

Managing the Family Enterprise

The term “family enterprise” extends beyond the family business to include philanthropy, investing and any other joint family undertakings. Pursuing a common enterprise can be a natural and powerful opportunity for multiple generations of a family to engage in something together. It can also be a challenge, as family members may have different levels of participation in the family enterprise or may be required to play many different roles, the responsibilities of which may occasionally come into conflict.

Whether you consider family enterprise a financial asset or a part of your personal legacy, this guide offers an approach to achieving continuity and managing conflict regarding your joint family undertakings.



RESOURCES AVAILABLE FOR YOU AND YOUR FAMILY

- Strategies for Lifetime Gifting

- A Proactive Approach to Estate Planning as a Family

- How to Have Meaningful Family Conversations About Money

- [Managing the Family Enterprise](#)

- How to Make Philanthropy a Family Affair

- Planning for Your Financial Future



What to Focus On

Consider these questions as you make decisions about how your family enterprise works today and how it will continue into the future:

Why do we work together?

Is the family enterprise simply a financial asset, or is there intrinsic value in being engaged in a common enterprise as a family?

Is continuity important?

What does continuity mean to you?

How will you prepare for conflicts among family members?

Separating Your Family and Business Identities

When you engage in a family enterprise, you may have a multitude of professional and personal identities.

For example, in a three-generation family business, a business owner may simultaneously be an owner, CEO, mother, sibling, aunt and child in relation to other family members who are also employed in the business. Effective

discharge of her responsibilities in all of these different roles may put several of her identities in conflict with one another. Seeking to manage different professional and family identities can have significant implications at work and at home. Open

communication is one key to striking the balance between maximizing the benefits of a family enterprise and managing the potential for family conflict. Building strong and lasting family identities is another.



CASE IN POINT

Can you separate your family and business identities?

CONSIDER THE FOLLOWING SITUATION:

You own and manage the family business. Your son runs a division of the company and, for the last several years, his division has failed to meet important business targets.

ASK YOURSELF THE FOLLOWING QUESTIONS:

Would you be able to remove your son from his position?

How would you handle that conversation as a boss?

How would you handle that conversation as a parent?

How would you tell your spouse about your decision?

Achieving Continuity in Family Enterprises

One of the most difficult things business-owning families will need to cope with is the challenge of addressing and achieving continuity. As you think about the future of your family enterprise, keep in mind that there are two separate components to business succession planning.

OWNERSHIP SUCCESSION addresses who will be the owners and what strategies will be used to transfer ownership from one family member to another in ways that are consistent with the family's overall wealth management goals.

MANAGEMENT SUCCESSION addresses who will be the future leaders of the business and how the family will ensure that those individuals have attained the skills and training needed to be effective leaders.

Plan for Succession

The matter of succession planning is complicated by a variety of emotional, psychological and family dynamics, which may be why many business owners put off dealing with it. According to MassMutual Financial Group's American Family Business Survey, less than half of business owners who expected to retire within five years had chosen a successor.¹

For some business owners, the decision to name a successor is emotionally challenging because the business they built or led is so closely tied to their sense of self. For others, the idea of giving up control or confronting their own mortality is hard to face. From the

family perspective, succession planning often involves having to make difficult choices among family members about how each will be involved in the future of the business.

The question of succession is also affected by how the next generation wishes to participate in the family enterprise. Some family members may want to have hands-on involvement in the business, while others may view the business simply as a financial asset. As a result, an effective succession planning strategy should include preparation for the possibility that the differing interests of those who own and/or manage the family enterprise may come into conflict.

¹ MassMutual Financial Group. American Family Business Survey 2007. Available at <http://www.massmutual.com/mmfg/pdf/afbs.pdf>. Accessed August 10, 2014.

TIPS ON MANAGING BUSINESS SUCCESSION PLANNING

As you think about the future of your family business, you may want to consider:



If the business is largely a financial asset, is the best succession plan a sale to a third party?



If you are keeping ownership in the family, will you leave it to all your children, or only those who are employed in the business?



Will the family continue to manage the business, and, if so, are family members qualified (and willing) to take on the responsibility?



How will the selection of one family member to lead the business affect other family members?

Managing Conflict in Family Enterprises

In family enterprises involving multiple generations of family members, each with a different level of involvement in the business, it is important to build structures that will enable both the family and the family enterprise to deal with conflict. If left unmanaged, conflict can destroy the family enterprise, or even the family itself.

While it is impossible to eliminate conflict, it is possible to manage conflict so that it does not become devastating. In some cases, conflict can even be constructive. For example, it can become the crucible for charting a new path so that the process of working through disagreement to reach accord can strengthen understanding and relationships.

Establish a Framework for Decision-Making

Many families make decisions on an ad hoc basis or in a way that is not transparent to others who are affected by the consequences of those choices. Decisions made in this way are vulnerable to being perceived as knee-jerk reactions, unilateral decisions or determinations that have been colored by personal feelings. Creating a system of family governance—a transparent framework of rules and standards for making decisions together—enables efficient decision-making in times of volatility and increases the likelihood that decisions

made by family members will be respected by other family members over time. This system of family governance can also help to achieve continuity within the family enterprise, as it gives the current business owner an opportunity to shape the successor system.

Structure a Family Council

A common element of a family governance system is a family council. There are many ways to approach the process of creating such a body. Perhaps the best course is to involve as many family members as possible in the creation and structuring of the council, so as to deepen their sense of ownership and participation.

Once the decision to create a family council has been made, many questions must be answered about who will participate in the council and how decisions will be made. Your Financial Advisor can assist you in these discussions or in structuring the family council to serve the unique needs of your family and your family enterprise.

Create Safety Valves

As you create a framework to manage conflict within your family enterprise, it is important to put in place a way for family members to separate from the common enterprise without jeopardizing the integrity and structure of the enterprise itself. These “safety valves” allow for the harmless release of pressures that inevitably build up within a family business, which, if not vented, can lead family members to believe that they have no option but to seek to dismantle the business. In addition, the mere existence of safety valves allows each family member to retain a sense of control over their own destiny. Paradoxically, knowing there is a way out often makes it easier to work toward a solution for the good of both the family and the family enterprise. Your Morgan Stanley Financial Advisor understands these issues and can help you establish exit strategies for family members. Such design measures can serve as options of last resort for resolving difficult matters while keeping the business intact.

FAMILY EXERCISE

Structuring a Family Council



WHO WILL MAKE THE DECISIONS?

- Decisions are made through representatives
- Each member participates directly in decision-making

HOW WILL REPRESENTATIVES BE CHOSEN?

- Based on their position in the family
- Elected by members of the council

FOOD FOR THOUGHT

Allowing younger-generation family members to play a leading role in family decision-making may foster the identification and grooming of future leaders.



HOW WILL DECISIONS BE MADE?

- By affirmative vote of a majority
- By consensus



WILL SPOUSES PARTICIPATE?

- Which deliberations will they participate in?
 - Decisions that involve the family only
 - Decisions that involve the enterprise

OTHER THINGS TO CONSIDER:

- Does a spouse cease being a member as a result of divorce?
- What is the minimum age for participation on the council?
- What is the minimum age for voting privileges?
- Will any nonfamily members play a role on the council?
- What provisions should be made for removal and succession of council members?

FOOD FOR THOUGHT

Enabling spouses to participate may foster family cohesion and encourage spouses to express their views through the council, rather than in ways that could potentially be divisive or dysfunctional.

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