The Accidental Partnership® Series:

Enterprise Family Organization

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Contents

This booklet is intended to provide general information and not country-specific legal, accounting, tax or other professional advice. Your own business is unique and presents its own issues, which may not be addressed in this booklet. You should always consult your business advisors prior to making important decisions.

Creating the High Performance Family Enterprise

> *At some point in development, most enterprise families feel obliged to choose whether they wish the business to remain family owned and family managed, or family owned and professionally managed, where competent family members are invited to participate and contribute where they best fit.*
>
> \- Aron Pervin 1997

The Accidental Partnership® Model

The "accidental partnership" is a powerful and bizarre family ownership phenomenon that arises due to circumstance – not choice. You do not choose these partners as fellow contributors to the business. Rather, you inherit them from the "lucky gene club" along with the family history of rules and relationships.

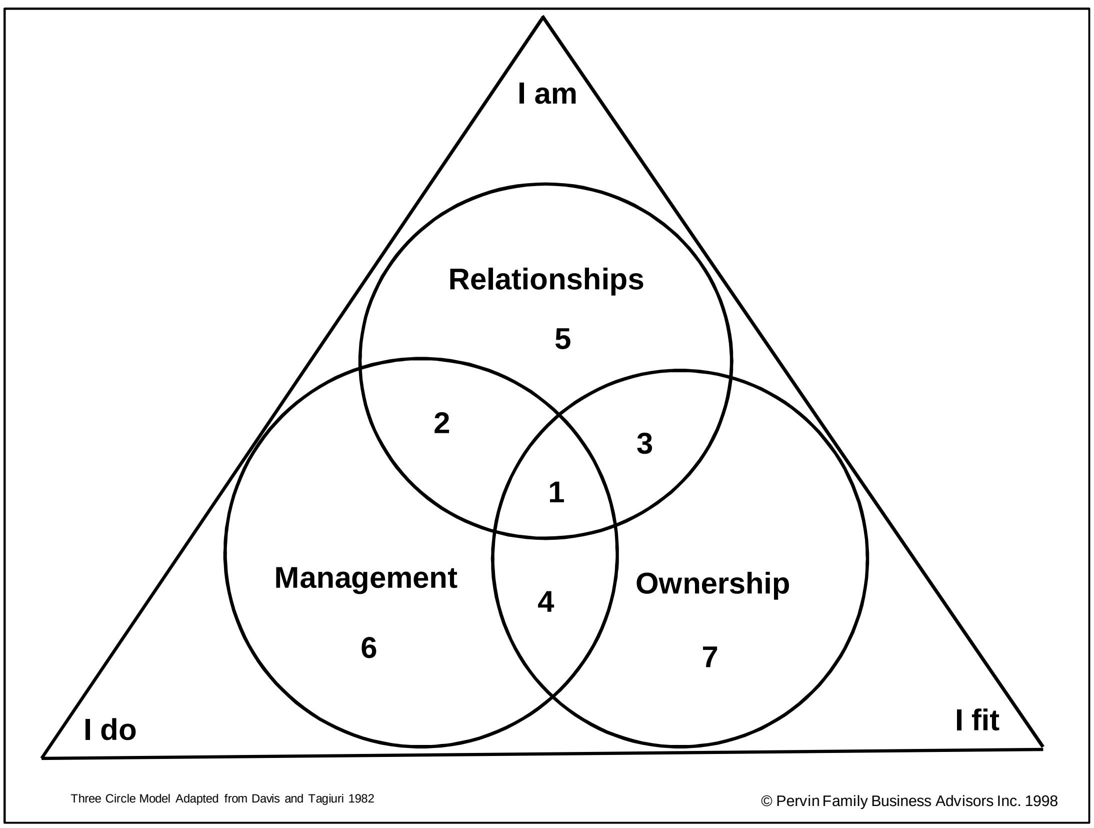

Chart 1: The Accidental Partnership® Model

Do not create any illusions about the structure of the accidental partnership. It is pre-ordained, often tax driven, given to you with little or no choice and then expected to function as if it were a working group of peers who sought out, trusted and respected each other. No wonder it is a difficult relationship.

The accidental partnership model starts with the individual well-being triangle:

I am (worthy, deserving and valued),

I do (competent and able to contribute),

I fit (belong in the business, family and/or shareholder groups).

Then, from this unique developmental perspective, enterprise family members can view their private world in terms of three overlapping circles[1] that integrate their **relationships** to each other and to the family firm, their role as employees and part of the **management** in the firm and their role as owners in the **ownership** group. Effective decision-making typically results from the unique requisite balancing of the individual, family relationship, business management and ownership arenas.

The Family Enterprise Governance Model

Governance can be defined as the integration of systems, structures and processes that help balance the management of relationships and interactions between the accidental partnership, family business and business family.

A business that is well-governed is able to achieve the objectives of business – maximizing owner value, making profits, enacting strategy, creating jobs, fostering career development and representing all owners and family members, including the community.

And, a business family that operates smoothly and makes decisions can foster the most satisfying aspects of its legacy, such as family values, pride, unity, history, tradition, and the like.

A representative Family Enterprise Governance structure is shown in chart 2 and chart 3 on the next page. The entities that your enterprise family chooses now and in the future will change, as each individual, the family, the business and the owners become more aware, knowledgeable and interested in the benefits of being a worthy shareholder and instituting pragmatic and beneficial governing processes.

Effective governance produces a direction for the family, firm and owners, generates a creed that embodies the values, needs and priorities of the family and owners, and contributes to the development of ground rules, policies and a constitution. It is based on four pillars: communication, sharing information, accountability and decision-making.

[1] See Tagiuri and Davis 1982

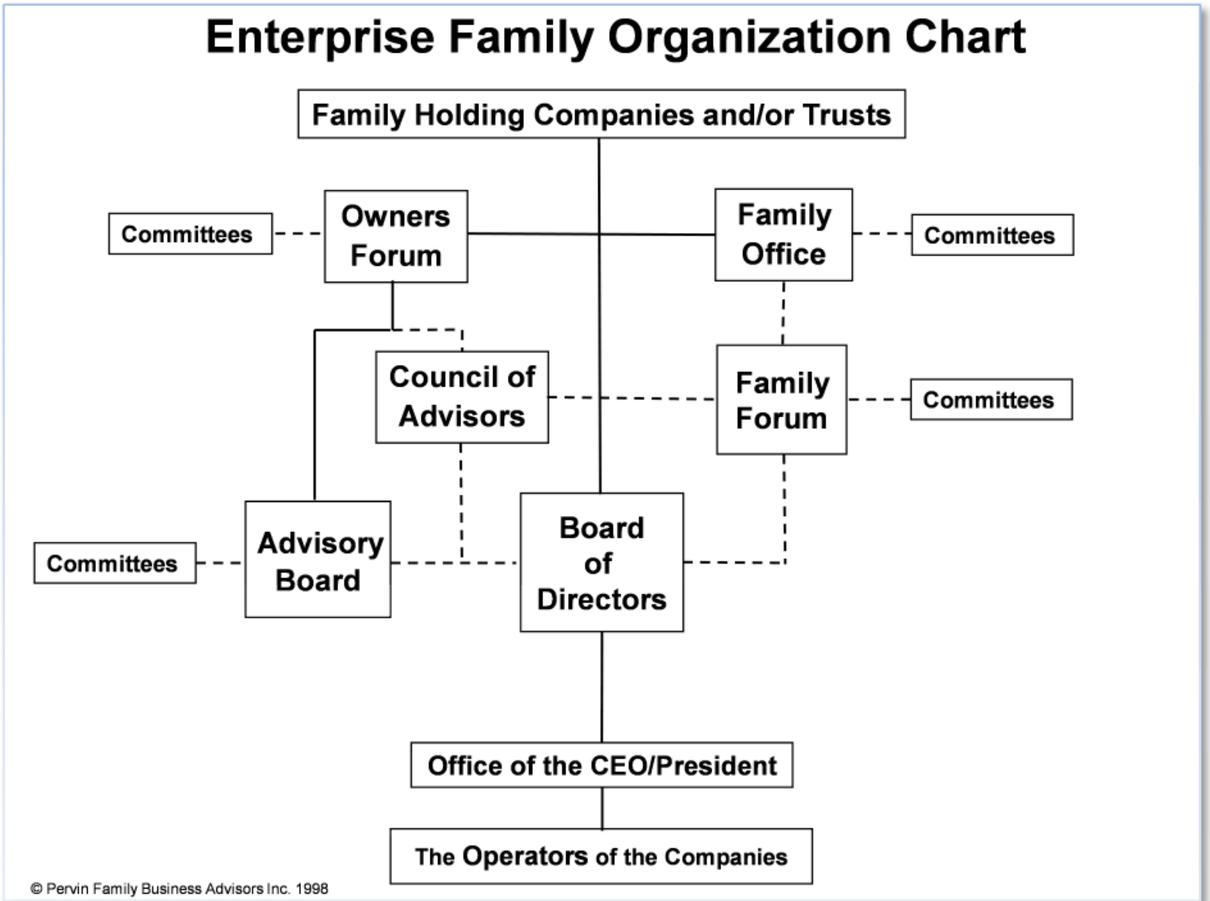

Chart 2: The Family Enterprise Governance Model

To further elaborate, governance in the family firm typically takes on an expansive role, as there are three constituents at a minimum to satisfy – the owners, the family and the firm. Indeed, personal goals, intentions, interests, commitments and strategies become increasingly disparate as the size of the family, ownership group and the firm continues to grow. These forces of separation are very natural and predictable, but destructive if left unattended.

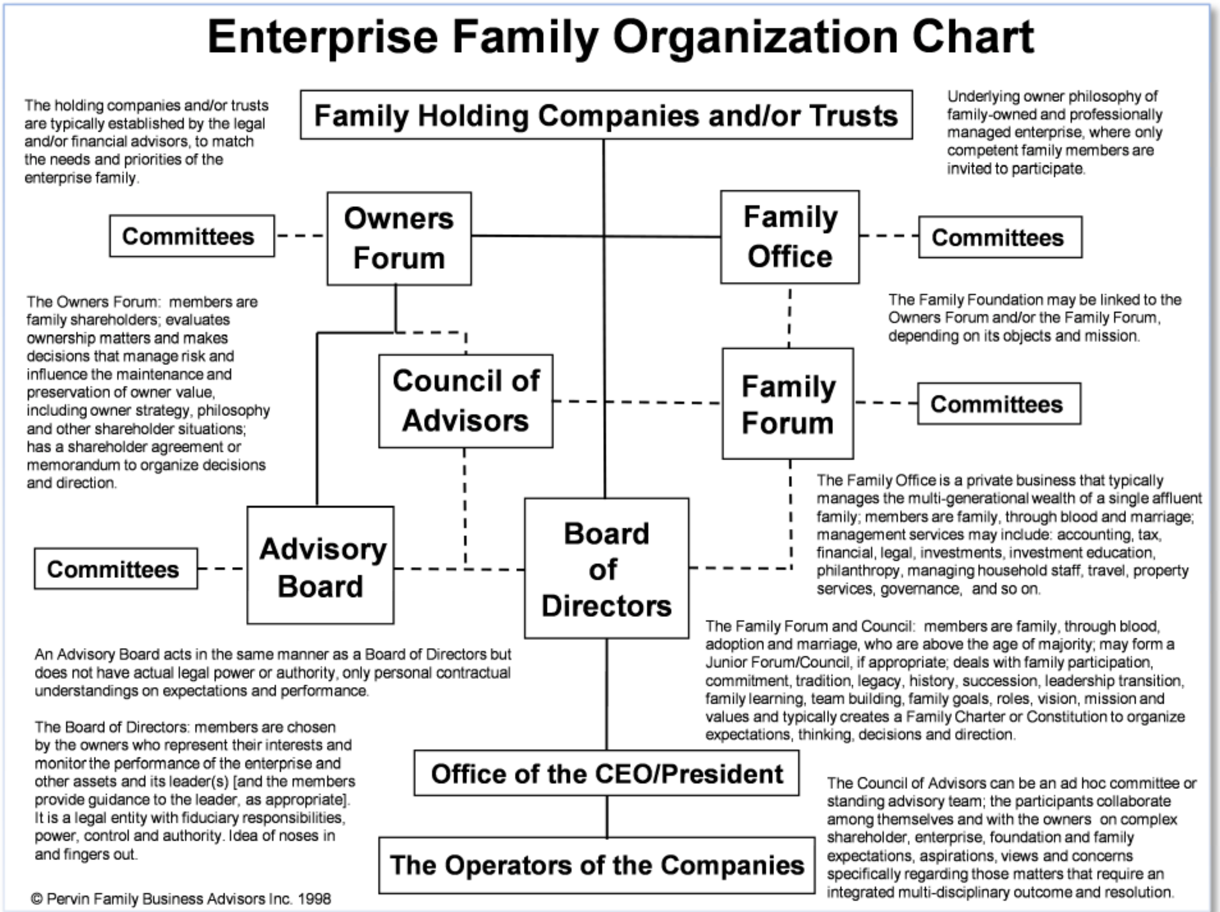

Chart 3: The Family Enterprise Governance Model Explained

Therefore, governance in the family firm is also about the management of ownership relationships, and has two aspects: ground rules and governing aspects. Ground rules and policies help families in business together address accountability, trust, commitment, roles and communication patterns in order to exercise fair and consistent power or authority in modelling acceptable behaviour. Governing implies a foundation of mutual interests that keep the family and the firm in a straight course or smooth operation for the good of the individual and the whole.

Finally, in order to be interested in governance, the enterprise family must perceive that they are a family enterprise rather than a closely held or privately owned enterprise. They must also be committed to a shared future, where everyone has an appropriate voice that is heard and acknowledged.

The Shared Future – Integrating the Developmental Models

> *There are three categories of people in industry – the few who make it happen, the many who watch things happen, and the overwhelming majority who have no idea what happened.*
>
> *- O. A. Battista*

The path that each accidental partnership must choose to understand, value, improve and maintain their enterprise family life and legacy is not a simple one. Experience confirms that enterprise family members must focus on pragmatic approaches to resolve and govern their complex relationships and situations, in private and in public. The Shared Future model on the next page describes the six areas that most enterprise families regard as a "good start" when discussing the challenges and the best practices for their situation.

The accidental partnership model explains how an enterprise family develops and learns to balance the often competing agendas associated with the priorities and needs of the individual, the family, the business and the shareholders over time.

In the Family Enterprise Governance model, the Advisory Board and/or Board of Directors represent the interests of the owners, and advise the operators (typically the CEO) and monitor the performance of the enterprise and other assets. These entities span the business and ownership systems, and oversee the enactment of the business strategy and operating plans. Developmentally, family members in the enterprise begin to embrace and value outside advice at the second generation, and sometimes at the founder stage.

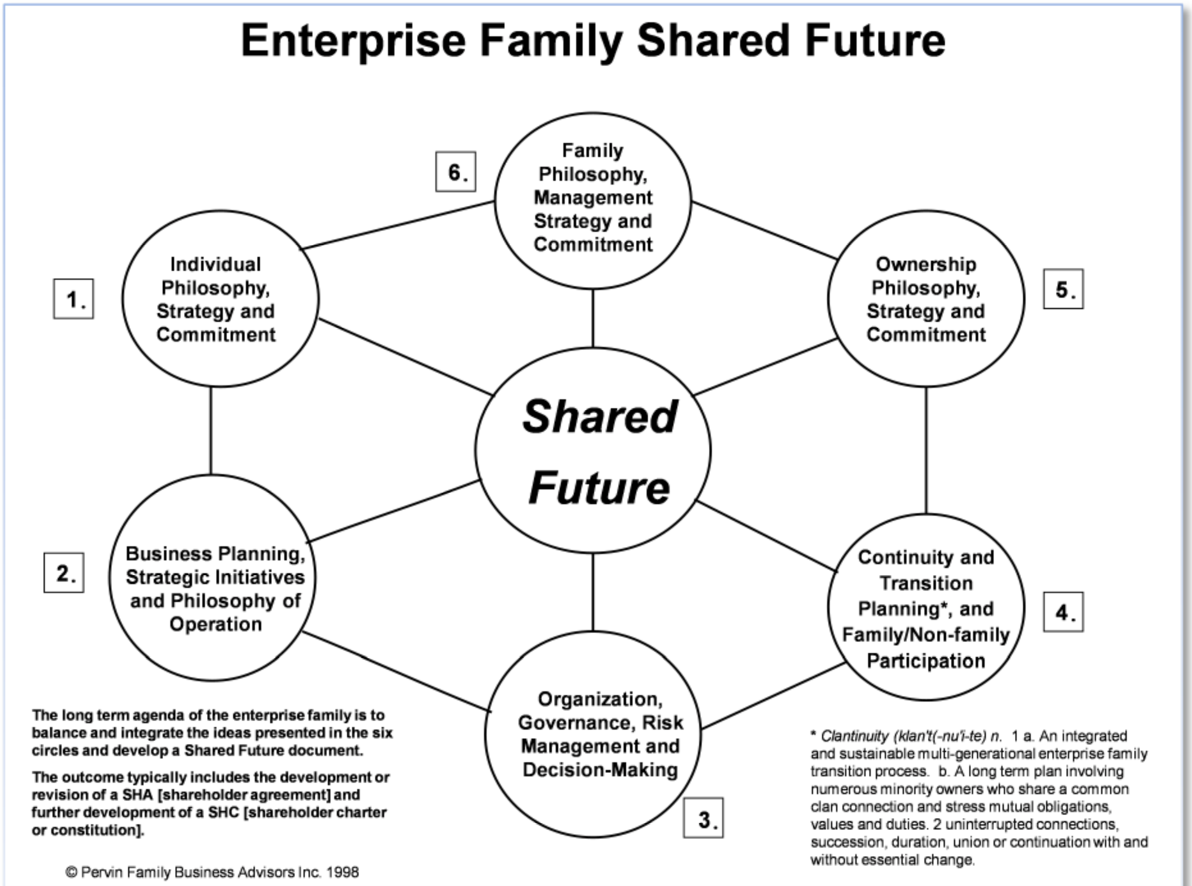

Chart 4: The Shared Future Model

Family meetings are a critical element to the development of the family strategy and commitment and a balanced governance model. Family meetings are helpful at the founder stage and become the platform for exploring the enterprise family's relationship to each other and to the business. As the family grows, this family assembly becomes difficult to manage. Often, representatives of the larger family form a family council, which then provides a family voice for everyone's mutual perspectives, needs and priorities. Developmentally, the family council organizes the family meetings, which become the vehicle for family information sharing with the owners and the enterprise participants.

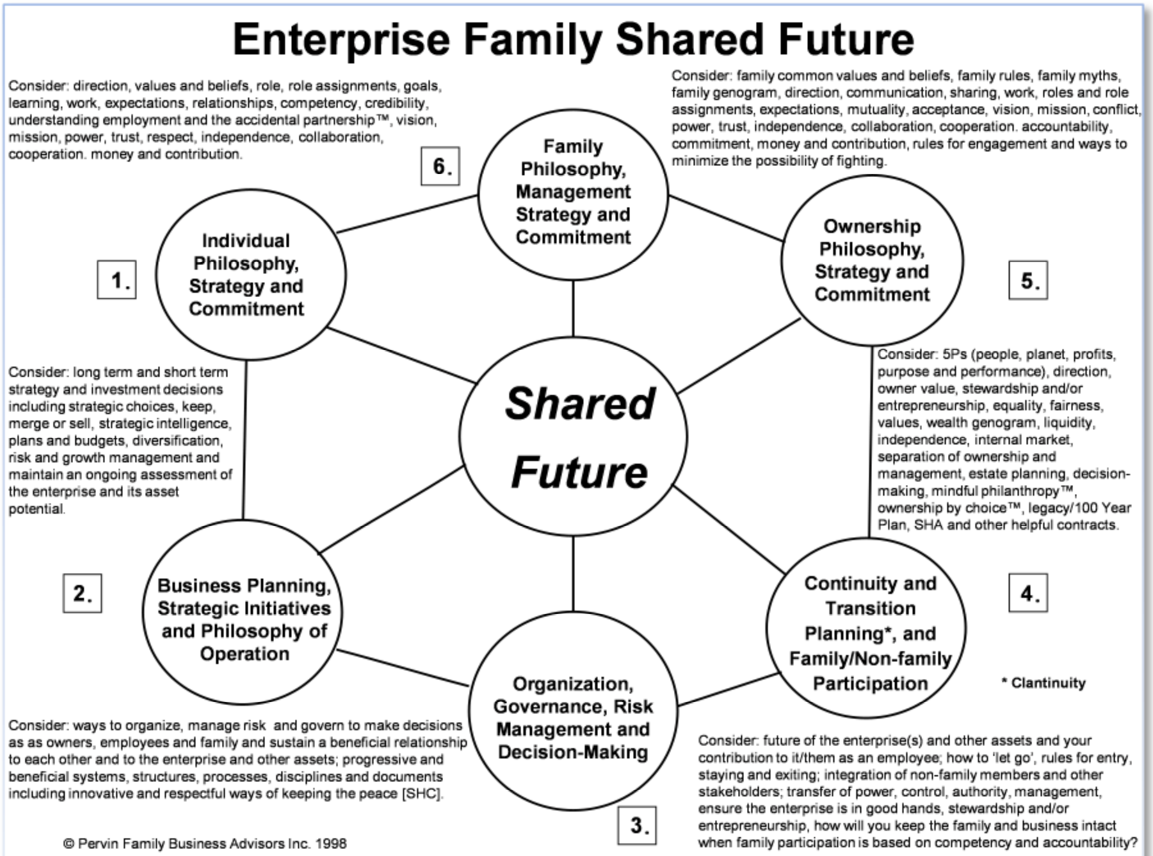

Chart 5: The Shared Future Model Explained

The Owners Forum is the vehicle for shareholders to discuss and agree on ownership strategy and commitment, as well as other owner matters. Developmentally, it only becomes beneficial at the second or third generation stage when there are numerous family members and few owners within this family group, and the owners require a separate forum for decision-making.

Enterprise families who wish to succeed for any meaningful span of time as a family enterprise and accidental partnership understand the need to construct an integrated, altruistic, compelling and sustainable organizational capacity to make the right decisions, at the right time, in the right way, by the right people. What is required, in short, is a Shared Future!

Aron R. Pervin

Aron Pervin is an organizational consultant, psycho-therapist, coach/mentor and social entrepreneur. A respected thought leader, Aron has spent more than 40 years working with business family owners on issues of concern to family enterprises, including relationships, continuity, management, ownership and governance, and the impact of each on enterprise performance.

Through his ongoing involvement in industry associations around the world, Aron's views on accountability and results have literally changed the conversation for business owners, providing thought provoking perspectives on decision-making, management and transition.

Most recently, Aron's relentless passion for improving the way consulting services are delivered has led to the development of Optimizer720. This unique business intelligence tool leverages the experience of both seasoned and next generation consultants, allowing them to more effectively advise their mid-market and family enterprise clients.

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