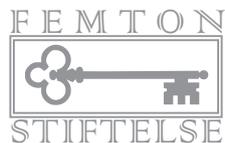


FAMILY BUSINESS

Sustainable Governance Over Generations



The Family Business

Family business is the oldest form of doing business, and family-controlled firms dominate the business landscape around the world playing a key role in the economy growth and workforce employment.

A family business refers to *a firm where the voting majority is in the hands of the controlling family, including the founder who intends to pass the business to his/her descendants.*

Family ownership in a combination with a cross-generational commitment, responsibility and knowledge continuity gives considerable opportunities: *family-owned firms outperform their non-family counterparts in terms of sales, profits, and other indicators.*

However, it can be difficult for family firms to achieve long-term success - most family businesses *do not survive the third generation of ownership because of complexity and informal relations* between individual family members and between generations.

Family firms *can improve their survival ability by setting the substantial governance rules, processes and structures* in order to mitigate risks, ensure the viability of the business and preserve family wealth.

Family Governance

A family is more than a group of blood relatives. A family in its extended variety might include in-laws, adopted children or even inner circle trusted councillor. But since every family consists of individuals, it is often the case that they have overlapping and competing interests. Purely because of internal family conflicts rather than external events or pressures the most family businesses do not survive the next generation of ownership. In order to mitigate potential conflict of interests between family members, the *family governance principles and controls must be developed, implemented and applied over generations.*

The right *family governance is a system* of joint decision-making, which balances the family members interests and helps the family govern its relationship with its enterprises and wealth.

Most commonly, a crucial part of family governance system is the **family council** - a governance body, that establishes strategy and policies affecting the family in contexts of its relationship with the board of the core family firm, its management and other wealth management and ownership structures, like trusts, foundations and family offices.

Family council is also may be responsible for drawing up a **family charter** - a written statement that defines how the family members relate to the business as responsible stakeholders, governors, employees and beneficiaries.

A comprehensive family charter should be designed on the basis of family *history, heritage, culture, collective vision and sense of values, defining roles and boundaries for family members*, ensuring the smooth governance of the family affairs and interests.

Family charter usually includes both fundamental statements and practical regulations, such as: *family shared vision, goals and values, family council membership criteria and chairman election procedure, duties and responsibilities, voting mechanism for decision-making, conflict resolution mechanisms, philanthropic strategy and activities, etc.*

Family charter may be expressed as *legally significant* or even *legally binding* document, purposely incorporated into *shareholders agreement, articles of the firm, trust deeds, bylaws and foundation statutes*.

Larger multigenerational families sometimes create a **family assembly** - a forum that creates participation opportunities for all family members who may not be included in the family council. Family assembly is a significant contributor to the *family unity and commitment to continuity* over time.

Family Office

Family firms usually create family offices to assist family members in their duties and responsibilities. A family office necessarily should not be organized as a special-purpose legal entity. Sometimes family office is represented as a set of functions allocated in different legal entities or even different jurisdictions, but with the primary mission to preserve the family wealth.

However, the services offered by family office are tailored to the family needs, may vary and in general include: *legal and financial assistance with estate and tax issues, regulatory compliance and reporting, investment portfolio management, education and succession planning, life and health insurance, planning and execution of family council meetings and family assemblies, concierge services and administration of family properties and lifestyle assets - private jets, yachts, etc.*

Family office operational costs may vary depending on scope of the services provided, number of family members and other legal and tax aspects. Outsourcing some of the services can be beneficial in terms of cost-efficiency. However, a number of *key functions and services are usually kept in-house due to confidentiality* issues. In any case, it is crucial to find the right balance between in-house management and outsourcing solutions.

Family Philanthropy and Charity

Philanthropy and charity are the areas of *activities that can help tie the family together*, relies on family *history, heritage and culture*. Philanthropy and charity also can be used as *a way to educate younger generation on how to manage family wealth based on family values*, by realizing that non-financial goals also have place in family business activities.

Philanthropy and charity are especially important for family members who are not full-time engaged in the family business but have a *desire to make valuable contribution* to it and support the *family role in society*.

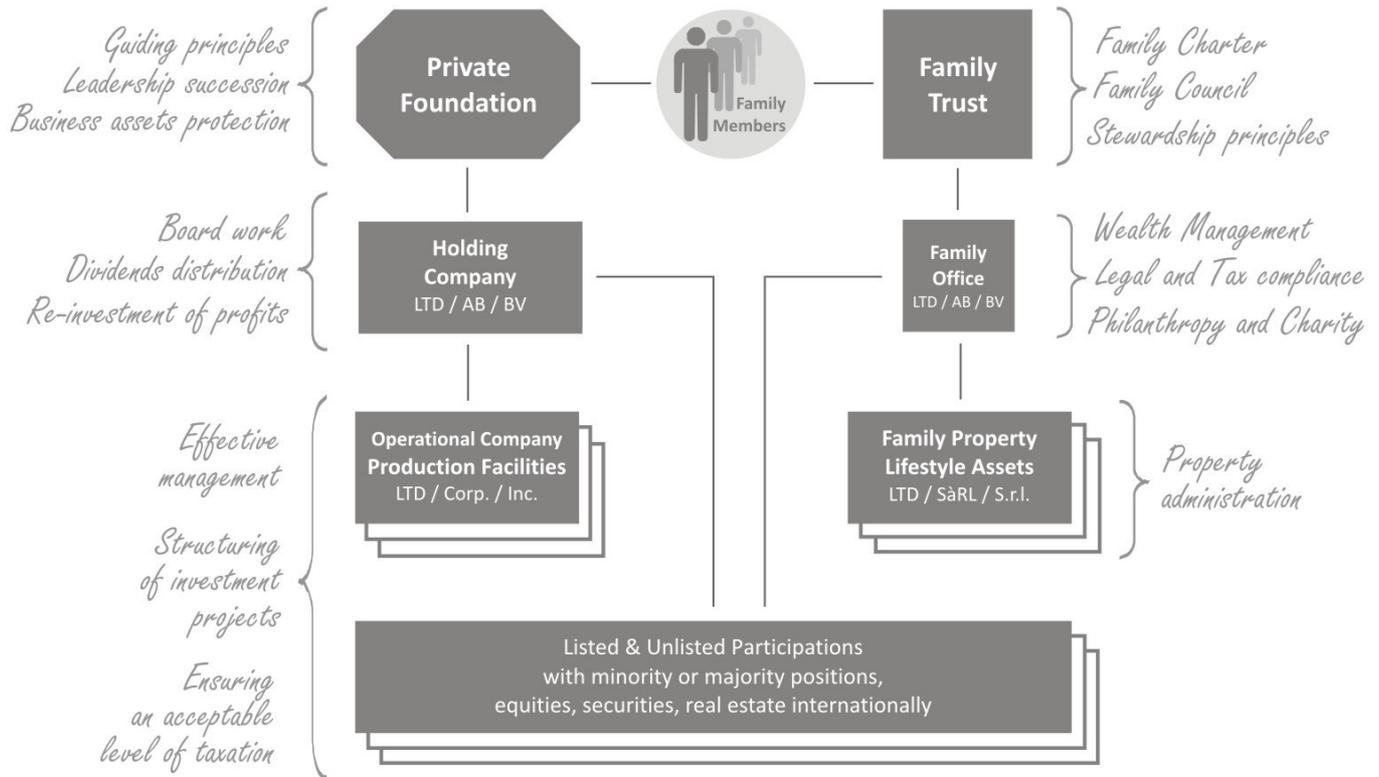
Most commonly, philanthropy and charity are *important items in family council meetings*.

Family Wealth Structuring

For the propose to *ensure family control and leadership over generations*, it would be better to *establish a fiduciary ownership structure* and considerably reduce or even avoid individual ownership for family members. Instead of direct individual ownership *family members will act as stewards and beneficiaries with a responsibility to participate actively in family business through family council and board of directors*.

Private **foundation**, family **trust** or combination thereof, could be a *reliable ownership and governance platform* for the family activities, remaining under family control and with a strong ownership positions in family holdings over time.

Guidelines for Fiduciary Ownership And Governance Structure



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