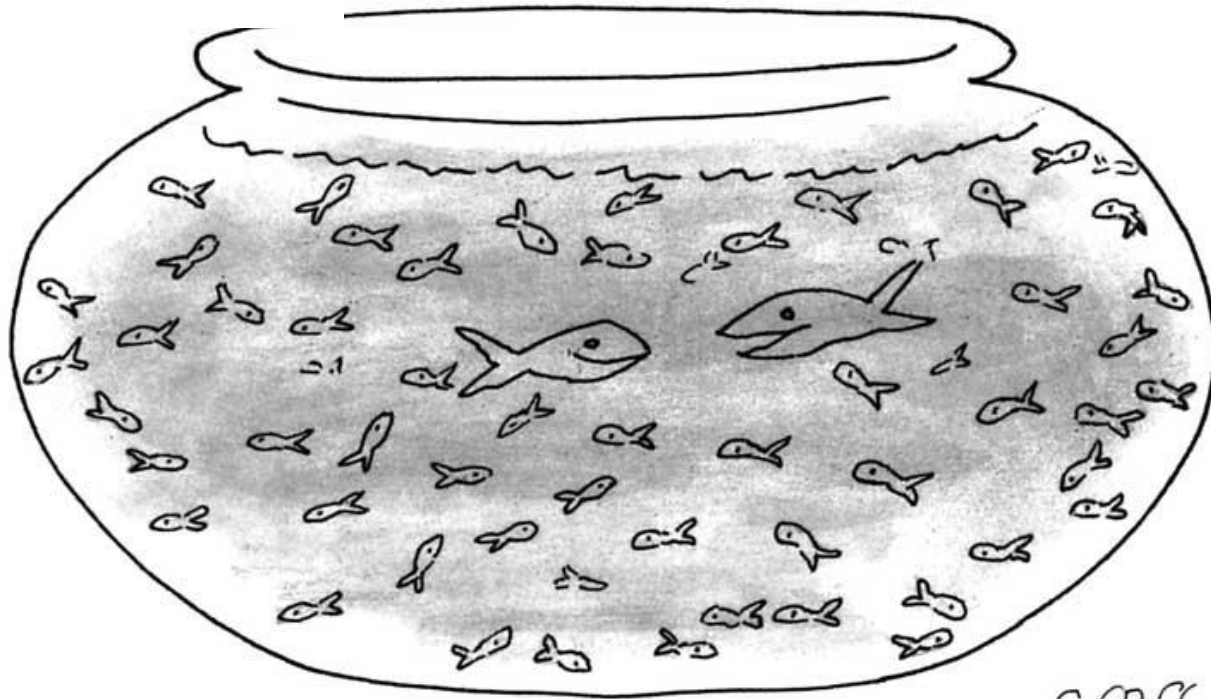
Source: International Finance Corporation, World Bank Group

In Closing...

Questions to Consider

- **DO YOU NOW UNDERSTAND THE IMPORTANCE OF A FAMILY BUSINESS CONTINUITY PLAN?**
 - If not, why not?
 - If so, what will you do next to continue the process?
- **WHAT IS ONE INTERESTING IDEA THAT YOU MAY WISH TO SHARE WITH YOUR FAMILY?**
- **WHAT IS ONE TOPIC YOU CAN HELP THE FAMILY LEARN ABOUT IN THE NEXT YEAR?**
- **WHAT IS ONE POLICY YOUR FAMILY NEEDS TO CREATE – OR REVISIT – SOON?**

In Closing...



S. GROSS

"I guess we'd be considered a family. We're living together, we love each other, and we haven't eaten the children yet."

Biography



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Director
Family Education & Governance

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"Families who successfully maintain shared wealth over multiple generations do things differently: they are intentional in fostering good communication, trust and preparing their heirs."

EXPERTISE

Claudia B. Sangster is the Director of Family Education and Governance in Wealth Management at the Northern Trust Company. In this role she designs the firm's advisory capabilities in financial education, family decision-making, and relationships around money and wealth. Claudia collaborates with clients, their advisors and Wealth Planning partners in identifying and establishing appropriate educational programs and governance structures for multi-generational families in order to prepare family members to steward the wealth, to enhance family unity and to help sustain all aspects of the family's capital—financial, intellectual, human and social. She works with families to create their legacy of wisdom, wealth and giving through multiple generations.

EXPERIENCE

Claudia has over 30 years of experience in advising individuals and families in financial education, estate planning, family governance and philanthropy. Prior to joining Northern Trust, Claudia was with CTC | myCFO, where she served as the Director of Philanthropy, Estate and Trust Services.

EDUCATION

Claudia earned a Bachelor's degree, Summa Cum Laude, from Pepperdine University, and a JD,

Magna Cum Laude, from the University of Houston, College of Law.

CREDENTIALS

Claudia is a frequent speaker and author on topics including values, finance and family legacy, as well as trends in family education, governance and philanthropy.

COMMUNITY INVOLVEMENT

Claudia is a Founding Partner of Social Venture Partners in Los Angeles, Board Chair Emeritus of the Associated Women for Pepperdine, former Board member of the Prostate Cancer Research Institute of Los Angeles, Advisory Board member Emeritus of the Preston Robert Tisch Brain Tumor Center at Duke University Medical Center and Chairperson of the Board of Trustees of the Nicholas Endowment.

3 THINGS PEOPLE ASK ME

- **How and when do I talk to my children about our wealth?**
- **How do I raise my children in wealth without fostering entitlement?**
- **What does our family need to do to maintain our family business over multiple generations?**

DISCLOSURES

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