



Effective Family Business Governance

April 27, 2005

The Fairmont Hotel, San Francisco, CA

Key Ideas As Supplied by Participants

(grouped as they apply to the board room, to the family as owners, or to both)

Governance in the Board Room

1	It is important to establish a “fire wall” between the family and a non-family, professional CEO, especially when there are numerous owners. This is best done by having the family develop one voice with which to communicate to management through the board of directors.
2	A well-functioning board is key to professionalizing the business, as it enforces or promotes executive performance.
3	Who should be chairman of the board: stockholder? Family member? Outsider? This discussion opened up new possibilities for me and I intend to find someone new to fill that role. The chairperson should be very skilled in discussion process—i.e., facilitating and focusing discussion.
4	Have the board elect the chairman. This is an interesting idea that I might use in the future. Board chair selection depends upon the company’s current challenges/opportunities and the chair/CEO interpersonal dynamics.
5	Putting term limits on our directors. Our board is only 6 years old and there has been no discussion of term limits. The “3x3” suggestion: appointed/elected for 3 years and renewed no more than twice sounds like a good approach. We would need a productive nominating committee to support a policy like this.
6	7-9 directors is the optimal board size. Overall size depends on the scope of the role that stockholders want the directors to pay.
7	Form your board sooner, rather than later. It is a great source of advice, meets your fiduciary obligation, and helps greatly for managing strategic risks
8	Succession planning must follow a rational, not emotional, process; if the CEO is family, then he or she should have a nonfamily board chairperson

9	The board agenda must be “very specific and decision oriented” and the board must always address issues from “the 30,000 foot level”. These concepts will comprise a segment of the principles that will guide us as we transition from our current “perfunctory” board to a fully functioning board.
10	<p>Adopting key provisions of the Sarbanes-Oxley Act – such as having independent directors and at least one financial expert, establishing good internal financial controls, using an independent accounting firm as auditor, etc. -- will be beneficial even to private, family-owned businesses.</p> <p>Good governance practices will also be beneficial in the eyes of external stakeholders, such as by sources of bank financing and private equity, key customers and suppliers, joint venture partners, and in the possible sale of the business to a public company.</p> <p>State CPA societies might establish uniform auditing standards for both public and private companies.</p>
11	The board agenda should be decision-driven. Presentations by management and consultants may give directors background and perspective needed for future decisions.
12	In the interests of auditor independence, rotate lead auditor every 5 years.
13	<p>Add independent directors one at a time every 12-18 months until they are a majority of the board. This allows the family members to get to know and trust each board member in turn and to gradually get used to the care and feeding of a board.</p> <p>Most family companies find the prospect of identifying, orienting, and integrating outside directors daunting, and this suggestion makes it less so.</p>
14	The first two outside directors should have substantial experience on mature (outside dominated, high-functioning) family company boards. A family has enough to deal with without having to reinvent proper governance. Bring in people who can teach and guide.
15	<p>It is management’s responsibility to build and envision strategic direction for the company, following general guidelines from the family as owners..</p> <p>The board’s role is to challenge management to produce the best possible strategic plan.</p> <p>The board should be therefore be composed of directors who can help the company move into its future. This includes envisioning how the board can help the company after the senior generation of family executives has retired.</p>
16	Be sure the board is predominately composed of independent directors who maintain their independent position: when directors cross the “bright line” between oversight and management, they lose their independence and can become part of the problem.

17	<p>The key responsibilities of the board are: strategic visioning, human development and financial oversight.</p> <p>Boards are responsible for evaluating CEO performance, as well as hiring and dismissing the CEO. As much as possible, the board should support and coach the CEO to be successful.</p>
18	<p>The board has an important role in both CEO and ownership transition, which are often highly emotional times in the life of a family business.</p>
19	<p>Going into this conference, I was not convinced deep down that establishing a functioning Board was in our best interests.</p> <p>This seminar confirmed that there are good, seasoned veterans out there who can and will help us to achieve the forward momentum we have been striving to achieve all along.</p> <p>It's the principal that two heads are better than one, and, to some degree, several are synergistically better than two. Plus, when the thinking is "family" alone, it tends to get inbred. Independent directors open the windows to the outside world.</p>
20	<p>Just because a company gets older doesn't mean that it doesn't have problems or issues on its plate. Management's job is to deal with the issues of the day and ponder the future to try to avoid common pitfalls. That is where a Board is most helpful, but only if its directors have been down that road before and thus can help avoid the common mistakes that lie in the path of every company.</p>
21	<p>The board and senior management have a fiduciary duty to communicate to the owners all serious offers to buy the company.</p>
22	<p>Establishing terms for directors, such as 3 years and a max of 9 years, will enable the board renewal and thus keep skill sets current to company what the company needs.</p>
23	<p>Create an annual agenda with three meetings a year focused sequentially on three key topics: budget, performance and strategy. Designated themes tend to make the meetings more focused and productive.</p>
24	<p>The board has an important role to play in succession planning.</p>

Governance by the Family as Owners

25	<p>One of the most important family council activities is to provide a forum for the family to communicate "with one voice", especially with the Board of Directors.</p> <p>Since we are in the process of expanding our board to include independent members, it is imperative that we work to ensure our family council speaks "with one voice" particularly when communicating with new board members.</p>
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26	Continuation and maintenance of communication within the family council is essential.
27	Bring children (at age 13-14) into the family business meetings. Make them a part of the business.
28	Even though we were all involved in a family business, there were different degrees of family involvement.
29	It is important to keep the family (owners), management and board in sync with one another. “Legitimizing structures provide communication and charts of authority.” Communication is key!
301	There are few, if any, materials written on “responsible owners” while many have been written on Boards and managers!
31	If time, expense and little involvement in the family business are obstacles to participation, it is paramount to overcome these obstacles to increase family/owner involvement.
32	Families should have written policies regarding the involvement of family members in their companies, applying to any employment, management, and board participation. The first generation can make ad hoc rules, but after that, there needs to be agreement about how to operate. This practice increases communication and reduces the prospect of conflict.
33	Effective family councils make it possible to have stronger, more effective boards. In other words, as the family becomes more effective in developing structures and process for the purpose of guiding the board, then the board can become a stronger and more effective instrument in overseeing the company.
34	Write a family newsletter.
35	Establish family council and write a family constitution.
36	High importance of the family writing and using a family employment policy that affirms meritocracy in place of entitlement.

Comments Applicable to Both the Board and the Family

37	Always keep the option of selling the company as part of the planning session. If done consistently and fairly, it will help prevent family members from getting very strange ideas about what the company is worth. This, in turn, prevents major family melt-downs. Evaluate early and often. I can’t hurt!
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38	<p>Families should also frequently ask and answer: Should we have a non-family CEO?</p> <p>It is important to periodically test the assumption that family leadership is best for the business</p>
39	<p>A management succession plan is essential at all times. This is valuable, not only for the purpose of easing a transition, but also for the purpose of getting entrepreneurs to realize that they can be replaced and that the company has a life separate from their own.</p> <p>It may also help entrepreneurs understand that they too can have another life after working in the business.</p>
40	<p>There is a general progression of governance issues that face a business as it passes through the generations. Early in the life of a family business, the “go/no-go” decision to form a board is a big deal. Later on, long after the family exits leadership of the business, the challenges center on keeping the family interested and informed as owners of the business.</p>

Other Comments

41	<p>Today increased my awareness of how I need to get out of the way so that my successor can more quickly step up and take control.</p>
42	<p>A Psychological Inventory, or similar test, and use of a corporate psychologist is very helpful in development of leadership as well as succession.</p> <p>This clinical, distanced perspective is an excellent antidote to preconceived notions and prejudice</p>
43	<p>Be a win-win type person, not a win-lose person.</p> <p>Besides, it makes it easier to see your family again at weddings and funerals!</p>
44	<p>The complexities and dynamics of families in business together make us all more similar than different in the issues we face.</p>
45	<p>When conflict arises, seek to minimize the personality issues (such as control) and focus on resolving differences based on the merits of what is best for the business. Empirical beats emotional every time in business conflict resolution.</p>
46	<p>It was humbling to consider the whole issue of succession planning to which I had not previously given much thought.</p> <p>With the right attitude, succession planning can be very liberating.</p> <p>It is only through change that we grow both as businesses and as people.</p> <p>Let someone else have a chance to be the big cheese !</p>

SEMINAR AGENDA

Starting and Sustaining Effective Family-Business Governance: Boards, Councils, and Other Structures

The Fairmont Hotel

April 27, 2005

Schedule

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| 7:30 - 8:30 | Registration and continental breakfast |
| 8:30 - 9:00 | Introductions and opening remarks, by Jack Moore |
| 9:00 – 10:20 | <i>“Dimensions of Corporate Governance in the Family Business: Governing the Family,”</i> presentation by Leslie Dashew |
| 10:20 – 10:40 | BREAK |
| 10:40 – 12:00 | <i>“Board-Management Interface: The Independent Firm’s Road to Productivity and Profit,”</i> presentation by John Santa |
| 12:00 – 1:15 | LUNCH |
| 1:15 – 2:40 | Break-out discussions of participant issues |
| 2:40 - 3:00 | BREAK |
| 3:00 – 4:00 | Plenary discussion of participant issues |
| 4:00 - 4:25 | <i>“Sarbanes-Oxley and Private Companies: Moving Toward a New Reality,”</i> presentation by Jack Moore |
| 4:25 - 4:30 | Closing remarks |