



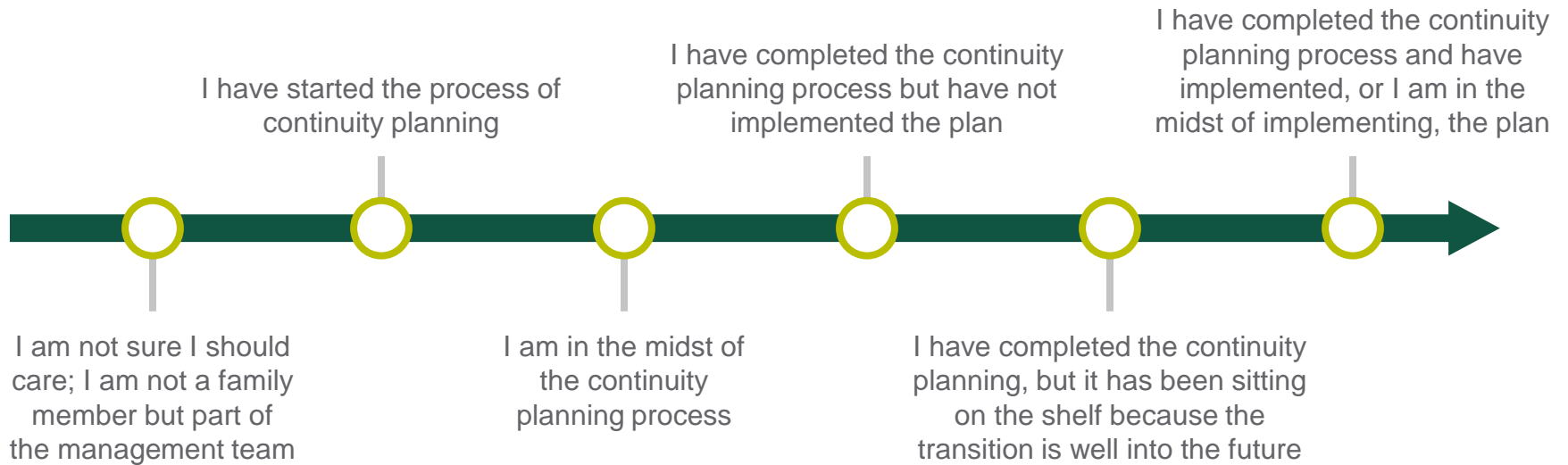
# Family Matters

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?



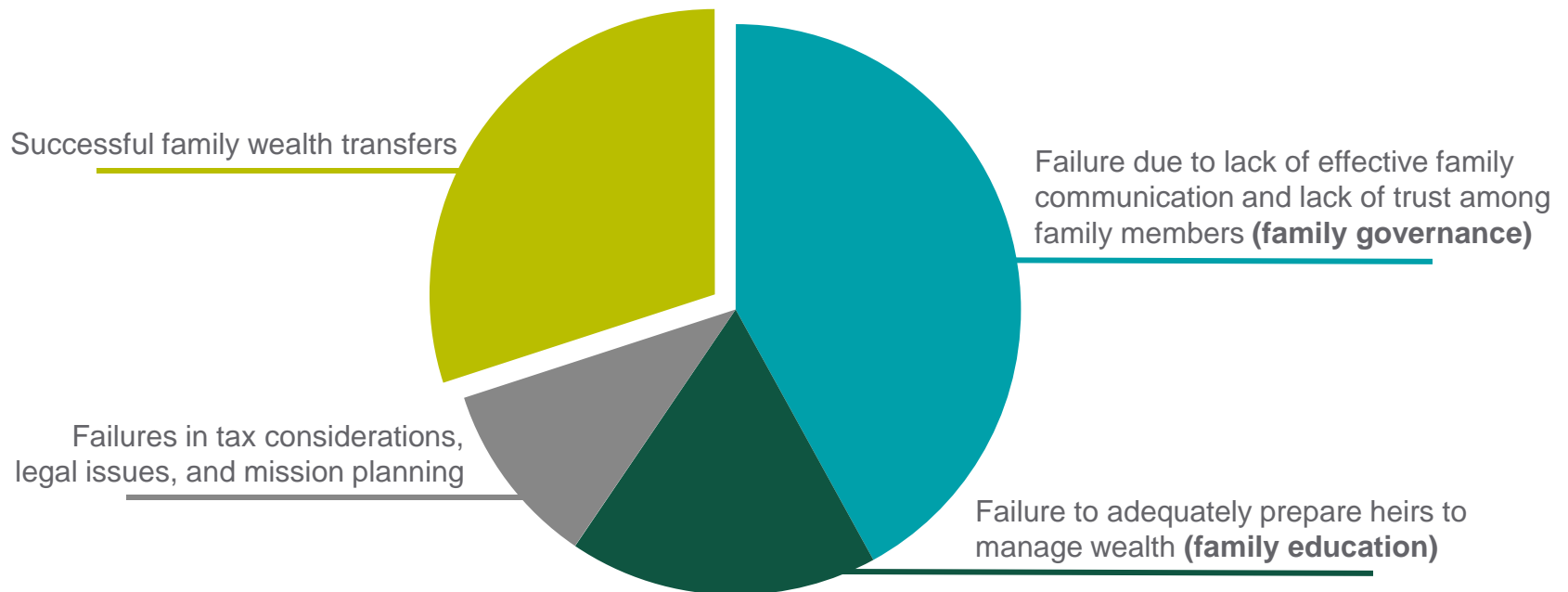
# Successful Family Best Practices

- **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

**START HERE**  
 What conversations do I need to have with my family and why?

- Why can selling a private business lead to lower cash flow?**
- Loss of financial leverage
  - Sale at lower multiple than reinvestment opportunities in the public market
  - Loss of employment compensation and benefits
  - Impact of taxes

**Emotional Threshold**  
 Am I willing to part with my company?  
 (Is it an heirloom or a financial asset?)

Yes

No

How much time do I have to make a decision to hold/sell?  
 Scenario planning

**Evaluate Asset Sufficiency**  
 Would a sale result in enough wealth and/or cash flow to support my lifestyle and fulfill my goals?

Yes

No

**KEEP THE BUSINESS**

Am I willing to accept the lower cash flow from a diversified public securities portfolio?

Yes

No

Maybe

- What could raise the perceived or actual business risk to the point that this answer changes?**
- Industry dynamics
  - Capital requirements
  - Leadership transitions
  - Disagreement among shareholders

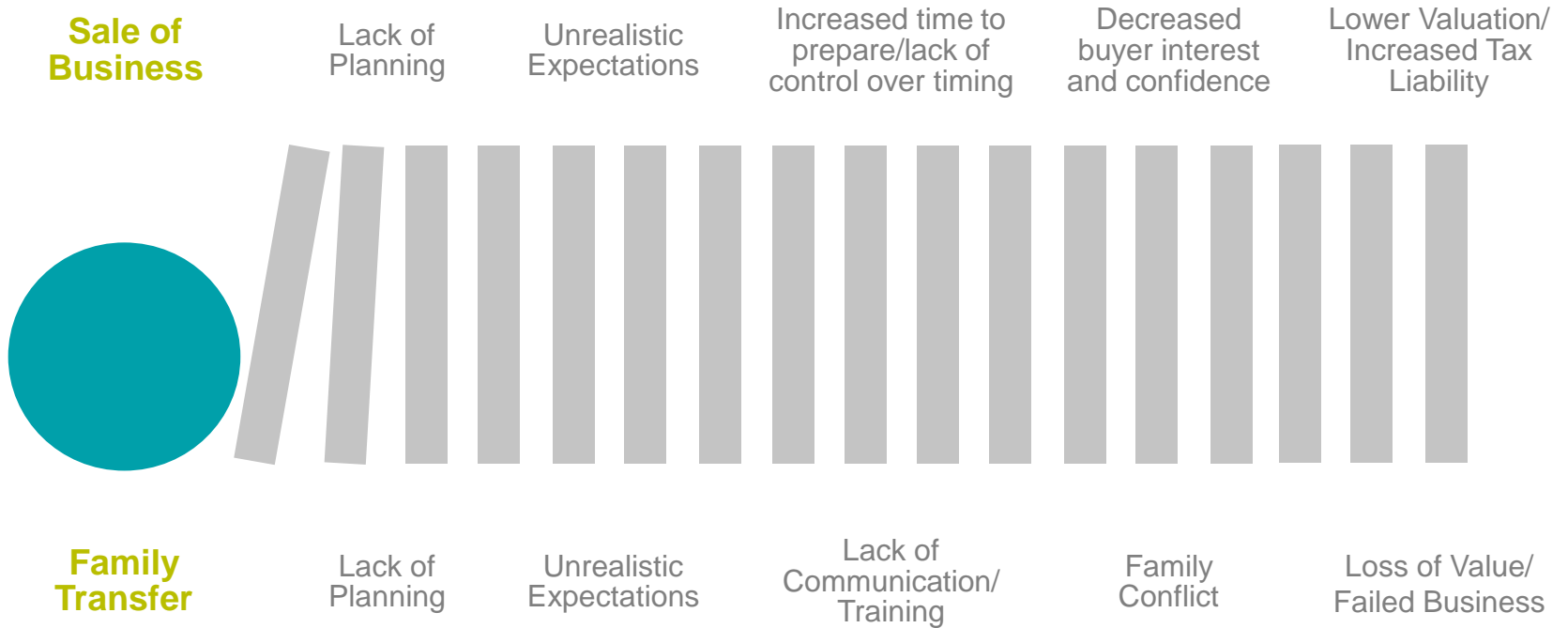
**SELL THE BUSINESS**

Yes

Do I care who the Buyer is?

# 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

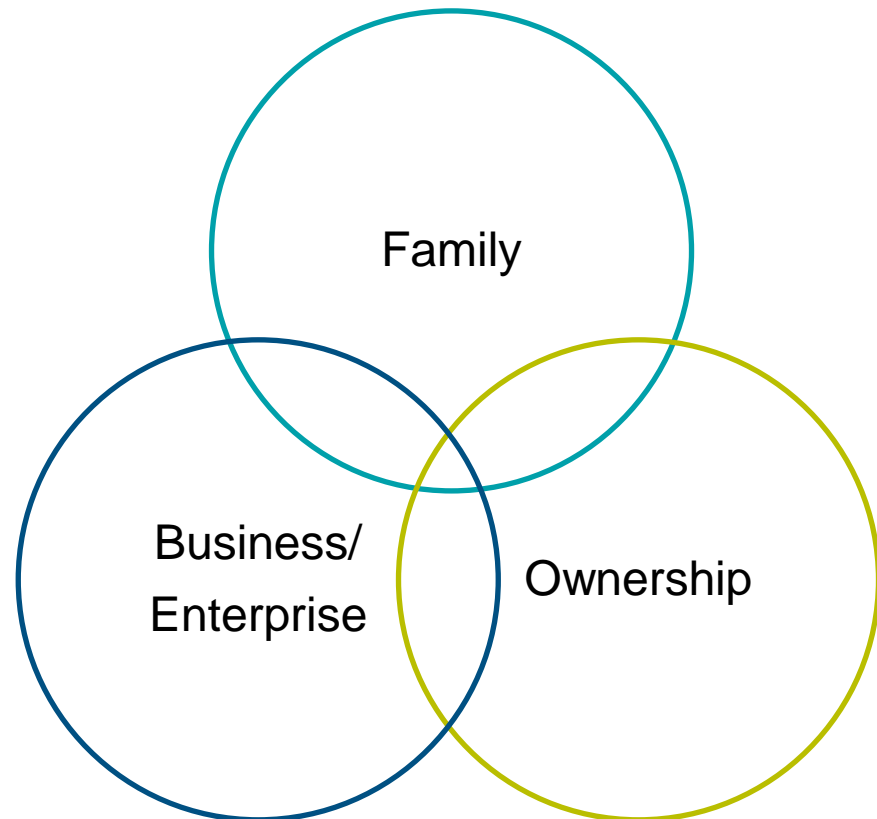
- Interlocking systems
- Different “life stages”
- Multiple roles
- Emotional dimensions
- Competing goals and priorities
- Transitions are especially high-risk points

### 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

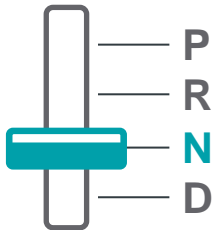




# Family Dynamics in the Family Business: Common Dilemmas

## DILEMMA #1

Stuck in  
Neutral



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

## DILEMMA #2

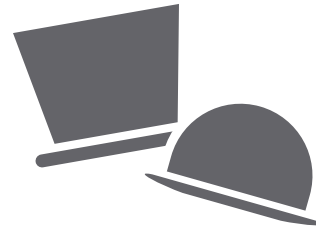
Parents,  
Paychecks, and  
Prodigal Sons



Family Member  
Employment

## DILEMMA #3

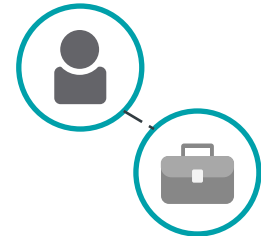
Many Hats



Managing Multiple  
Roles at Their  
Boundaries

## DILEMMA #4

Keeping It  
Together

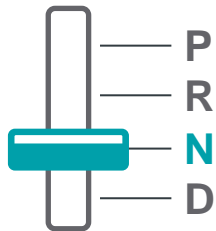


Connecting  
(Not Fusing)  
Family and Business  
Over Time

# 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?

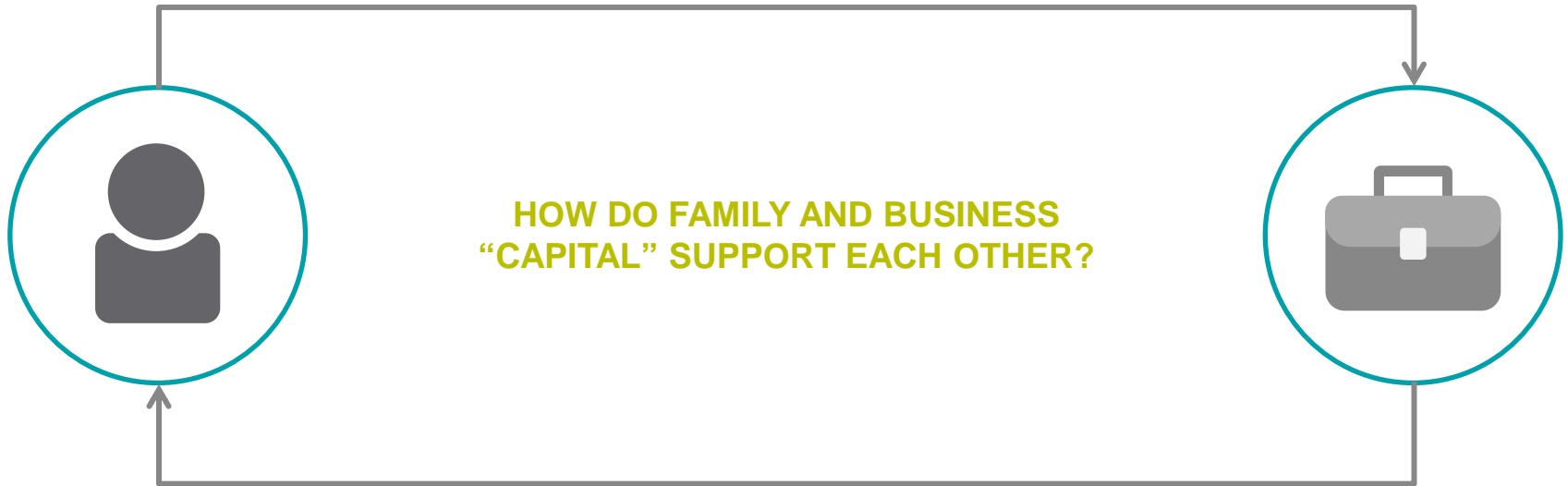


What kind of future  
do we want – and  
why?

# Strategic Planning for Business-Owning Families

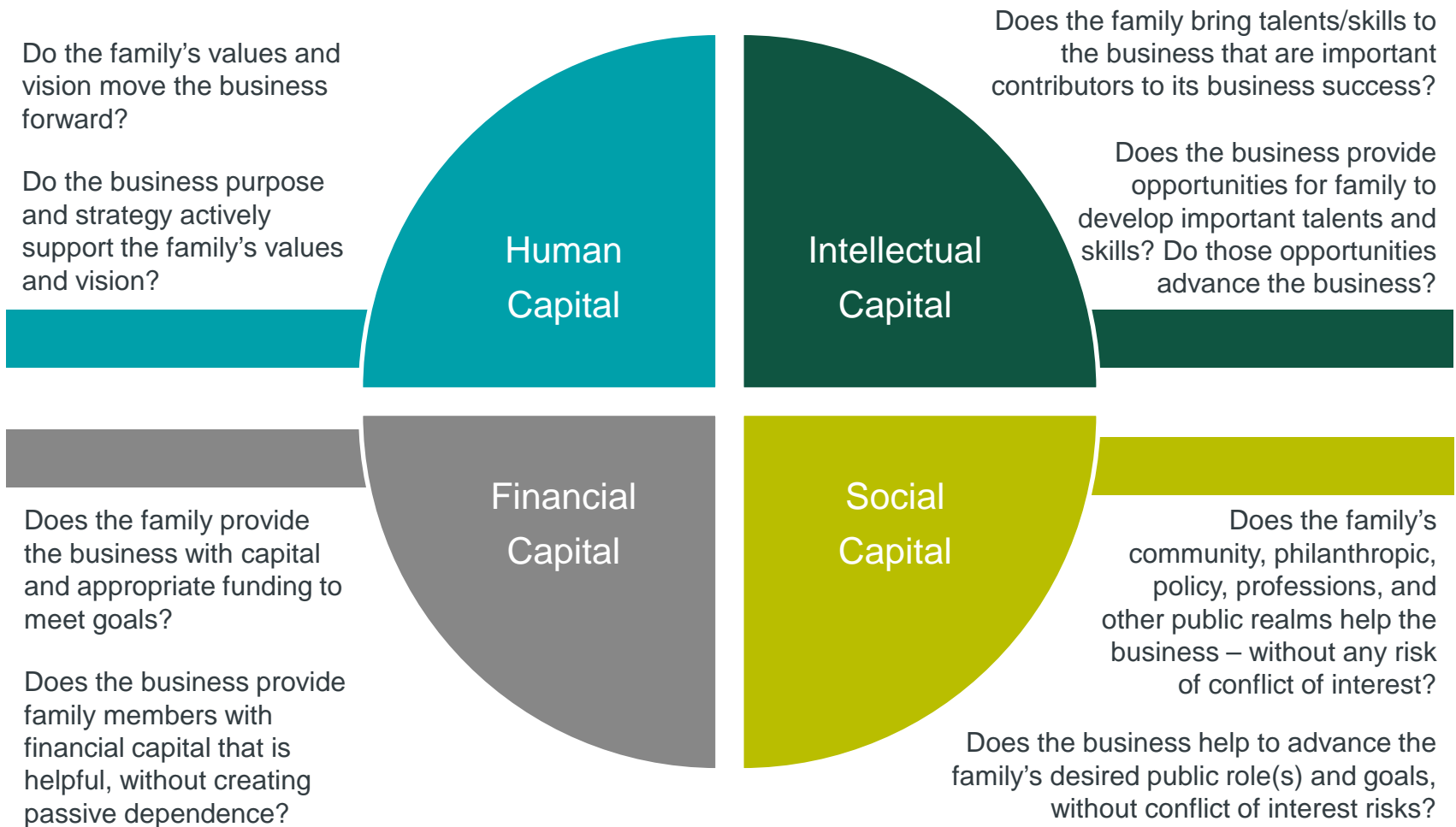
## Key Questions

**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*



### OPERATIONAL GOVERNANCE

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

## FORMALIZING "FIRST THINGS FIRST"

*Some second (and most third) generation families*



### PROCESS GOVERNANCE

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

## AT THE HEART OF THINGS

*Virtually every family*

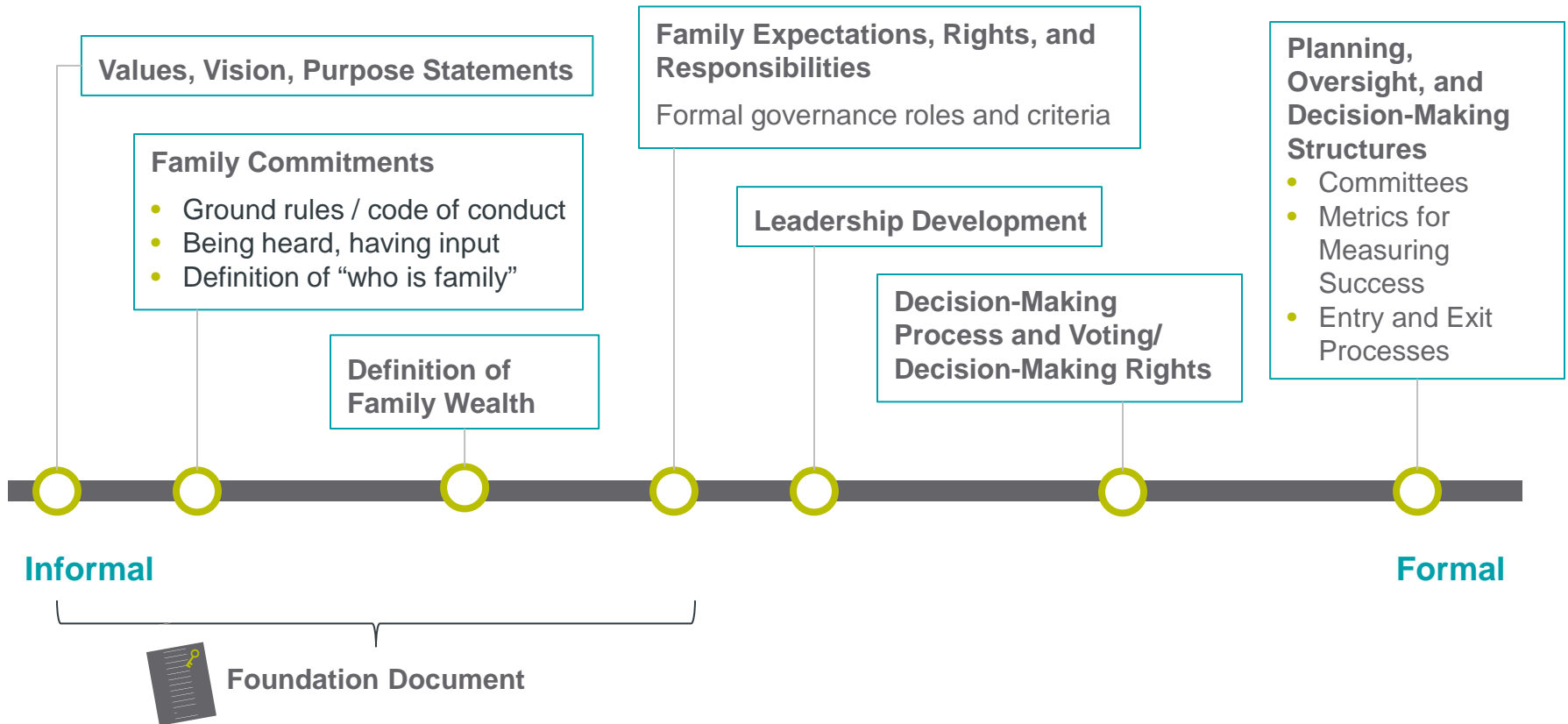


### MEANING, PURPOSE, AND CULTURE

- 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**

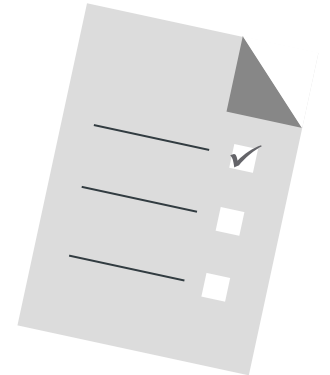
Define family employment criteria, with outside help

- 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 2<sup>nd</sup> 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

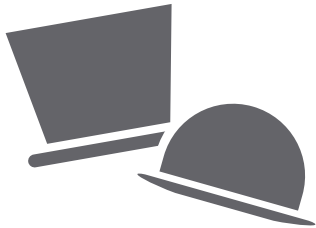
- Publicly outline process and criteria for choosing successor
  - Stages, time frames can help
- Encourage interested family members to get experience in the company's revenue-generating and client/public-facing roles
- Board interviews – including external board members
- Mentoring and career development 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

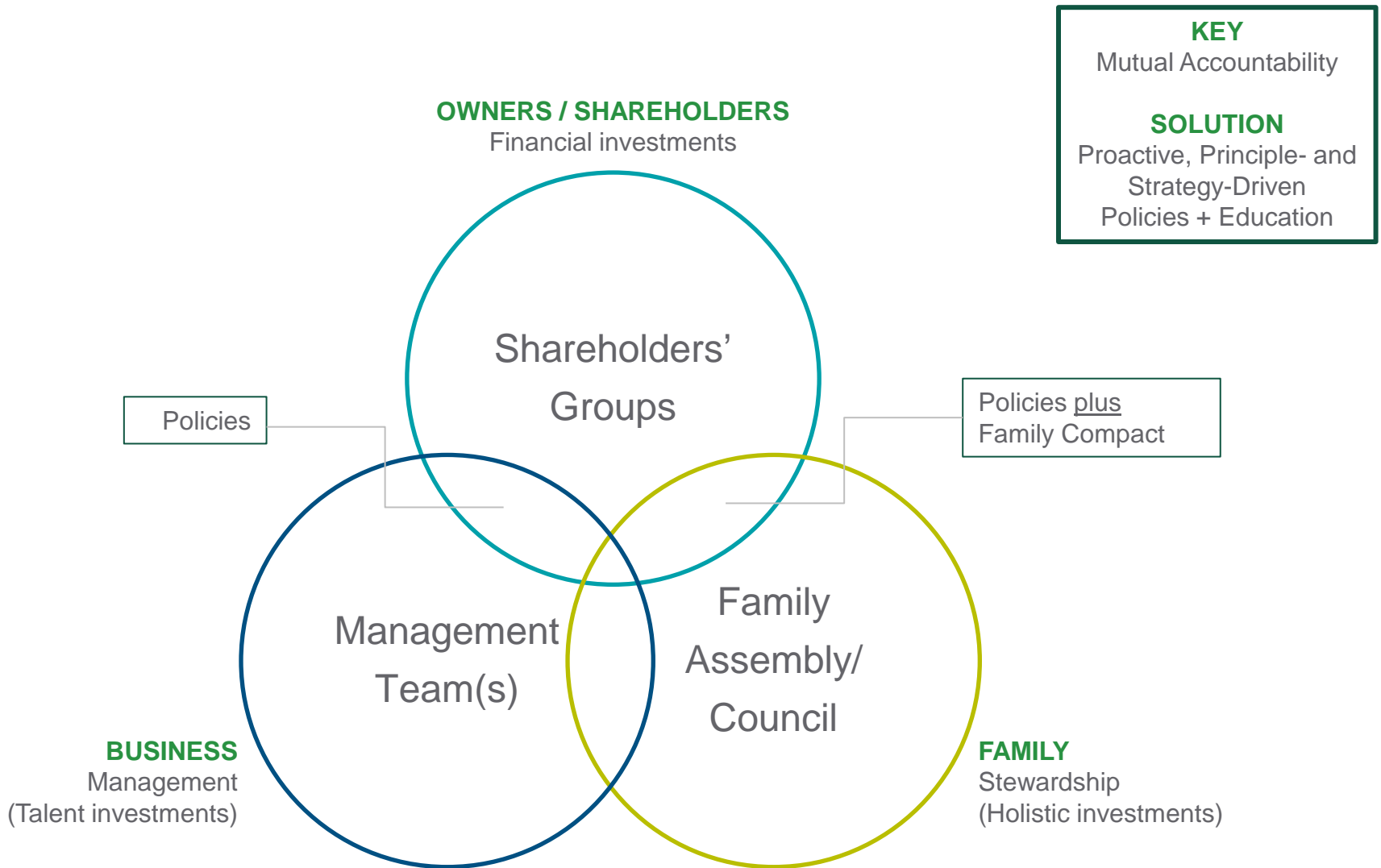


Managing Multiple  
Roles at Their  
Boundaries

## **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

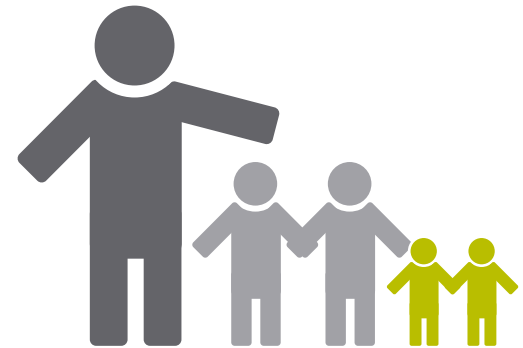


# Overlapping Roles: Managing at the Boundaries

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

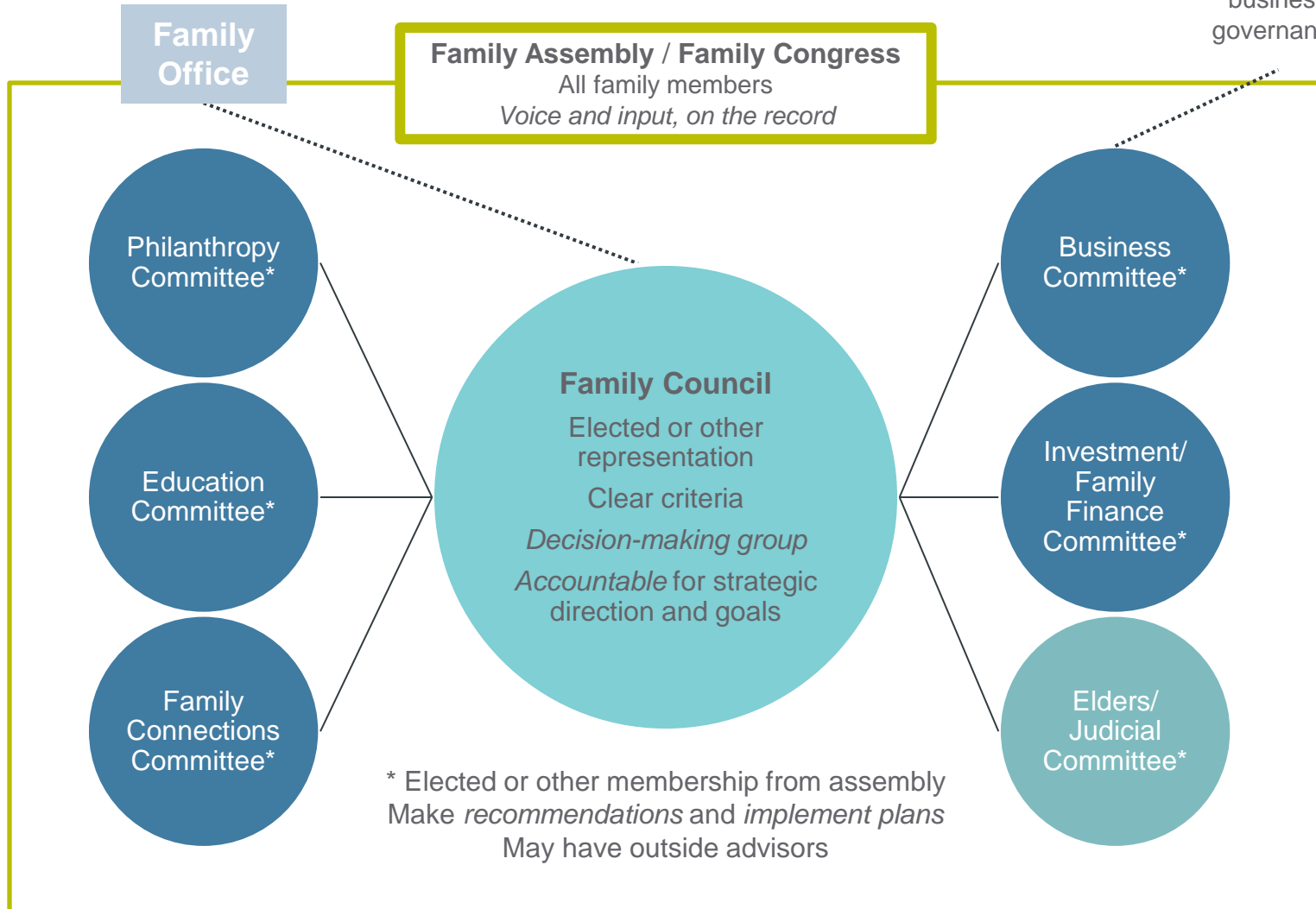




# Overlapping Roles: Managing at the Boundaries

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

Connected to  
business  
governance



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

## **DILEMMA #4**

Keeping It Together



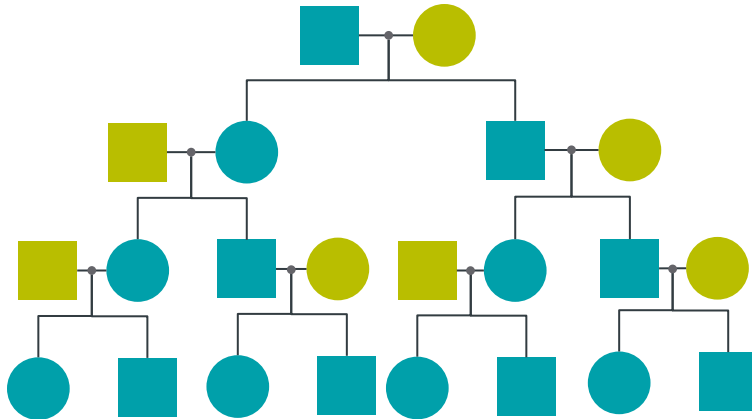
Connecting  
(Not Fusing)  
Family and Business  
Over Time

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

Source: International Finance Corporation, World Bank Group

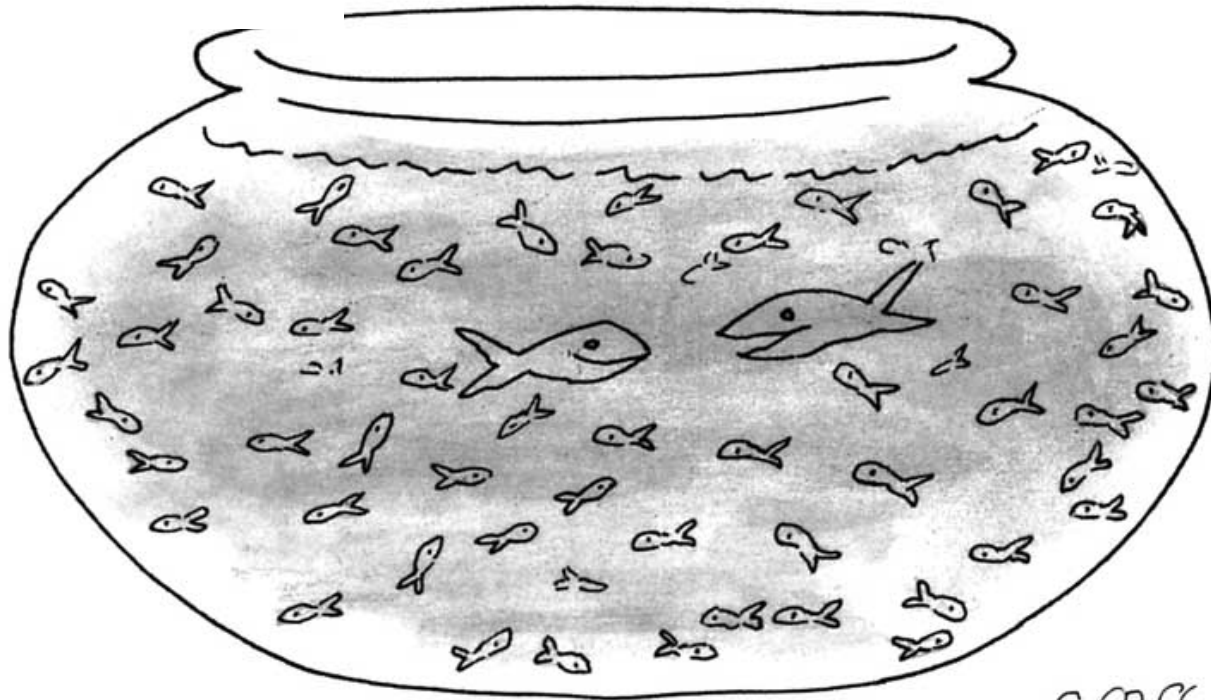
# In Closing...

## Questions to Consider

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- **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



**Claudia B. Sangster**  
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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