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FAMILY GOVERNANCE SERVICES

The art of managing an Entrepreneurial Family
Successful leadership, organization & decision-making



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Only 3%¹ of all FAMILY BUSINESSES WORLDWIDE remain in business for more than three generations.

1 Ward J., Keeping the family business healthy, San Francisco, CA: Jossey-Bass, 1987.

ABOUT A&M ALANSARI

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**We want
yours to be
one of them.**

Often enough, a family business has only itself to blame for its demise, whether it is due to the inability of the owners to agree, a lack of succession planning, open conflict or for any other reason. We want to help family businesses succeed for generations with our Family Governance Services, a tailored consultancy package that enables entrepreneurial families to manage themselves systematically and successfully.

THE ADVANTAGES OF GOOD FAMILY GOVERNANCE:

- It increases awareness of the links between the family and the business.
- It clearly differentiates issues that concern specifically the management and the owners.
- It provides new opportunities for more effective communication within the family.
- It ensures better basic and advanced training for family owners.
- It documents and addresses the expectations of individual family members.
- It ensures that every family member understands their role within, and their responsibilities toward, the business.
- It sets a reference point for future generations.

FAMILY GOVERNANCE: TURNING RELATIVES INTO A TEAM

Our Family Governance Services help families that own and run businesses to manage themselves effectively — for the benefit both of the family and the business.

In an ideal situation, the family that owns the business should be the backbone of that business. The trick is to get all the family members to move in the same direction, make the necessary decisions at the right time and ensure that decisions take into account both the family's wishes and the corporate goals. Our Family Governance Services offer a platform that can help you to organize yourselves better as an entrepreneurial family, to evaluate systematically risks and to manage the family ownership of the business optimally — for both the long-term unity of your family and the ongoing success of your business.



CLOSELY RELATED: CORPORATE GOVERNANCE AND FAMILY GOVERNANCE

Corporate governance lays down the responsibilities and procedures within a company. In entrepreneurial families, this is part of family governance, and it should be carefully managed.

Family governance and corporate governance are interlinked. Just like good corporate governance, good family governance contributes toward sustainable economic growth and enables the long-term viability of a family business.

However, it is important to remember that the more complex the hierarchy or situation is within the family, the more complex family governance becomes.

And the longer a business operates, the greater the number of owners there will be. As we have seen in our consultancy, time and time again, entrepreneurial considerations are not the only factors that count. Emotional aspects also play an important role. We can show you how differing opinions can be guided — with the necessary tact — toward a joint resolution.

Experience has taught us where the significant pitfalls lie and how the individual perspectives of a family can best be integrated into a complete solution.



Family businesses can only be successful across generations if the entire family works together.

Compensation models for management & the supervisory board

- Promotion of entrepreneurial skills
- Developing future generations
- Drafting a family constitution
- Fair treatment within the family
- Dealing with advisors
- The family's influence on decision-making
- Selecting managers from outside the family
- Dividends versus investment
- Transfer of shares within the family
- Inheritance and ownership
- Family involvement
- Communication within the family
- Personal versus business demands

The future of any family enterprise depends on the quality of its decisions. This is something we can help you improve.

We can support you in the following areas:

- Business succession
- Family values and strategy

FAMILY GOVERNANCE: OUR SERVICES

As the owner or co-owner of a family business, you have many things to consider. We can put together an individual consultancy package to help you manage your responsibilities and make the right decisions at the right time.

Every company is different. So is every family. That is why we adapt our services to your specific needs. And we work together with you, to help you identify the risks and opportunities. We ask questions and listen closely to what you have to say, both in workshops and in individual conversations. What you tell us is integrated into a tailored solution that will help you, as the owner, to organize your family and your business in the best possible way.

Through a wealth of successfully completed projects, we have acquired an understanding of a wide variety of situations that can develop within entrepreneurial families.

As a result, we are able to recognize potential conflicts early on, and are thus in a better position to suggest possible solutions.

Our goal is to promote unity among owners and to help them better understand their roles and responsibilities. We can also provide the tools they need, such as an appropriate IT infrastructure, effective risk management for the family, a family constitution and much more.

Owner/family wealth

- Financial strength
- Sustainability
- Entrepreneurship
- Private wealth
- Preserving wealth through generations

Family Participation

- Family Values & legacy
- Managing assets & risk
- Family governance
- Family Office support
- NextGen Involvement
- Philanthropic strategy

Family Business

- Entrepreneurial activity
- Operating results
- Tax effectiveness
- Management Strength
- Ownership and control
- Business succession



KNOWING WHERE YOU'RE COMING FROM AND WHERE YOU'RE GOING

Our Family Governance Services are geared specifically toward the factors that are essential for successful family governance:

- Forward planning
- Succession management
- Conflict management

Whenever one generation hands the corporate reins to the next, changes are inevitable. It is therefore a good idea to develop, as soon as possible, a clear set of regulations to integrate the new situation, and to identify the pillars on which the company's success has been built to date. Only then is it possible to consider potential strategies and make the right decisions.

CONFLICT MANAGEMENT

It is sad but true that conflicts within families often tear family businesses apart. This is despite the fact that many families think that this could never happen in their case.

"We stick together. We're a family, after all," they often claim. But they underestimate the potential for conflict. To reduce this risk, it is important for the next generation not simply to rely on familial ties, but to start creating strong business relationships within the family at an early stage.

It is also important for the next generation of family members to be given a clear idea about what roles they can expect to take up in the foreseeable future. This allows them to think about how they will master the different challenges that lie ahead.

These issues can be resolved systematically. EY has developed a model for this purpose, which is based on the key elements shown on the right.

FORWARD PLANNING

It is important for every family to have a vision of its own future, as well as of its role in the future of the business. That means finding answers to the following questions:

- What is the family's corporate philosophy?
- Is the ongoing existence of the business a declared goal?
- Does the family intend to continue running the business?
- Are there potential successors within the family?
- Is it conceivable that someone from outside the family could run the business?
- What are the needs and expectations of the next generation? How can these be met?

Differing goals from one generation to the next can easily lead to conflict. This is a frequent cause of businesses falling apart

altogether. So it is essential for all family members to agree on common goals early on — goals that are consistent both with the family's convictions and the goals set for the business.

SUCCESSION MANAGEMENT

Corporate succession can pose a great danger to family businesses. Sooner or later, everyone — whether they are an owner or a manager — needs to find a suitable successor. Such decisions must be carefully considered.

In our experience, most entrepreneurial families have little idea about how to manage a succession. As a result, the next generation is left in the dark for a long time and eventually finds itself ill prepared for the major challenges that lie ahead. It is therefore crucial to prepare the next generation as early as possible and in a targeted

manner for the responsibilities it is expected to assume.

It could also happen that the next generation does not run the family business responsibly or that the chosen individual in charge may not receive the necessary support from their family. Such situations should be avoided at all costs — ideally through clear agreements that all owners pledge to uphold.



- Drafting a family constitution
- Defining the family's vision and mission
- Organizing the family to enable joint learning, decision-making and communication
- Developing a set of rules for the owners Encouraging the training and preparation of potential successors
- Coordinating the family's charitable activities
- Strengthening family bonds and encouraging the sharing of experiences
- Providing support in the drawing up of pre- and post-nuptial agreements
- Providing support in the drafting of wills and the settlement of claims in relation to forced heirship or the intestacy rules

ANALYZING THE CURRENT SITUATION

1

- Analyzing the family tree & current business structures
- Analyzing the family philosophy & culture
- Selecting the family members who should be involved in drafting the family constitution
- Seeking the family's approval and support

DOCUMENTING THE FAMILY PHILOSOPHY & VISION

2

- Understanding the views of previous family heads
- Pledging members to continuity
- Identifying any significant issues for the family
- Conducting confidential interviews with family members about their personal views
- Participating in workshops

DEVELOPING THE FAMILY GOVERNANCE ARCHITECTURE

3

- Uniting the objectives of the current and future management
- Developing rules and structures
- Agreeing rules for the interim period during succession
- Drafting a family constitution for managing the most important challenges faced by the family

CREATING AN ACTION PLAN & OTHER SERVICES

4

- Submitting the family constitution for final approval
- Developing an implementation plan
- Amending existing documents and contracts as required
- Drawing up new documents and contracts to reflect the newly agreed position

“WHO ARE WE & WHAT DO WE WANT?” HOW A CLEAR POSITION CAN STRENGTHEN THE FAMILY

Developing a family constitution can help the family of an owner-operated company to gain valuable insights and to organize and lead its business with greater focus.

In any family business, the managers, owners and family should together form a solid foundation. But this foundation requires a clear division of responsibilities, clear objectives, a clear strategy and unambiguous rules.

YOUR FAMILY CONSTITUTION IN FOUR STEPS

As objective and independent consultants, we analyze entrepreneurial families from the outside. In just four steps, we can help an entrepreneurial family to develop a family constitution that will enable it to fulfill its tasks and responsibilities in a systematic manner.

In working toward individual family constitutions, we focus on a number of key tasks:

- Clarifying priorities
- Understanding values
- Dividing responsibilities
- Making differing expectations visible
- Strengthening team spirit
- Identifying talent
- Preparing the managers of tomorrow for the challenges that lie ahead

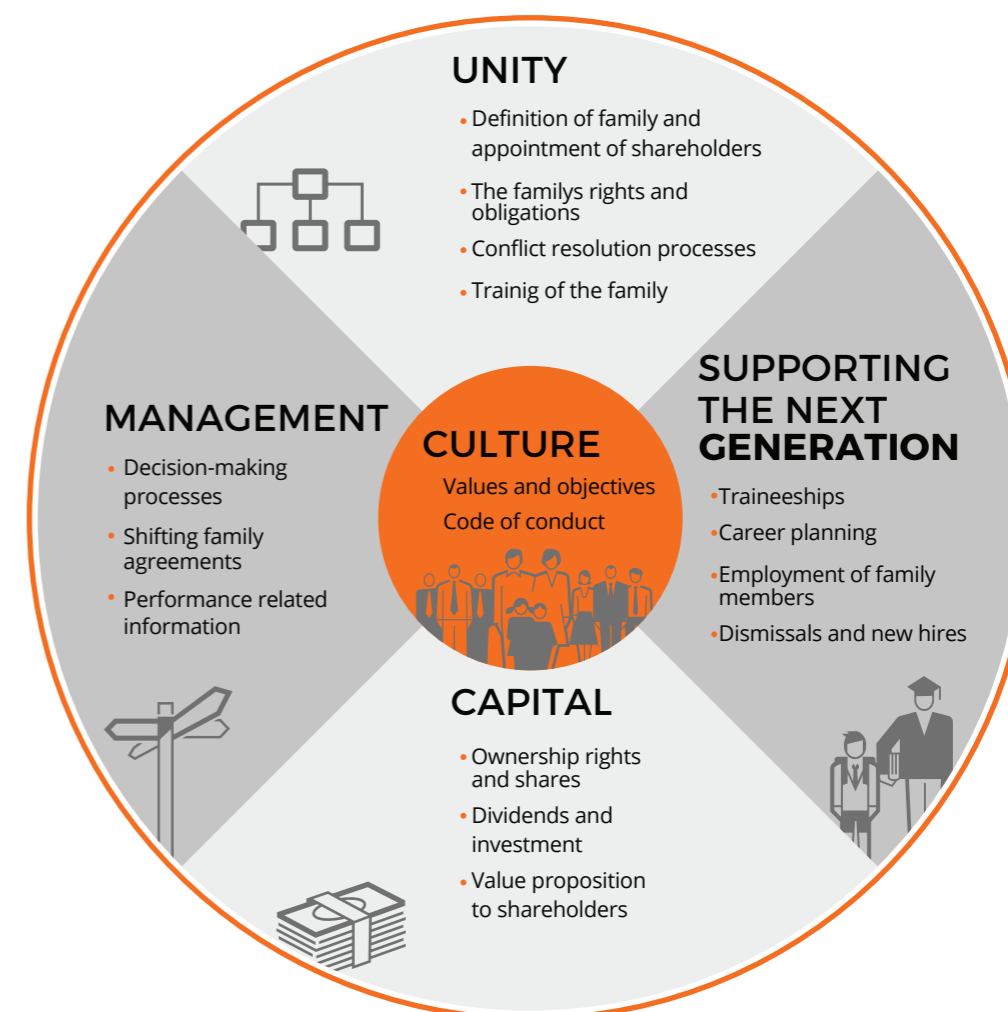
It is particularly important that the entire family is aware of its objectives, values, opportunities and risks. We therefore start by conducting joint workshops and confidential interviews. The better we know you and the better you get to know

yourselves, the easier it is to recognize opportunities, develop structures and address issues before they become problematic.



Putting together a family constitution is far more than a mere paper exercise. It provides a valuable insight into the family's — and indeed the business's — self-image, values and vision for the future.

Addressing the questions arising during this process also provides an excellent opportunity to get to know your relatives better, improve team spirit and overcome possible differences of opinion.





A constitution points entrepreneurial families in the right direction.

- **The family's objectives and philosophy**
- **Holding a shareholders' meeting**
 - Role of the shareholders' meeting
 - Right to vote on decisions
 - Membership of shareholders' meeting
 - Election of a chairman
 - Tasks and responsibilities
- **Representing the family within a holding company**
 - Selection procedure
 - Terms of office
- **The family council**
 - Responsibilities of the family council
 - Membership and voting rights
 - Selection procedure
 - Terms of office
- **Dealing with family members who want to leave the business**
 - Valuation
 - Establishing reserves for departing members
- **Conflict resolution processes**
- **Personnel policies within the family**
 - Employment criteria
 - Compensation for family members

- Restriction of the investments family members can make in their own name
- **Charitable work**
 - Roles, tasks and responsibilities
 - Possible motives for starting a foundation
 - Membership of the board of trustees
- **The family office**
 - The structure of the family office
 - Tasks and responsibilities
- **Guidelines for dividends**
- **Confidentiality and the code of conduct**

THE FAMILY CONSTITUTION: LAYING OUT A CLEAR FUTURE

A family constitution is a written agreement that lays down essential values and principles as well as rules, obligations and decision-making processes.

A family constitution gives the family a fixed set of regulations for central processes that affect both the family and individual members as owners. These clear rules go a long way toward avoiding internal conflict. Even complex special cases can be defined clearly — for instance, where members of the family also manage the business.

A family constitution reduces the potential for conflict and enables decisions to be made on the basis of documented values and convictions. This significantly improves the family's long-term viability and, therefore, that of the company.

JOINT DISCUSSION, JOINT DECISION: THE FAMILY COUNCIL

The long-term success of a family-run business depends to a great extent on whether the family is united. A family council is one way to achieve unity and make fundamental strategic decisions together.

Clear values, clear words: the discussion of issues around the kitchen table now finds its business equivalent in the family council. Fundamental values, responsibilities, objectives, decision-making processes, wealth matters, control functions and much more besides can be discussed and agreed upon openly by the various members. The aim is to create familial solidarity that presents a unified front to the outside world while, at the same time, simplifying managerial work and planning.

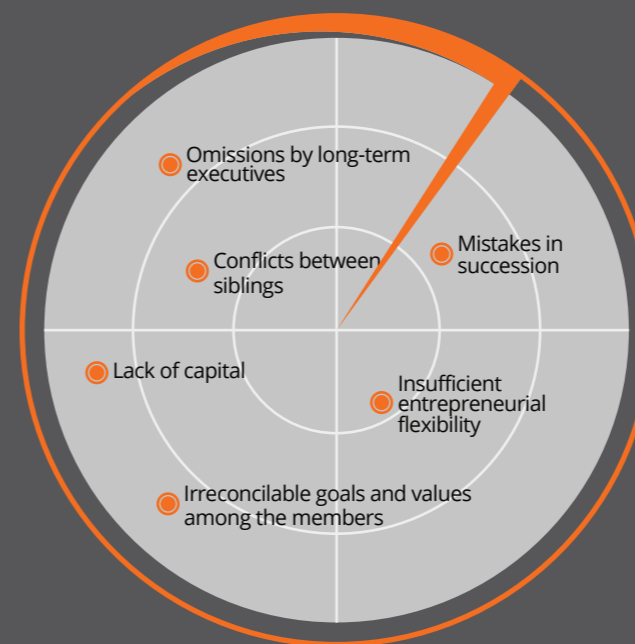
We provide you with a document, individually tailored to your family and your circumstances. A family constitution acts as a link between the family and the business, in that it obliges owners to support the business while at the same time protecting the family's interests and assets, both now and in the future.

It is important to give younger generations a place within the family council and to involve them in the business at an early age so that they can prepare themselves to take on responsibilities in the medium to long term.

Involving all owners in the process increases their willingness to make a constructive contribution and to act in the best interests of the family and the business. Once the owners have defined the objectives clearly, management can set about implementing them. Close and regular communication between the family council members and management is advisable.

We show you how best to set up, organize and optimize your family council. This will ensure that your family stays united and your business remains on track.

THE RISKS THAT MUST BE RECOGNIZED & MANAGED:



A RISK RADAR FOR THE FAMILY

Economic crises are not the only threat to entrepreneurial families and their businesses. Often enough, families and their businesses face a mixture of internal and external problems.

A lack of awareness of the risks posed by internal weaknesses and external threats is one of the main causes of the collapse or disintegration of family-owned businesses.

At various levels and stages, opportunities may be missed or important decisions may remain

unmade. Overlooked conflicts within the family, open disagreement about the direction of the business or a failure to prepare the next generation as successors can also jeopardize the business.

Having worked with many entrepreneurial families, we have developed a good sense of where the dangers may lurk and where action has to be taken without delay. Clever, forward-looking risk management within the family can help you manage these dangers and avoid potential damage. We provide you with the support you need to develop the necessary structures.

GROWTH IS ESSENTIAL FOR THE LONG-TERM FUTURE OF THE BUSINESS



Few family businesses consider growth a particularly important goal. However, experience shows that those who rest on their laurels are at risk of squandering their future. This is why owners must take action.

Growth is important. And yet, for a large majority of family-run businesses, growth is not one of the most important objectives. Those who fail to drive growth are at risk not only of their business stagnating, but also eventually of it getting caught in a dangerous downward spiral.

As a leader of your family business, it is up to you to create the right opportunities for your company to grow — its continued existence is in your hands.

- The following three factors have been shown to be crucial for achieving sustainable growth:
- Providing unlimited support by all stakeholders for the entire undertaking
 - Making cultural and behavioral issues a top priority in order to make change possible
 - Improving the owners' skills, thereby enabling improvements to the governance process with the aim of successfully implementing family governance

ONE FAMILY, ONE TEAM

Only 3% of family-run enterprises remain in business beyond the third generation. In most cases, the business's demise is due to problems within the family — problems that could have easily been resolved, for example, by way of a family constitution.



Peter Englisch
Global Leader
Family Business Center of Excellence

A family constitution can play a crucial role in the long-term viability of a family-run business, because such constitutions govern all the matters that are important for the successful organization of an entrepreneurial family. My team and I will gladly support you in drawing one up for your family.

Every year, we assist hundreds of families in shaping their corporate succession processes. You can benefit from EY's vast experience in this field by calling on us to help point your family and your business in the right direction.

We can help you resolve highly emotional issues in a calm and objective manner, and can support you in making strategic decisions at the right time and for the benefit of everyone concerned.