

SAN Gold Coast August 2022

Why do Business Families need Family, and/or Business, Boards?

The best reason I can give is that:

<u>“Family Business” ... makes no sense!</u>	
 Business Systems	Family Systems
Competitive	≈ Protective
Objective	≈ Emotional
Task-based	≈ Obligation-based
Results-oriented	≈ Relationship-oriented
Select best person for the job	≈ Status by birthright
Performance	≈ Loyalty
Outward focus (stakeholders)	≈ Inward focus (family)
Survival of the fittest	≈ Nurture & support weakest
Encourage/exploit change	≈ Minimise change
Employment is an opportunity	≈ Employment is a right
Competencies required	≈ Nepotism allowed

The force field analysis demonstrates absolutely no commercial or familial logic in having a Family Business - even if there are many good reasons for being a Business Family.

Given that the majority of businesses around the world, since the beginning of history, have been Family Businesses, and that somewhere over 50% of GDP and employment in today's Australia are generated by Family Businesses, they can clearly be made to work – even if they shouldn't!

Successful Business Families – those that achieve multi-generational business AND family goals in sustainable ways – don't just rely on luck for their success: *“Hope is not a Strategy, Luck is not a Factor; Fear is not an Option” (James Cameron on)*.

Instead, they work hard to make themselves successful, applying some appropriate version of **Family Business Best Practice** to guide how they manage or operate their families and their businesses, observing a strict separation of decision-making between the two.

Boards

Enter Board(s) – typically set up as paramount authority bodies in their home organisations, be that a business, or a family.

Boards are primarily governance bodies, responsible in context for:

- ≈ Independent, objective, & strategic thinking & decision-making.
- ≈ The nature, quality, scope, style, and effectiveness of the organisation's governance systems.
- ≈ Refinement and approval of Family Plans and Business Strategy Plans (including Succession Plans).
- ≈ Performance monitoring of approved actions and actual results against agreed Plans.
- ≈ Senior executive employment, performance & remuneration.
- ≈ Macro Risk Management.

No Board should ever be dragged into the **operational arena**, although individual Board members may have very active operational roles – which should be very specifically defined.

Types of Business and Family Boards

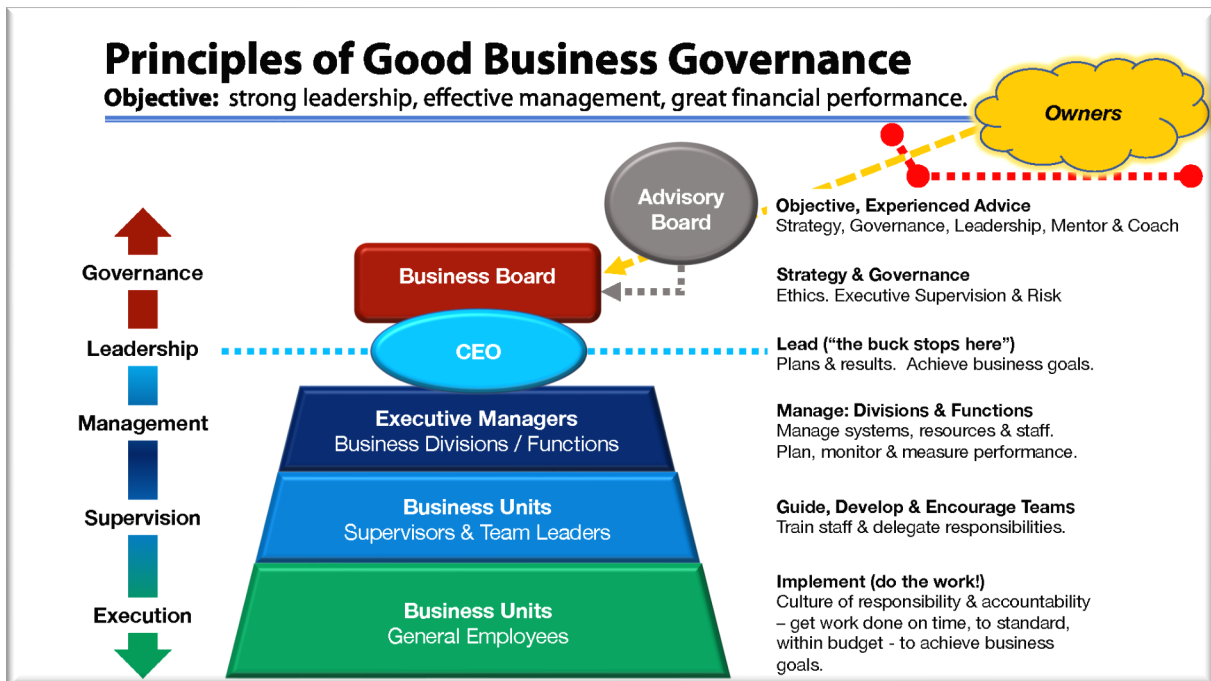
One of the first questions to ask (carefully!) of any Business Family is “How are you oriented?”:

1. Is the **Business:** (a) Business-First? OR (b) Family-First? And,
2. Is the **Family:** (c) Family-First? OR (d) Business-First? Or,
3. (e) Does it depend? >> (technically = *schmozzle*).

- ≈ **Business Board** – solely for business stuff.
- ≈ **Family Council** – like a Business Board, only for family stuff. (The family should have a Business Board looking after its business stuff).
- ≈ **Family Board** – single Board with dual purpose: (a) Business; (b) Family. Only really suitable and workable for relatively modest and simple families with correspondingly uncomplicated business interests. (Requires good discipline to maintain separate mindsets for family and business decision-making).
- ≈ **Advisory Board** – provides advice only and has no decision-making powers. Can be used long-term as a means for providing high quality advice to a Board without cluttering it up with too many Directors. Also popular as an interim measure on the way to creating a more formal Board, when the family grows sufficiently confident about passing some control to non-family, independent Directors.
- ≈ **Owners** – in many Business Family contexts Owners can be far more influential, and confusing/confounding, than shareholders in non-Family Businesses. And yet, no corporate Org. Chart has a box labelled “Owners”.

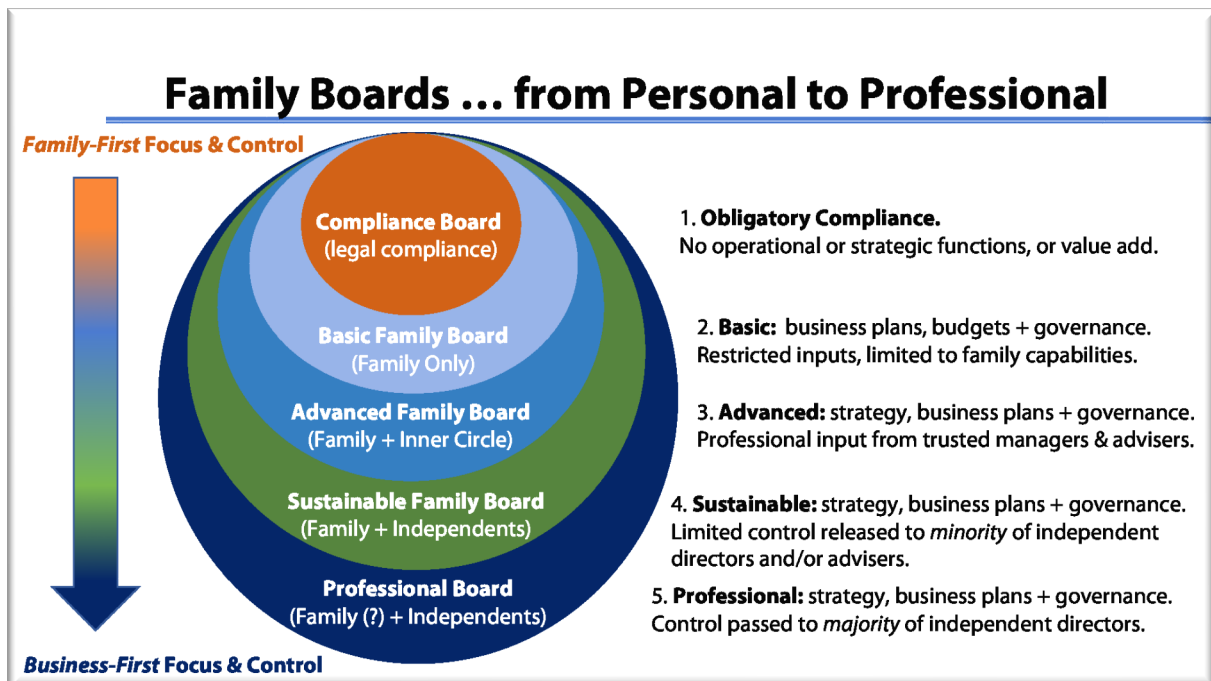
It's best to recognise the group's presence, rights, and potential for creating chaos, so it can be firmly placed behind a permeable barrier that enables communications while preventing interference in business operations.

Classic Business Governance Structure



Evolution of Family Boards into Professional Boards

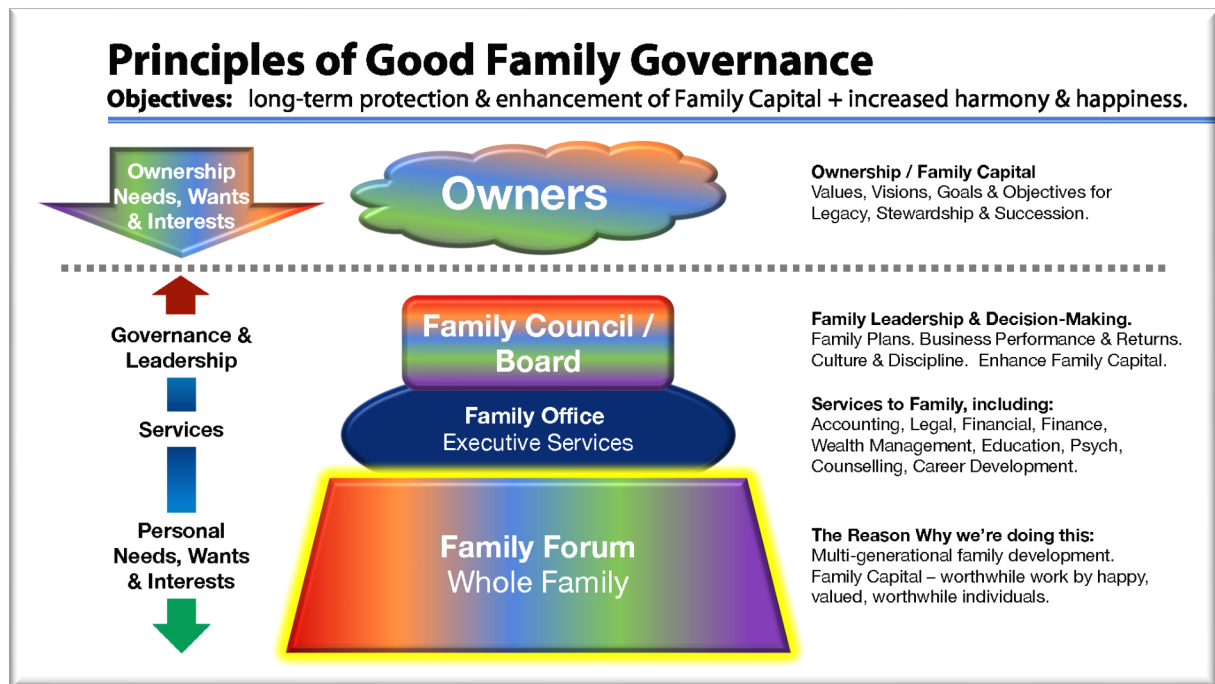
The type of Board that can most appropriately service the evolving needs and interests of a family's business activities, will be one that adapts to support its evolving commercial reality.



Family Governance Structure

Business Families require appropriately tailored governance systems to help them professionalise their operations, as a family, to make them sustainable, across generations.

Again, we stress the need to separate out the roles and functions of Owners, as owners, for purposes of good governance:



Family Office

“Family Office” means different things to different people, so it’s important to clarify what we’re talking about here.

It may include (or be) a bricks and mortar building, or not. Potential functions include:

1. Family services – anything from personal car insurance and lawn mowing to co-ordination of all aspects of legal, financial and lifestyle planning.
2. Executive functions – implementation of Family Plan.
3. Wealth protection and management, corporate and secretarial services.
4. Family wellbeing, including counselling, support and advisory services.
5. Family communications, including education, training, and social events.
6. Wealth enhancement – investment / divestment and other opportunities.
7. Project management of family projects, eg: property developments.

Hanging it all Together = Family Business Best Practice

Note the need for several lines of “Functional Separation” in the following diagram.

In smaller, younger, less complex/sophisticated Family Businesses and Business Families, some or many people wear some or many different hats (eg: Owners / Directors / Business Leaders / Business Managers / Business Employees / Family Leaders / Family Members). They find themselves serving in several different capacities within variously different boxes.

That’s fine, provided they’re able to keep track of where they’re sitting, and what’s expected of them, in whatever Board or body they happen to be sitting at any point in time. As the Business and Family grow, roles and responsibilities get bigger, and overlaps reduce.

