SPECIAL REPORT

Latin family businesses: more governance, better enterprises

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PRESENTATION

Human beings are born, grow, live and die. These are stages of our lives, phases which we cannot skip; they are part of our existence. The same can be said of enterprises. Companies are similar to a living being as they too go through various stages of development, although each enterprise is different and the duration of the aforementioned phases may vary.

As regards family businesses, there are several particular features that are inherent to this type of companies, which lead to several specific stages during its life cycle: founding, growth and handover.

A family business arises from an idea, an illusion, a dream of its founder. It becomes, from the moment of its inception, a key part in the life of the latter.

Just like that father who has his son in his arms for the first time, the wish of the founder when he creates the company is to see the enterprise grow, evolve and strengthen. In business terms, this is translated into business growth, expansion and internationalization.

However, this is not all that he desires, as the founder also wants his descendants to take over the operation of the company so that it lasts forever.

In this context, the question that must unavoidably be asked is: can both wishes be fulfilled? It all depends on the management and planning implemented during the various stages that the enterprise has to face during its whole life cycle.

As I was saying, family businesses have unique features, inherent to their condition and which determine the success therefor –or subsequent failure–. The emotional involvement, the sense of identity, of belonging, the existence of a shared culture and the leadership of the founder are some of the keys to achieve business growth and success in a family enterprise.

Nevertheless, these businesses also have certain negative attributes due to the family nature of these corporations, such as the overlapping of responsibilities or conflicting interests.

First generation companies greatly depend on the founder and, thus, significant difficulties arise when the operation of the company is handed over. This transition calls for a wide range of changes: family relationships, ownership structures, management structures and leaderships must often be readjusted.

Therefore, when this "second dream" starts, new threats arise, such as the active or passive resistance to succession, fear of loss of control, lack of knowledge regarding the steps that need to be taken to achieve this end or mismanagement regarding internal and external communication.

However, threats during the growth and handover stages can be reduced, even removed, through a sound management and planning from the beginning and during the whole life cycle of the enterprise.

It is important for the founder to know that the growth of the family will entail conflicting interests and these need to be managed and solved. Likewise, measures need to be taken to avoid confrontations. To achieve this, it is essential to lead the communication process.

Furthermore, the founder needs to hold, until the end, the power to continue or destroy what he created and, logically, must plan the succession process. In this sense, it should be noted that the families that do a good job training young people to join the family business usually pay much attention to the dreams and needs of their children.

It is essential to create an environment where family members feel comfortable debating their dreams and common future, where the feasibility of the shared dream is permanently analyzed –when conditions change, the aspirations of people change too–, where solutions are sought in order to align the family needs with those of the company and where individual dreams are not below the needs of the business. Only so can a lasting success of the family business be guaranteed.

Anyhow, and although the aforementioned points are essential, the truth is that the success or failure of the process ultimately depends on the capacity of the family to achieve confidence in their successors. Thus, the five c's must be met: Competence –of the family members part of the company–, Congruence –the family knows that the leader will do what he says–, Coherence –in relation to the principles of the family, promoting the interests of the family over personal interests–, Compassion –when facing difficult situations that might harm certain members of the family– and Communication –in relation to feelings and ideas, in a clear, consistent and timely manner by all members of the family and management team–.

In this sense, to ensure the success of the company it is essential to have a family protocol, i.e., a document that regulates and develops the rules of action and conduct bi-directionally between the property-business-family and establishes the framework for its development.

This is a framework agreement between the members of the family regulating the economic and professional relations between the family partners and the enterprise, as well as certain aspects within the management and organization of the latter. In fact, it goes beyond a mere agreement; it is a code of conduct for both the family and the business.

The objective of the protocol is to analyze, discuss and regulate conflict situations so as to objectively ensure the continuity of the enterprise and avoid, on one hand, family problems to affect business objectives and, on the other, family problems between partners of the company entailed by achieving business objectives.

In short, appropriately managing the appointment of new generations ensures business continuity and growth and, thus, is the cornerstone to make the founder's dreams come true. Few experiences can be compared to the huge satisfaction produced by managing a family business and seeing the enterprise thrive well into the future.

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LATIN FAMILY BUSINESSES: MORE GOVERNANCE, BETTER ENTERPRISES

1. INTRODUCTION: FAMILY BUSINESS AND CORPORATE GOVERNANCE

Nowadays, the importance of family businesses in the international arena cannot be denied; it can be affirmed that it is the main type of business. In a recent study carried out by EY, around 80% of the global enterprises were family businesses. This important role played by family businesses is also significant in the field of large corporations. Thus, family business and mismanaged family SME should not be mixed. Estimations show that 25% of the TOP 100 European Businesses are family enterprises. And within emerging economies, according to recent data collected by McKinsey, around 60% of the listed companies in said countries valued at over USD 1 billion are family businesses as well.

The qualitative relevance of family businesses and their contribution as regards job and wealth creation should also be noted. Indeed, in Spain these types of businesses account for 70% of the GDP and employ around 14 million people.

Thus, helping family businesses is the same as promoting the development of the society, given their great contribution in terms of employment, wealth and welfare. The clear advice that should be given to family businesses is to responsibly manage their businesses which, undoubtedly, depend on the creation and enhancement of their corporate governance systems. That is the aim of this paper: to reflect on the governance of family businesses with a special focus on the Latin American context.

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I like defining the concept of family business as a project and values that are shared for generations. The desire of continuity is, therefore, key in this type of particular organizations. To this end, family businesses must have an efficient system of corporate governance, since the object of corporate governance goes beyond its contribution to transparency and accuracy in financial statements. Promoting corporate governance translates into an essential contribution towards the management of assets, both tangible and intangible, which will ensure the feasibility of the continuity of the enterprise in the future.

For over two decades, I have been in constant contact with the context of the Latin American family business through my activity as Professor at IE Business School, lecturer at international events and advisor to several regional companies. This extensive contact restates the importance of institutionalization within family businesses.

Good governance translates into a quality leap towards excellence. The leading family businesses generate

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opportunities for economic growth and the creation of both wealth and jobs. Thus, they contribute to the creation of a strong middle-class. And this, in turn, entails balance and is the best possible guarantee for the consolidation of strong democratic states which foster prosperity. This is the degree of importance of the matter in hand, beyond the specific interests that each company has.

Corporate Governance is usually seen as an intangible. Thus, it is something unrelated to the urgencies of the business and, therefore, expendable. I think this is a clear mistake. Latin people also tend to focus on short-term issues. Making plans is difficult for us. The objective is not starting a debate between intuition and rigor, but to efficiently mix both attributes.

I believe that any organization, and particularly a family enterprise, must have an effective governance as the basis of the institutionalization of management. Nowadays, many family businesses are growing into regional or multinational corporations. In this expansion process, the credibility that the company can obtain through a rigorous and institutional management is crucial. Having efficient governance bodies as regards family and business, clear rules governing both fields, to establish the principles of the relations between them and a sound planning for business and family are elements that make the difference. Developing the business and attracting partners, talent or investors is simpler through the aforementioned measures. Based on my experience in this matter, I have identified a series of critical steps to face the challenges of institutional management in family businesses:

- **Strong will to do it:** In my particular approach regarding today's organizations, Corporate Governance is, above everything, the watchtower of strategic thinking that should govern the activities of any company, regardless of its size, field or origin. That is, the space where companies should place their capacity to design their strategy, monitor its implementation and important affairs to sustain the business project.

- **Splitting family and business affairs:** Were we to dismiss this point, we would end up in a permanent situation of confusion and conflict of interests which would greatly hinder the continuity of the family business. Governance bodies should be created both for the family and the business, and measures should be implemented to promote communication between both areas. In fact, if we take a closer

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look at the largest family businesses in the world, the most common trend is to reduce the presence of the members of the family in governance positions, both regarding the business and the family, as well as upper management executive positions. The presence of family members in management and governance allows, among many other things, to continue respecting the principles on which the company was founded. Value-based management is an asset that confers important competitive advantages in a family business.

- **Count on external assistance:** My experience as advisor to several companies in these processes shows that the contribution that independent advisors can make is a huge added value. An expert advisor provides good practice and helps the family to cope with more institutional and rigorous parameters. The advisor brings "fresh air" in debates that, in many occasions, are inefficient due to the lack of external opinions in many family businesses.

  Similarly, training is key for the family business. For the new generation of many enterprises in Latin America it is mandatory to attend prestigious business schools in the U.S. or Europe. A good example to follow.

- **Progressing gradually:** As occurs in many different areas, progress should be done in a gradual manner. Testing, learning and using the best possible tools for each specific case. Honestly, it does not make any sense to go from zero to infinity. Between the corporate governance practices of large listed companies and being an almost non-existent company, there is a huge world that needs to be discovered. Progress should slowly be consolidated to enhance corporate governance, both as regards the business and family.

- **Holistic vision:** The family business is a multifaceted organization. There are many interests and several challenges have to be faced. There is a need for balance to manage business affairs, generally marked by financial parameters, and family issues, where socio-emotional issues predominate.

  Thinking that establishing a family protocol is enough to control this complex reality is a rather naive perception. As we will see throughout this paper, it is mandatory to develop a more global strategic thinking, so as to develop the corporate governance of the family business.

"The family business is the example we should follow to find an ethical approach for business management"

To sum up, I believe that the institutionalization of these corporations is essential to achieve the objective of continuity they seek and also gives meaning to entrepreneurial families. On the other hand, Corporate Governance also helps us promote competitiveness. We should not forget the globalized world we live in, where Competitiveness prevails. Thus, I encourage regional family businesses to fully address such important issues as family and business governance.

2. AN ETHICAL APPROACH TO THIS ISSUE

In general, both in the academic and consulting sectors, family businesses have been analyzed according to their problems. Perhaps, this approach has been influenced by psychology, and this point of view has not been precisely positive.

I must confess that I have always distanced myself from the aforementioned theory. On the contrary, I believe that the family business is usually influenced by a set of values that I think are missing in many other areas of our lives. Thus, I think that the family business is the example we should follow to find an ethical approach for business management. A key point, in my opinion, to put a definite end to the Great Recession and, above everything, to face a more promising future.

This issue is particularly relevant given it is the dominant type of business all around the world.

In order to overcome certain clichés about the family business, I would like to point out, taking as a reference the report of Banca March written by me colleague at IE Business School, Cristina Cruz, that the average market profitability of European family businesses is higher than that of non-family businesses and they have lower insolvency and market risks. Along these lines, I would like to highlight the data published periodically in the Family Business Barometer published by KPMG and IEF (Institute of Family Business in Spain), which show that the performance of Spanish family businesses is higher than that of their non-family counterparts, marked by a better and more flexible adaptation to the Great Recession and, ultimately, to this ever-changing society which globalization and digitalization greatly influence.

Based on these data, as well as over two decades advising and training family businesses in Europe and Latin America, I can say that I know nothing as powerful as a family business that knows how to manage well its singularities. The deepest root of this sound management is, undoubtedly, a management that shares a project, shares values. Because values give a sense of transcendence to the family legacy. It is this ethical

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side of the family business that I want to address.

To this end, I had been working for the last years and recently finished my doctoral thesis "An ethical vision of the family business: consequences of accounting manipulation from the perspective of the shareholder and stakeholder within the family business", whose conclusions I will share below. In order to analyze ethical behavior, the parameter that was taken was accounting manipulation, which ultimately implies reporting fake accounting figures.

A simple observation of reality shows us several accounting and financial scandals, combined with constant cases of corruption, illegal financing of several organizations such as political parties or trade unions, accounting manipulation or creative accounting... Thus, it does not come as a surprise, that all these kinds of institutions have lost their credibility. Furthermore, social networks allow us to immediately and clearly see types of activism against these reprehensible behaviors.

Family businesses have their own singularities, which could be defined as their desire of intergenerational transference, long-term vision, strategic objectives beyond economic profit and the role played my family members in governance and management bodies. These singularities undoubtedly give the family shareholder the capacity to influence the organization through control and surveillance actions that the former might exert on the decision-making process. To summarize, in family businesses the agency costs between owners and managers are reduced as there are conditions for a strategic alignment between both parties.

The sample from which we have obtained empirical evidence was comprised of 1,275 international companies, listed and non-financial during the period 2002-2010, from 20 countries.

The empirical evidence shows that family businesses are less prone to accounting manipulation. Within the family business, the owners have the power and incentive to control the management decisions and prevent their managers from acting in an opportunistic way. The risk of expropriation by managers decreases in highly concentrated ownership structures with fewer informative asymmetries and the larger controlling power of majority shareholders. In short, there is evidence of a greater ethical behavior among family businesses from an accounting perspective.

If we take a closer look at the issue in question, evidence shows that the accounting manipulation actions increase

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the market valuation in the short term, where investors and stakeholders cannot identify these practices. However, they penalize these companies with a loss of reputation, combined with other negative consequences for the corporation, such as an increased activism by stakeholders and other regulatory bodies. Nevertheless, these consequences can be moderated by the presence of a family in a corporate enterprise, which maximizes its utility function not only regarding monetary affairs, but also in relation to the loyalty, succession and legacy of future generations. All these issues now fall under the known as socio-emotional objectives of the family business.

In short, with this study I wanted to clearly show something that those who work with family businesses have patently witnessed. An ethical attitude ultimately generates value, not only for the shareholder, but for all stakeholders. It is the basis for the creation of shared value.

In contrast with apocalyptic perceptions of the family business, the truth is that it can find an important source of competitive advantage in its own singularity. Based on the classical theory of resources and capabilities, a family business has a sustained competitive advantage that cannot be copied by its closest competitors thanks to its internal resources (capital and social network, values, organizational culture or transfer of tacit knowledge, among others). These features provide a competitive advantage to family business; a unique and valuable resource which cannot be copied by its competitors. To the extent that the family business literature (Habberson and Williams, 1999; Sirmon and Hitt, 2003) has coined the concept of "familiness" to design the distinctive and characteristic feature of the internal resources of a family enterprise, which allow it to keep strong competitive advantages, such as human capital, social capital, values or governance structure.

For these competitive advantages to flourish –which are based on ethics and value-based management– it is essential for the entrepreneurial family members to understand the importance that organizing a sound corporate governance structure has in order to address priorities such as:

- Defining a project and shared values that will become the tangible basis for the family legacy.
- Designing and implementing a strategic program regarding family and business.
- Creating the necessary conditions, resources, time

"The respect for tradition and stability sometimes translates into immobility"

and efforts, to build the needed strategic alignment of interests between shareholders, managers and employees. The entire organization must know that they are not merely working, but building something important.

- Methodical monitoring of the implementation of the action plans.
- Development of the concept of adaptive innovation to complement traditional values with the necessary adaptations that the dynamic society of change demands in terms of business models, management styles or market approach policies.

3. THE FAMILY BUSINESS OF THE 21ST CENTURY

We live in highly competitive and sophisticated environments and this context undoubtedly forces entrepreneurial families to think in a different way. We live in what I usually define as the society of change, strongly influenced by globalization and digitalization. Too often, the entrepreneurial family has focused on internal debates; solving family issues, managing conflicts (in many occasions artificially created) or favoring personal affairs over the general good. In addition, the respect for tradition and stability sometimes translates into immobility. These families do not notice that the current scenario of business competition calls for a much more pragmatic, rational, flexible and professional approach in order to face new challenges in a swift and decisive manner. Many family businesses – nowadays leading corporations– have understood this new situation and should serve as a benchmark for the remaining companies. They are the 21st century family businesses, in many cases already governed by descendants who managed to find very successful management formulas in which they mixed the academic training with the experience of closely working with the founders of these corporations. In short, notable entrepreneurs who have respected tradition, retained values and, on that basis, have brought innovations to the business models, management forms or product and services. That is, the perfect balance between values and adaptive innovation. We speak, therefore, of true family entrepreneurs and entrepreneurial families that have understood that their companies had to face new challenges; that in scenarios of a more closed economy, the existence of family SMEs run in a traditional way could be successful, although with huge commitments. However, these companies are now forced to be managed rigorously, institutionally and must strive for growth, the quest for leadership in order to be competitive in dynamic, global and sophisticated markets.

"The transfer towards a family business calls for the development of a corporate culture where the foundations for the future will be laid"

In short, to create strategic thinking platforms: corporate governance.

My model –inspired by these processes– can be explained through the Chart 1.

Any organization starts through the impulse of its founder, which we will call "family entrepreneur". This founder has the features of the excellent entrepreneur (achievement-oriented, hardworking, persevering, creator and leader of teams, capacity to identify business opportunities, spirit of innovation, etc.) but is also strongly linked to his corporation, his work, which translates into his wish to make the company last for future generations. It is then when the family nature of the business organization arises. I define this initial stage with the concept of **family entrepreneur**.

The consolidation of the initial project is reached when the business starts to transcend its founder and slowly becomes what I call a **family business**, meaning that several family members become involved in the business. The transfer towards a family business calls for the development of a corporate culture where the foundations for the future will be laid. This culture is defined by a series of values. The first should be the wish for business continuity in the hands of the family which, as previously stated, is one of the main elements of family businesses.

From my point of view, only family businesses with values and principles that are a strong part of the corporation will be capable to set the bases for growth and leadership. Moreover, these principles and values are like flowers, they decorate and add value to the extent that the owner cares for them. Therefore, managing this issue is, for me, a priority objective for entrepreneurial families. Another challenge of corporate governance.

When these values are defined and accepted, it is meaningful to acquire further tools which will help transform the founding venture into a family business. I am referring, among other things, to the protocol, transfer plans, Family Council, the Assembly or Board

Chart 1: Management model for family business

"Once we have obtained values and tools that give meaning to the family business, we must start establishing significant business challenges"

of Directors (or whatever the name is of the governance body of the corporation). But let me insist, these measures will only be efficient if they are based on truly shared principles and values. Without fulfilling this condition, we would be putting the cart before the horse, as the saying goes.

According to the model, once we have obtained values and tools that give meaning to the family business, we must start establishing significant business challenges. My theory is that family business is particularly forced to grow. First, for competitiveness reasons due to the highly crowded and increasingly global environments. Second, in order to remain an important source of income and/or assets for a family that further expands over the generations.

Chart 2: Rules to manage family / business relations

UNITY	Defining a project that brings the family together.
GENETIC CODE	Identifying the values that have brought success to the company to consciously and formally incorporate them into the genetic code of the family business.
FAMILY HARMONY	Taking care of the family.
ROLES AND LEADERSHIP	Defining roles and leaderships.
CONFLICT	Lay the foundations for conflict management.
COMMUNICATION	Saying things in an honest way.
RESPECT	Creating the conditions for an environment of mutual respect and trust.
EDUCATION OF CHILDREN	Ensure future harmony.
DEFINING PRIORITIES	Family vs Business.
GREAT GOAL	Identifying a long-term objective.

The latter is a particularly significant matter in Latin American contexts, where the family tends to be large and its vocation and reality is to remain united. Therefore, I consider that entrepreneurial management is essential to ensure competitiveness, profitability and the growth of the business which will ultimately allow the corporation to become a **leading family business**. A leadership that is initially local, but will end up being national, regional... or global.

4. THE TEN RULES TO MANAGE FAMILY/ BUSINESS RELATIONS

As I am explaining, from my point of view and based on the experience I have gained through my relationship with Latin American family businesses, I would like to provide a Decalogue of general principles to ensure the foundations of corporate governance in family businesses. I will now establish the ten rules that should be followed by family businesses to then further elaborate on the development of each of these ideas.

UNITY: DEFINING A PROJECT THAT BRINGS THE FAMILY TOGETHER

Families that have developed a long-term entrepreneurial project always highlight a common project and values that combine their interests as

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one of their main competitive advantages.

In this context there is a feeling of pride of belonging, the need to move forward, to face new challenges, to overcome obstacles both external –due to financial situations or the emergence of new competitors, a worsening in some of the conditions of the economic and social context, the emergence of new technologies that strongly influence the business model, etcetera– as well as internal – personal conflicts related to the family/business relations–.

GENETIC CODE: IDENTIFYING THE VALUES THAT HAVE BROUGHT SUCCESS TO THE COMPANY TO CONSCIOUSLY AND FORMALLY INCORPORATE THEM INTO THE GENETIC CODE OF THE FAMILY BUSINESS

There are successful family businesses that have achieved their status not only because of the competitive advantages that this type of business model entails, but also thanks to certain values that also were sources of competitiveness. In fact, I have seen many family businesses with a strong presence in the market whose success can be explained precisely through these values, since their business model offered no distinguishing or unique features.

My advice is to spend time on identifying which values could contribute to the enhancement of their products, to help the workers be more involved, even more, proud of the project. The values that could help the business be recognized across the corporate world, to build long-term relationships with suppliers and customers and, ultimately, to create a climate of trust in the company and its environment.

A family corporation must have a soul, values embodied in its founders and successors, values that constitute the genetic code of the family business which will establish the guidelines for the future and become a legacy for whoever becomes involved in the business in the future –whether they are family members or outsiders–.

FAMILY HARMONY: TAKING CARE OF THE FAMILY

As I have previously stated, the challenge that the family entrepreneur needs to face is a two-way hurdle, as two elements need to be addressed; family and business –hence its respect and impressiveness–.

Managing a business is a given within the entrepreneurial world. Often, the large amount of time that needs to be devoted to fulfilling this task relegates the family and this is a mistake. A family business should be governed by harmony.

This harmony is clear in points such as close relations between the members of the family group, a high sense of commitment as regards family

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matters, an obvious sense of pride of belonging or great respect between all members and, above everything, respect for the senior members, the true guardians of the values and principles of which the genetic code of the company is comprised, as pointed out in the previous point.

Thinking that all this will occur in a spontaneous manner, merely because we all are part of the same family, is leaving things to chance, which always translates into a high-risk threats.

Promoting family harmony requires quality time, dedication, energy, efforts, work... It basically must be accepted as another priority of corporate governance.

ROLES AND LEADERSHIP: DEFINING ROLES AND LEADERSHIPS

Successfully managing a family business –understood as the combination of a healthy, united family and a company marked by growth and profitability– will require, as one would expect, the efforts of many. It always calls for teamwork.

Establishing roles must be done through a rational process that takes into account factors such as the character, skills, experience or willingness of those who take part in the family project. It is important for every member to hold the perfect position for their characteristics, as well as their willingness.

It is obviously important to have an entrepreneurial leader in each generation. A visionary. It is often said that one of the most important assets a company can have is a leader whenever one is needed and for them to work for enough time as to provide stability to the project and develop long-term policies. An enterprising leader who, as I have already stated, is much more than a good manager; the leader must be able to mobilize projects, people and illusions. A leader that helps do what must be done. But just as important as this business leader is the family leader. This person must be respected by the whole family, must have moral authority and should guide the family whenever a controversial affair arises. In the Latin American sphere, this role has been commonly played by the mother. The mother is the person who traditionally spent time raising their children and compensated the long and justified absences of the entrepreneurial father.

Many successful entrepreneurial families have insisted on the important role played by the family leader to facilitate the reaching of consensus, avoid conflicts or manage them in a wise manner when unavoidable, to foster a feeling of union and harmony governed by the

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spirit of coexistence, mutual respect, generosity, loyalty, a commitment towards the common project and where personal interests are secondary to the global objective.

CONFLICT: LAY THE FOUNDATIONS FOR CONFLICT MANAGEMENT

A common topic in family businesses is conflicts –and rightly so– since many failures of this type of businesses are attributed to these confrontations. Conflict is inherent to the human condition. Whenever two people debate about the same topic they might have two different opinions, even antagonistic. It could even be possible for both to be legitimate. For example, is it better to exploit a market opportunity by carrying out an aggressive growth strategy through the purchase of a competitor that is going through a difficult time or should the family business be run in a conservative way? Both positions may be reasonable from a business point of view. In fact, these dilemmas arise continuously in the family business sphere.

Consequently, I think that any business will have to face these conflicts. Yet, in my opinion, the real problem is that these situations are worsened in family businesses due to two questions:

- The first is the presence of various interest groups that gradually increase as the company grows: family members who work in the company and hold shares, family members who work in the company and have no shares, family members which do not work in the company but hold shares, family members who neither work in the company nor have shares, in-law family members who might or might not work in the company and/or have shares and third parties who might work and/or have shares. These groups have rather different perceptions of the situation based on their own interest.

- Second, and especially among Latin American businesses, conflict tends to be personal, and this worsens the debate and hinders the prospects of finding a solution. Thus, in my opinion, it is essential to handle these discussions following two key principles: first, the debate should focus on the specific question at hand, since there is a risk of starting a conversation about increasing the expenditure for the launch of the new shop and end up saying how much of a slacker your husband is, who by the way adds nothing positive to the business and dad already hated him when you both were dating. From there on, anything is possible. Second, rationalizing the debate with objective data

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to avoid the aforementioned personalization and help the company make the best possible decision in a logical way. This is the reason for which quantifying everything is really positive and every member should avoid talking loosely, or more precisely, quarrelling without a reason.

- Thinking that the conflict will be avoided is only a pipe dream. There is no doubt that a united family, with a genetic code that establishes the shared values and where communication is open will find it easier to solve conflicts calling for the old principles and always bearing in mind that the general good for the project shall prevail. When the family suffers from other symptoms the conflict usually lasts for an extended period of time and in many cases, it only ends with the disappearance of the firm or its break-up. This happens because in some occasions the own interest prevails over the objectives of the business. This situation has sometimes been caused by people who preferred to create a suffocating environment when they did not achieve their personal objectives, such as being appointed as the next leader of the firm to replace the previous generation or when they could not impose their decisions or management style.

Prevention work is critical. A crucial part of the work of leaders, both as regards the business and the family, is precisely having the foresight to understand when could these conflict situations occur and try to avoid them.

COMMUNICATION: SAYING THINGS IN AN HONEST WAY

Based on my experience, I have come to the conclusion that this feature is the largest difference between the Latin American and the Anglo-Saxon business world. Latin American people often prefer to not say what they think so as to not hurt the feelings of others, agreeing when we really do not, not directly addressing someone and rather use third persons hoping that the message will ultimately reach the person in question, to ignore things that actually bother us until we finally blow up in anger. For all these reasons, I think that communication is one of the main points to successfully manage a family business.

It is essential to create channels and spaces to facilitate an open and honest communication. Always in a respectful manner and understanding the cultural differences that have to be taken into account; things need to be said in a clear manner so that the other person/s understand/s us without any doubts.

"Communication is a basic element to convey the set of values that a united family has"

Communication is a basic element to convey the set of values that a united family has and which should serve as a guideline and incentive for future generations.

Communication is also a key point to create debate spaces and where, with respect, conflicting positions might be faced so as to reach agreements or seek enhanced solutions through the contribution that different positions can generate.

Promoting an open and honest communication is the same as decisively contributing to create healthy relations and environment. Thus, one of the main objectives of corporate governance is precisely to facilitate communication channels and the exchange of information.

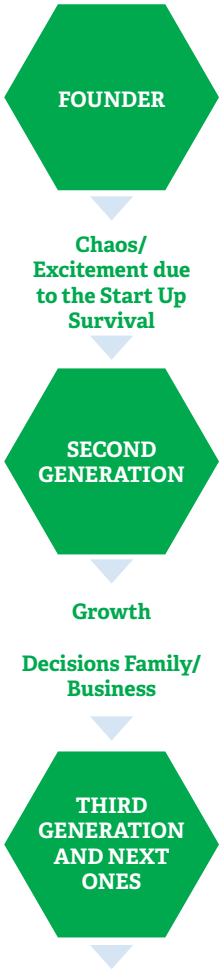
RESPECT: CREATING THE CONDITIONS FOR AN ENVIRONMENT OF MUTUAL RESPECT AND TRUST

We have been talking about the concepts of communication, conflict, united family, group harmony and it seems obvious that all the aforementioned features stem from the same attribute: respect. When respect governs the relations with others, it is easier to reach agreements, consensus, have dialogues and empathy to put ourselves in the other's shoes and understand other point of views, to listen and value the opinion of others.

It is easier to not respect, label people and take for granted that the things other people have to say do not deserve the slightest attention. Yet, I think that respect has to be earned; through a balanced behavior, being coherent and doing what one says, having a nice training and professional experience, with an honest and clean past, a good career full of achievements, etc. This is what we call credibility. This is the reason for which business with well-trained managers who complement each other can easily be successful, as the conditions are met so as to generate mutual respect and, from then on, an environment of mutual trust is achieved, which allows the distinction of roles, delegation and facilitates agreements.

This is one of the reasons for which creating a climate of professionalism and rigor seems so important in relation to the management of both the family and the business. When the appointments does not conform professional criteria, but merely for belonging to the family, meeting the aforementioned respect conditions seems an almost impossible task. Respect, like leadership, cannot be imposed, but is the result of professional and personal actions governed by credibility.

Chart 3: Life cycle of the family business



EDUCATION OF CHILDREN: ENSURE FUTURE HARMONY

All topics so far are clearly related to a perspective of continuity. There is no point in achieving some years of harmony thanks to shared projects, visions, respect and communication if, at a given moment, the conditions change.

And, at the end of the day, we are talking about people, and it is precisely them who are in charge of creating environments in the company and the household.

Thus, when managing a family business, a type of company that is defined by its desire for continuity, I think it is essential to handle all issues with a long-term perspective. Within these approaches, the education of children is a key point.

Raising children is a huge challenge, but if they are to become the new leaders and will have to ensure the continuity of the firm, it becomes an even larger difficulty.

It is no easy task advising parents in relation to this issue, since each family and business are a different case, but for what it is worth, I will share the educational advice that an important Colombian entrepreneur gave me: "Manuel, the best thing we can leave our children is education and culture".

DEFINING PRIORITIES: FAMILY VS BUSINESS

The combination of family and business generates a cocktail of emotions and unique situations which, strictly speaking, should be managed for them to become a source of competitive advantages for both the business and the family.

This is simple in theory yet complex to carry out. We only need review statistics of failure regarding family business, or even simpler, review own situations or those of acquaintances who work in family firms to understand the aforementioned statement.

The important idea is for each entrepreneurial family to know that combining family and business might entail conflicts of interests and therefore, it is essential to create mechanisms to predict these situations and solve them.

However, it is true that the family business evolve, as occurs with any dynamic structure where human beings work and, among other things; this process usually affects the order of priorities.

I will explain my theory regarding this point with the Chart 3.

It is common for the founding generation to be a complete mixture between family and business. They live in a kind of exciting chaos which is

"Family and business should take the professionalization route, but, in many cases, certain factors prevail which prevent the family from making the correct decision"

rather common at the peak of entrepreneurship: all attention is focused on the survival of the firm, improvisation and informal management are ordinary and, if the project is successful despite this chaos, it is only thanks to the impressive efforts made by the family entrepreneur, who is able to face all the challenges thanks to his huge efforts.

In many cases of entrepreneurial families, the end of the stage of the family entrepreneur coincides with the consolidation of the business. When there is a clear succession –usually the older children who have joined the family project– the entrepreneur can hand over control of the business to the next generation, once the business has a network of loyal clients who guarantee the economic feasibility of the project.

It is then when the short-term urgencies disappear and, since the next generation had the chance to obtain better training, the new management makes decisions such as the delegation of important functions to non-family experts, the implementation of management surveillance systems, an enhanced efficiency is sought through improved processes, the management cares about the creation of mechanisms for inter-departmental coordination, etc.

On the other hand, the second generation usually gives rise to the singularities of this type of business which, if not correctly managed, might entail severe conflicts. Namely, there are many new family members, different roles as some will work in the firm while others will not, some will be shareholders and others will not... the number of in-law family members and their influence will also increase; there might be jealousy or rivalry between parents and their children, between children or even cousins.

In short, this is the key phase in which the business will have to make crucial decisions to prioritize and ensure the conditions to take a qualitative leap towards business leadership as well as the consolidation of the role of the entrepreneurial family. From the objective point of view that distance gives, it seems pretty obvious that family and business should take the professionalization route, but, in many cases, certain factors prevail which prevent the family from making the correct decision. To sum, sometimes certain unbelievable mechanisms seriously jeopardize the survival of the firm, greatly concerning all involved members, except those who have the capability to revert the decision, but are blinded by highly selfish approaches. Their actions inevitably lead to lose-lose situations.

"If the challenges that the second generation had to face have not been successfully met, the firm will now start declining and, quite often, family relations will crumble as well"

After the third generation, the enterprise might have happily solved all the problems related to the priority setting process and could be focused on growing to be more competitive and become a leader in its sector. Long-term planning now becomes a key issue, the great objective is to exploit new business opportunities – what we call, entrepreneurial management– to ensure, for a long period, a feasible and sound business project and, at the same time, keep the harmony in a united family, whose size is now impressive. If the challenges that the second generation had to face have not been successfully met, the firm will now start declining and, quite often, family relations will crumble as well, ultimately resulting into bankruptcy or the firm being divested combined with severe personal crises that might even translate into a family breakdown.

GREAT GOAL: IDENTIFYING A LONG-TERM OBJECTIVE

Another feature that I have frequently seen in successful family businesses is establishing long-term objectives. Challenges that slowly shape the dreams of the entrepreneurial family and which usually take place on round dates (2000, 2020) or with anniversaries of the family business (20, 50 or 100 years).

These projects are expected to be fulfilled in 10, 15, 20 or more years... and thus, go beyond contextual circumstances that the economic cycle or any internal or external factor might produce. We have repeatedly insisted on the importance of this long-term approach, as it undoubtedly is a huge source of competitive advantages for the family business.

5. ORGANIZING CORPORATE GOVERNANCE

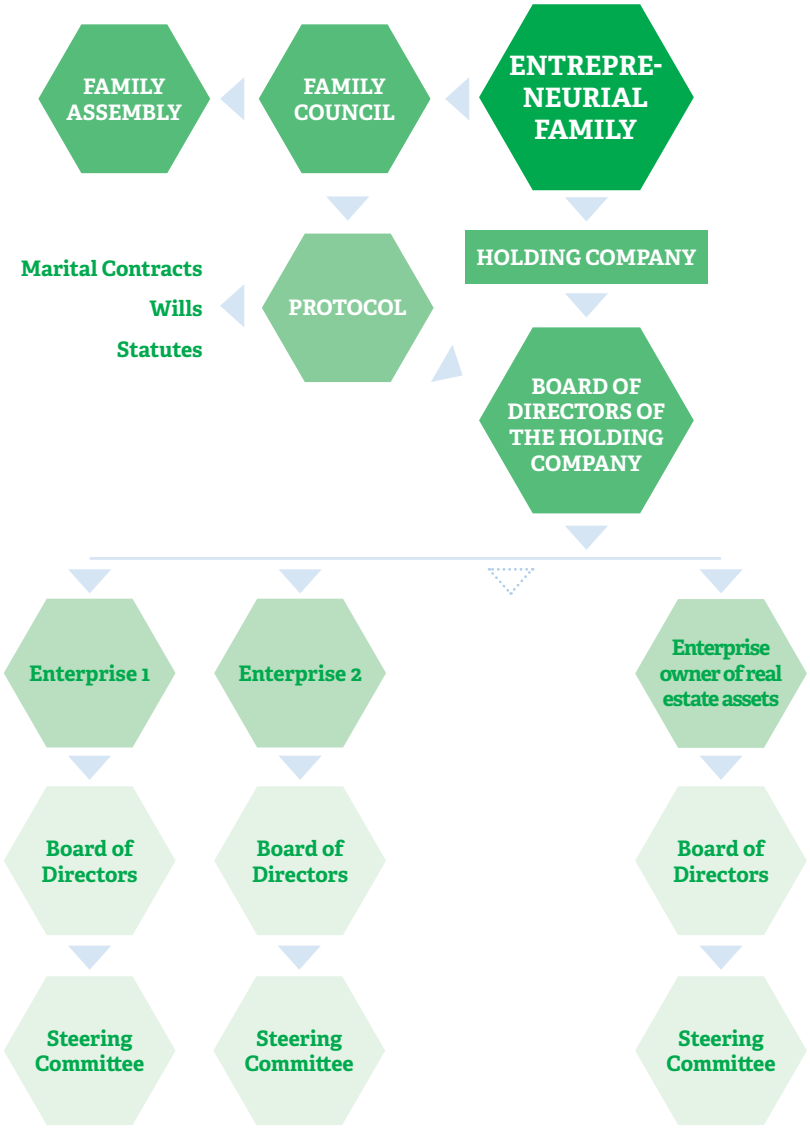
Once the family culture has been created, based on their principles, rules and short and long-term objectives, I consider the enterprise to be in a position to establish formal tools to develop a more institutional management so as to facilitate growth of the entrepreneurial activity and strive for a leading position in the market. From that comfortable position, the enterprise will have greater credibility in order to attract people and resources to tackle new projects or to enhance competitiveness. Again, I insist on the importance of addressing this process through a holistic approach as I have previously mentioned.

I would like to propose a scenario which would be recommended for large family business which are diversified across several sectors. In any case, smaller firms should also implement these tools according to the pace at which the corporation grows.

To better understand this point, please see the chart 4.

This is not designed to specifically address the legal and tax-related aspects that family organizations need to tackle, nor is this the author's area of expertise. Therefore, this analysis will mainly focus on the strategic, business and family-related features that justify the use of these tools and the ways to optimize their use. However, behind some of these decisions, there are also clear possibilities of optimizing the legal and tax aspects, in accordance with the legal framework established by each country and, logically, it is always worth hiring experts in trade, tax and civil law to have their advice in order to tackle projects of this importance. Incidentally, in countries like Spain, where a strong family businesses' association operates, important developments have been made in the field of regulatory management of the family business. Thus, in the following pages we will address this topic and the various mechanisms to be used.

Chart 4: Organizational lay-out of the entrepreneurial family



When family businesses experience a significant growth they usually create several corporations or legal organizations to carry out their activity. For example, various corporations can be created to address the activity in several countries where the business operates or to diversify the company's activity across several sectors which complement the original activity of the company founded by the first generation.

In these cases, the recommendation for reasons of tax optimization and legal protection –although I insist, this point has to be reviewed in each specific geographic area since tax regulation might greatly vary between countries, regions or cities within the same country– is to create a holding corporation. Moreover, from

"In order to keep the essential separation between family and business two institutions should be formally established: the Board of Directors and the Family Council"

a managerial point of view, it allows the corporation to create synergies and achieve a sound external image of the business group. This holding corporation will have the shares of all family members and will act as partner in the various businesses of the family. In turn, both the holding and the remaining corporations shall have their own Board of Directors, focused on strategic elements and a Steering Committee to manage matters of a more tactical nature.

In order to keep the essential separation between family and business two institutions should be formally established: the Board of Directors for the governance of business-related affairs and the Family Council to manage family-related issues. Since the Family Council, for reasons of convenience and efficient operationalization, cannot hold all members of the family, regardless of its size, it is important to create a tool, the Family Assembly, where the whole family shall meet and whose main objective is to inform the current status of the enterprise and ensure family harmony and coexistence.

In turn, the main rules of the game of coexistence between family and business are contained in the protocol, a document similar to what the constitution is to a country, and which states the great principles that shall govern the management thereof. Subsequently, it shall detail the laws and regulations as occurs in family businesses with specific decisions that affect both the firm (pay system, marketing plans or technological investments) as well as the family (policies regulating how new generations should join the company or succession planning). In turn, it is very likely for certain decisions made when the protocol is established to be subsequently specified in public documents such as marital contracts, wills or corporate bylaws.

I must confess that it is much more important for the family to know that certain situations must be anticipated and this requires having specific mechanisms rather than having special tools. Incidentally, experience shows that all periods of change in the life of both the business and the family are critical.

6. A KEY PROCESS: SUCCESSION

One of the most crucial processes in the management of a family business, given its inherent desire for continuity, is succession. Therefore, it must be part of the discussion and planning of corporate governance.

MANAGERIAL SUCCESSION

First, it is important to understand that it is a stage that stirs up many emotions if the family is lucky enough to be able to organize it without

"Succession debates generally revolve around personal affairs"

any external circumstances rushing the process. As regards the former leader, thoughts arise about the retirement, loss of power and influence, not having much time left or fear of a new situation. The next manager also will go through a difficult time since he needs to overcome many doubts in order to successfully tackle this new challenge and fulfill all expectations put on him. The new leader will also have to overcome the fear of being constantly compared to the prior manager –even more depending on the degree of success achieved by the aforementioned leader–, potential insecurities entailed by working with already-formed teams that need to be won through personal and professional respect, the pressure of being in the spotlight of many people with high hopes...

Anyhow, the worst possible scenario would be to need to face this challenge without previously developing, at least, mechanisms to manage this process. To seriously and rigorously lead a succession process, the family will ensure that both parties agree on carrying out this procedure, whenever planning is possible.

SUCCESSION PROCESS

Although this process is too complex to be broken down into a mere guide, for easier understanding we will list a series of logical steps that might help formalize the succession. We will start from the assumption of several possible successors –as occurs in families with various generations– and multiple candidates. In the opposite case, the situation is much simpler and the key will be to train the sole successor so that, were he willing to take over the firm, he would be able to meet this challenge under the best possible conditions.

In short, if several candidates were to take part in the succession process, I would follow the recommendations below, which each family may modify according to their own circumstances:

- Succession debates generally revolve around personal affairs. That is, simplifying the matter to a mere question: Who should be chosen? Juan, María or Ana? I do not agree with this approach and, in my opinion, this process should start with strategic and business analyses so as to answer the following question: What route do we want to take? Therefore, as shown in the figure below, succession must be carried out clearly knowing where we want to go. Precisely, one of the advantages of a rigorous succession is that it allows to define a strategic business plan for the long term –five, ten or twenty years–. Having clarified this issue, we are now in the position

"In other cases, the lack of succession has entailed the sale of the company, since the family considered that it would be difficult to keep the balance between the family and the external leader"

to define the new profile for the next master of the family vessel. To continue with the sea metaphor, and despite my complete lack of knowledge on nautical issues, it is logical to think that the skills of the captain of a recreational vessel who sails near the Dominican Republic fishing for marlin will differ from those of a captain who sails from Veracruz to Hamburg, through the Atlantic Ocean, on a cargo vessel.

Thus, the succession process should be initiated, in my opinion, with the development (or review) of the strategic business plan to meet its future challenges and establish the main priorities for this new stage. From there on, it will be much simpler to better define the profile of the best possible candidates to take over the business.

- Once the plan has been defined, the business may appoint a family member or an external person for several reasons: there might be no family successors, they might be too young or they could prefer to work in a different sector.

  In the second case, the company could still continue with its original features, but with an external leader. To this end, the best option is to hire the services of a professional headhunter who will carry out the pertinent search and recruitment process to appoint a new manager. Another possibility is to identify a non-family member within the company with enough experience and sufficient skills for this position. The advantage of the latter is that the company ensures that the person shares the project, family ideas, there are no doubts about his commitment and he fits in the business. The only question in this respect is whether he has enough recognition within the company; whether the remaining members of the organization will recognize, respect and support this appointment. When these circumstances are not met – or when the enterprise seeks a new strong driving force– the best option is to bring an external, well-known expert, who might even have an easier time managing this stage of change.

  In other cases, the lack of succession has entailed the sale of the company, since the family considered that it would be difficult to keep the balance between the family and the external leader.

- If there were multiple family candidates, the objective would be to choose the most suitable person. Besides being the best candidate to

"Certain companies decided to diversity and appoint several leaders in order to avoid conflicts"

successfully implement the new business plan, there are several features that successors usually have:

- They know the company, are committed to it and have expressed their willingness to lead the new era.
- They represent the family values.
- They have leadership skills.
- They are able to manage interpersonal relationships through empathy.
- They are good team managers.
- They have a sound decision-making ability.
- They are independent.
- They are mature from both a personal and professional point of view.
- The whole organization considers them to be a clear alternative thanks to their professional experience and their personality.

This last point is extremely important so that the new leader has the support of the whole firm thanks to his achievements, professional career, experience or skills and not only because he is the son of the previous leader. Incidentally, in the case of a clear succession because there is only one suitable person, it is important to keep working on the aforementioned points in order to enhance the credibility of the next leader both within and outside of the organization.

What I do not particularly like, given the times that we live in, is suggesting sexist or ageist stereotypical approaches. Let me be clear, the eldest son does not have to be necessarily the next leader. The youngest daughter might be better suited to carry out the job. Thus, please, stay away from preconceived perceptions regarding these matters. Gender or age discrimination is a waste of talent.

In cases where several candidates are real alternatives, this issue will certainly become more complex. Certain companies decided to diversity and appoint several leaders in order to avoid conflicts. When implemented in businesses which diversify across several unrelated sectors, I think this might be a sound solution. In other cases, in my opinion, the firm ends up losing the advantage of having synergies and has critical sizes to compete, thus the option

"There have also been cases where the corporation decided to implement a co-presidency to avoid taking sides between two potential candidates"

of diversifying becomes less attractive. In the aforementioned approach personal interests prevail over business interests.

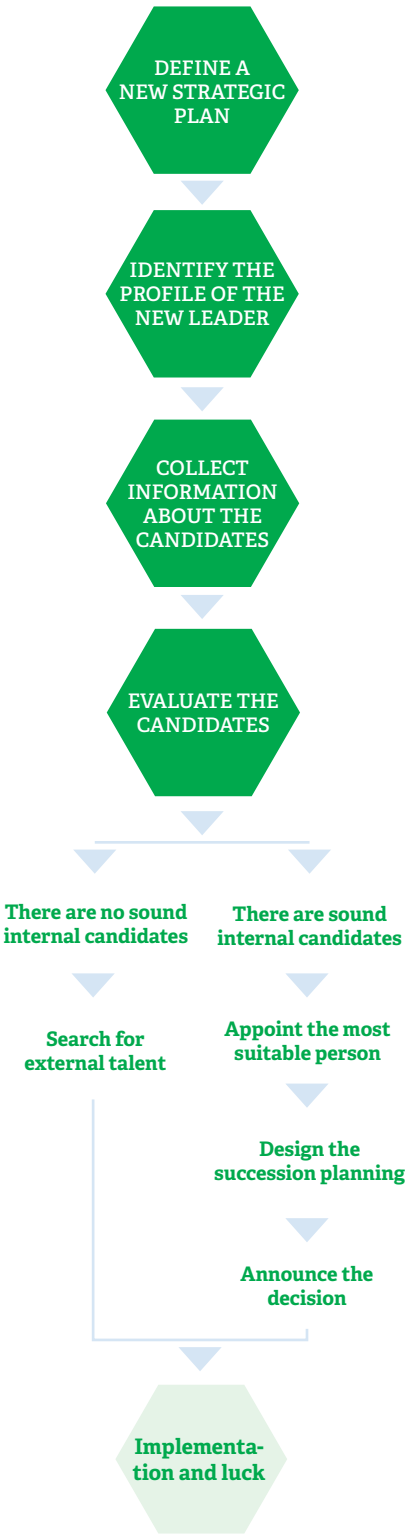
There have also been cases where the corporation decided to implement a co-presidency to avoid taking sides between two potential candidates. If the skills of both are different, yet complement each other's abilities, as well as their interest areas and a sound culture of consensus, mutual respect and loyalty is created along with efficient coordination mechanisms, the structure might work. Although in my opinion, these mechanisms cannot be permanent, but temporary.

Sometimes certain companies appoint a transitional leader. This usually happens when the eventual family leader is too young and lacks the personal and professional maturity to hold such an important position. In these cases, the family appoints a person they trust, with high expertise and no ambition to improve his position within the company, to guide the firm during this stage and also to train the young successor. This process is very interesting and enriching, particularly when a sound temporary leader is appointed. This leader must understand that he is carrying out a transitional work, for a fixed period of time and should not seek to become an alternative to the family leader –and the latter should not feel this way either–. On the opposite, the key is for the future leader to completely trust the moral authority that his mentor has acquired thanks to his experience and knowledge. Thus, it is important to appoint someone with no ambition to move up in the company.

- Once the successor has been appointed, a detailed succession planning should be agreed with him. This plan might greatly vary depending on the features and circumstances of the company and the people involved in this processes.

- And with all the homework done, let us be blessed by luck during the implementation of the succession process. This basically means the same as hoping that the successor rises to the occasion, does not give in to pressure and shows the same capacity that he has developed in other positions where he always successfully met the objectives. It means that the collaboration team must give the best of itself, the family shall unconditionally support the new leader and allow him to develop his action plan

Graph 5: Lay-out organize the management succession



without any interferences and he must preserve and transmit the set of values and principles of the family. It means for the environment to recognize him for his training and past professional achievements, for this transition periods to not further complicate the process with severe sectorial, personal or family-related issues, for him to have health to fully carry out his work... In short, many elements will depend on luck and in others a sound succession planning will definitely enhance the chances of the process being successful.

Therefore, we insist on the importance of appropriately planning the succession process and the role of the current leader is essential to implement it. Companies should not make the mistake to confuse succession and cloning; it is impossible to have exactly the same leader twice. On the opposite, the successor should be a new entrepreneur, a business leader capable of guiding the entrepreneurial management that we promote.

In general, many people are involved in these complex processes: not only the family, but also the Board of Directors, key employees or external consultants. The role of the latter is particularly interesting when they contribute to greatly objectify a task where passion often prevails. Any parents will agree with the fact that their son is a better candidate than their nephew.

As regards the formalization of the process, my unequivocal position is that the Board of Directors –or a similar body–, as the highest governing body within the company, should appoint the new leader, generally proposed by the Family Council.

SUCCESSION IN RELATION TO OWNERSHIP

Succession as regards management should not be confused with succession in relation to ownership. As regards ownership, it should be noted that, based on the principle of equity and if the shares of the company are inherited equally as younger generations become involved, governance conditions will be greatly hindered in a rapid manner.

Therefore, certain entrepreneurial families decide to surrender ownership shares of the business only, or to a great extent, to a/several descendant/s through the estate apportionable at will provided by the succession law of many countries. It is increasingly common for the successor or successors that will manage the business to receive a larger share package in order to run the firm on favorable terms. The remaining members shall be compensated by inheriting other family assets unrelated to the business activity.

"The Family Council is the essential governance body for family affairs and the space where relation policies between family and business should be designed"

In other cases, the company might set non-voting shares that might allow their holders to obtain dividends or proceeds from the sale of the company in the future, with the voting shares being held by the family members that are professionally involved in the management of the company.

Sometimes, these companies implement majority reinforce policies which promote agreement cultures or set mechanisms to avoid deadlocks. This issue is really important and should be reflected upon so as to avoid the aforementioned transfer of family values towards the business, a misinterpreted equity in this case, which creates conditions that could severely hinder the business activity in relation to the agility and rigor that are so necessary for today's businesses.

Lastly, it should be noted that there have been cases of families which, in order to ensure the development of the business project, seeking to achieve a greater credibility in the markets and generate trust both within and outside of the organization, have forced all heirs to guarantee their permanence within the family group for a fixed period of time.

To sum, the transfer of shares is a highly important issue and an affair on which significant decisions should be made to shape the future of the business. The responsibility of entrepreneurial families forces them to carefully manage this point and take rigorous and thought decisions in a more complex and refined context than the usual environment. Therefore, I have repeatedly insisted on the need to develop communication within the family, both natural and in-law, in relation to these points as it will contribute to the creation of harmonious and peaceful relations and will enhance the understanding of certain decisions.

7. FAMILY GOVERNANCE: FAMILY COUNCIL

The Family Council is the essential governance body for family affairs and the space where relation policies between family and business should be designed. Its role is similar to that of the Board of Directors as regards business affairs.
In this effort to carry out the necessary separation between the family and business spheres, it is necessary to create a space where families could debate and reflect on their areas of interest without interfering with the management of the business or affecting it as little as possible. This area is covered by the Family Council in large entrepreneurial families, since a true Family Assembly can be used to bring together all members of a family if the size of the latter is not particularly large.

From my point of view, and especially as the size of the family grows, this body should have three main objectives

"The Family Council must ensure maintaining the support towards the business strategy and the people in charge for implementing it"

that are connected to communication to a greater or lesser extent:

- **Make the family understand and support the business strategy.** At the present time, many companies need to grow to be profitable and competitive and must make decisions rapidly in order to take advantage of the market opportunities or meet new challenges. I understand that in these new scenarios the family, represented by the Council, must share this business approach that, in certain occasions, might go against the short-term interests of some of its members. It should be noted that, quite often, dividends will be allocated to the creation of future value. Sometimes, against more passionate approaches, the decision might be to sell the company which has been part of the family group for generations, but has ceased being profitable or hast lost its strategic value. Another potential possibility is keeping certain people in their current position because they might lack the necessary skills to hold high management positions –regardless of them being relatives–.

  The Family Council must ensure maintaining the support towards the business strategy and the people in charge for implementing it. Logically, the business strategy will be influenced, among other things, by the interests and genetic code of the family. In this sense, this body will be where the family will send messages to the managers of the firm such as the level of risk that the family is willing to take, the expected returns or the possibility of discarding businesses or management practices in accordance to the family principles.

- **Transferring the family values, its culture, principles and the way it wants to be seen by the business community.** As the company grows, it is easy to understand why it would slowly have an increasing number of outsiders and managers who are not part of the family and, unless the family pays attention, the company might be at risk of losing its features. Therefore, the family has the legitimate interest of transferring its vision, mission and culture towards the various teams, as it wants them to share the project that unites the whole family and make them feel proud of being part of the project. In short, the point is to create the feeling that the company is unique, where the end does not justify the means. The enterprise has certain behavior patterns that need to be adopted. It is quite

"Experience shows us that issues that greatly concern the family are usually related to monetary affairs and also to the professional relations of family members who work in the company"

important to emphasize these own features of each family –which ultimately allowed them to create an important business project– and make all employees understand this point. This point should not be imposed, but promoted so that the whole company believes that these guidelines are the best possible route for the company.

- **Being the channel through which the family can debate about their issues of interest.** This point covers many different possibilities. For example, the family might decide to write a book about the history of the family with an upcoming event, such as a centenary. Several issues that affect the family, but not the business, might be discussed too; whether it is the divorce of a member of the family, the severe illness that a relative might have and whose treatment might entail a significant economic outlay... Lastly, this is the forum where the family interests shall be defended, through a single voice, thus enhancing coordination and efficiency. If this body is well managed, it will not be necessary for each member of the family to personally call the CEO to request specific information or insist on the importance of certain decisions.

Experience shows us that issues that greatly concern the family are usually related to monetary affairs –dividends policy, family wealth management or the possibility of selling participations– and also to the professional relations of family members who work in the company –possibility of joining the business, required conditions and salaries–. The Family Council is the perfect forum to discuss the aforementioned issues.

Apart from these main generic objectives, the following tasks are common among Family Councils:

- Management of the various aspects covered by the family protocol. Thus, it is the space where the protocol is implemented.

- Addressing possible changes of the protocol, whenever the family circumstances or those of the environment, people or priorities have changed.

- Planning and managing the future of the family by establishing a real strategic plan for the family, defining the role to be played by the former in the family project –which again, might change as time passes and circumstances change–.

- Ensure that the principles and values of the family are respected, implementing them in the protocol or

"Family Council separates business and family, the Board of Directors splits ownership and management"

ethical code and transfer them into business management guidelines.

- Solve any relationship problem between family and business.

- Promote family succession policies –although, in my opinion, the appointment of the leader of the business should be carried out by the Board of Directors. In this sense, the Family Council might propose candidates for them to be included into the Board of Directors or the succession process. As regards the latter, the role to be played by the Family Council is highly important –particularly when an external leader is appointed– as it should promote the values, style and projects of the family and everything that facilitates the understanding of the family's genetic code.

- Develop mechanisms to defend the rights and interests of all members of the family –whether they are partners, workers or none at all–.

- Foster the creation of an atmosphere of family harmony, specifically as regards the establishment of communication links between all members.

- Report and share the business strategy and ensure that key decisions are supported by the managers.

It is advisable to have a reduced number of people in the Council –between 5 and 11 members–, including representatives of all sensitivities and interests which coexist in the company –avoiding, as far as possible, the overlap of functions so as to prevent any kind of conflict of interest–. This process should prioritize criteria of skills and available time to take on these responsibilities. In general, the family establishes fixed periods of time to hold the position of family counselor –three/four years– so as to ease alternation, particularly in large families. Again, let me insist on the importance of carrying out a truly rigorous work to ensure the equitable presence of all branches of the family. A very common situation is having an external consultant –especially at the beginning– so that the family has external assistance to structure the operation of the body and provide enough formality and rigor to the process which, sometimes, might be difficult to achieve given the trust that family relations usually entail.

8. BUSINESS GOVERNANCE: BOARD OF DIRECTORS

The Board of Directors is the highest governing body of the company and the place where the business' strategic decisions are made. Just like the Family Council separates business and family, the Board of Directors splits ownership and management.

"The Board of Directors should ensure the sound governance of the business, guarantee it does not lose the strategic focus and be in a position to offer satisfactory feedback to its stakeholders"

From my point of view, it is essential for the entrepreneurial family to take a qualitative leap and understand that there are highly important matters such as the day-to-day affairs which, although not urgent, are still rather relevant.

Certainly, when talking about the professionalization and institutionalization of the family business I consider that the first element that should undergo this process is its governing body. Professionalizing a company goes beyond hiring an external Marketing Director or CEO.

This being said, I would like remind that any entrepreneurial family that seeks to achieve a leading position in the market should have its Board of Directors meet the following objectives:

- Defining the strategy of the company and its main objectives in the medium/long-term so that the business is no longer managed in an action/reaction kind of way. Having the capacity to develop a strategic thinking which allows anticipating changes and being in a position to create value for the shareholder in a sustained manner. The Board is the place where the business should forget about the stress of needing to address urgent issues, meet its everyday tasks and achieve the budgetary targets for the current year in order to carry out a reflection work to clearly define the route that the business must follow. In this sense, the Board is a platform to analyze the competitive reality through environmental observation or the study of the data collected by the company itself. This reflection should provide the planning, objectives and resources that the company needs in order to achieve the expected results which, from then on, will become part of the foundations of the long-term management of the company.

- Monitoring the implementation of the strategic plan which, unavoidably, depends on its capacity to appoint or remove the CEO of the company. Therefore, as I already pointed out when I referred to succession and the role of the Family Council, the family might promote the implementation of the succession plans; but it is the Board of Directors who has the final say. In a broad sense, this body should ensure the sound governance of the business, guarantee it does not lose the strategic focus and be in a position to offer satisfactory feedback to its stakeholders.

"The Board acts as a communication body with the Family Council through the mechanisms that the protocol establishes"

- Being the institutional representative of the business before the business community. Besides the issues related to sound governance that we mentioned in the previous paragraph, the truth is that the management of stakeholders requires developing certain relationships –whose standards are usually established by the Board–. It is even usual for Board representatives to carry out this work directly.

- Ensuring that the interests of the family, its values and culture are kept and become part of how the company acts. In this way, the Board acts as a communication body with the Family Council through the mechanisms that the protocol establishes. Even though it might not seem particularly important, this issue is incredibly relevant. For many authors, myself included, some of the advantages of family business lie in the stability that value and principle-related management provides, as well as long-term approaches, the psychological advantage that employees and managers have since they know for whom and with whom they work as well as the sense of pride in belonging to the company. Certainly, these issues do not magically happen, but need to be achieved through work and, in my opinion, this task should be preserved and enhanced by the highest governing body of society.

Meeting these objectives makes it possible to create a list of tasks that can be assigned to the Board of Directors, some of which –as can be easily understood– will disappear once they have been achieved, while others will be permanent. We can therefore highlight the following tasks:

- Working to align the interests of both the company and the family, defining the pertinent policies to this end and establishing communication mechanisms between both groups.

- Approving the strategic plan and the annual budget.

- Defining strategies and objectives in the medium and long-term.

- Developing the annual accounts.

- Making decisions involving the mobilizations of funds that exceed an internally-established figure.

- Creating reporting systems for the Board to have valuable and efficient information to make strategic decisions.

"In many cases, tasks that were initially responsibility of the Board might be delegated to the Steering Committee for their implementation and/or follow-up once the Board has made the decision"

- Defining long-financing policies which ensure the availability of resources to implement future growth plans.
- Appointing the CEO and, where appropriate, the management team as well as organizing the pay systems and the organizational structures of the company.
- Ensuring that the company has the means, tools and processes that the strategic plan requires.
- Defining and taking part in the institutional policy of the company.
- Guaranteeing that the company has a good corporate reputation and its behavior is socially responsible.
- Taking part in the succession process according to the role it has to play in each case.
- Authorizing important corporate decisions (buyouts, mergers, strategic alliances, incorporating investment partners, etc.).
- Defining and taking part in crisis policies.
- Promote policies that might be, at a given time, on the agenda of priorities of the company.

In many cases, tasks that were initially responsibility of the Board might be delegated to the Steering Committee for their implementation and/or follow-up once the Board has made the decision. Likewise, as the company grows, there are changes in relation to the issues to be managed by the Board. Such is the case, for example, with modernization processes of the management systems. During a specific period, it might have been the Board which promoted and monitored the process but after some time, it becomes a responsibility of the pertinent executive department.

As regards the composition of the Board, it should gather a sufficiently large group as to represent all interests but, at the same time, remains small enough to be efficient in the decision-making process. Therefore, a figure between 5 and 13 might be appropriate to meet both conditions. It is clear that the membership of the Board should be reserved to people with enough expertise, training and skills to efficiently manage the important affairs that the Board has to face and which cover the previously described areas. Thus, in compliance with the previous statement, it would be reasonable to include:

- Representatives from all Groups of Shareholders, which in a large family business translates into a counselor for every family branch who owns of a considerable percentage of the shares of the company.

"Having independent directors to enrich the debate thanks to their expertise in important areas for the company as well as providing objectivity"

It is also common for minority groups to unionize to combine a percentage of capital so as to acquire a seat on the Board. Moreover, if the business has non-family partners, they are usually given a seat on the Board depending on the agreements that have been reached between both parties.

- External Directors –also known as "Independent Directors" in certain countries– who provide expertise in important business strategic affairs and, in general, in corporate governance matters. It is common to include people with recognized expertise in critical areas for the business at a given time, such as: internationalization, search and connection with investing partners, IPO, modernization of management and implementation of new management practices or relations with institutions particularly in regulated sectors. Their role is very important, as they provide objectivity in the debates that might confront opposite interests –as is the case with directing shareholders and shareholders that do not work in the company–. In order to be considered independent, they can neither work for the company, nor have family ties with shareholders or the Upper Management of the organization.

- There might be managers mainly represented by the Managing Director in order to ensure the necessary sensitivity towards the business and the status of the company as perceived by those who see it on a daily basis. They are the Executive Directors.

The most important objective is making sure that the Council works in a rather executive way. As previously stated, the competitiveness index of the company is given by the degree of functioning of the Board. To this end, certain obvious conditions need to be met: establishing an early schedule of annual meetings, set a specific agenda of issues for each meeting and even establishing a time schedule for each of the issues, send all pertinent information in relation to these issues to the Board members before the meeting,... And having independent directors to enrich the debate thanks to their expertise in important areas for the company as well as providing objectivity by basing their analysis on pure reason and not belonging to specific interest groups.

"There is a classical conception of the family business that has always reminded me of absolute monarchies"

9. CONCLUSION. THE PARADIGM SHIFT IN FAMILY BUSINESS: FROM AN ABSOLUTE MONARCHY TO A FEDERAL REPUBLIC?

My intention with this provocative heading is not to create a political confrontation, but to facilitate the debate about the future of the family business and its governance. A future marked by leadership, as I have already mentioned several times in this paper.

There is a classical conception of the family business that has always reminded me of absolute monarchies. Based on these assumptions, the family business was founded by a hyper-charismatic leader with exceptional qualities that ranged from an astonishing intelligence to an innate gift to identify business opportunities, a brutal working capacity and incredible commercial skills. If we take a closer look, many of the family businesses, particularly among successful ones, implemented this model. Therefore, based on the pragmatism of the evidence, the aforementioned approach is perfect.

In a classical example, the leader is expected to be replaced by other members of the family –men or women of the next generations– who are expected to become a replica of the previous manager. And it was also thought that perpetuating a specific business activity was the element that united the family and created a legacy.

Lastly, in this traditional approach, absolute shareholding control would rest with the family. Let me insist on this point, evidence shows several examples of the benefits that the classical approach entailed.

But, let us not forget the fact that, when the family business started being analyzed and doctrinal principles on good management were established, the world was quite different, despite this phenomenon taking place only two or three decades ago.

Our world is one where the most valuable and better-valued companies to work are the classical firms of digital economy and technology. Apple, Facebook, LinkedIn, Twitter, Google, Amazon, Yahoo... A world where a mere group of 50 people can create such a huge project as WhatsApp, whose actual sale value amounts to USD 16 billion and has almost 500 million clients every month. Or a world that has recently witnessed how Alibaba obtained a world record figure with the largest IPO ever. Can the continuity of a family business be guaranteed in this society of change through the exploitation of the same type of business that the founder created? Is the character of the family business lost by carrying out businesses with non-family shareholders? Does the

"Evolution of the entrepreneurial family model, of the perpetuation of a specific activity towards the creation of shared value through generations"

business lose its family nature by selling the traditional business at a given time? Is it simple to find a successor with the exact same features as the previous leader, who had an exceptional entrepreneur quality? The answer to these questions probably translates into a new perception of the family business. A new concept that, in my opinion, and with the uttermost respect for the traditional model, is much better suited to face the new context. In fact, we are already witnessing situations –which are even slowly becoming referents– such as: appointing non-family CEOs and having family members in governance bodies, selling the traditional business to carry out new activities, creation of business conglomerates that cover other sectors under the leadership of new generations, integration of family businesses into larger groups to better face the challenges that globalization poses, etc. In short, an infinite number of strategies and decisions that, in my opinion, would not remove the family business' nature from these companies. Actions that, at the end of the day, and following the example of the forms of governance that countries have, are much more similar to a Federal Republic. **Underlying this issue lays the idea of an evolution of the entrepreneurial family model, of the perpetuation of a specific activity towards the creation of shared value through generations. This evolution of paradigms arises during the strategic debate when family companies implement their corporate governance bodies.**

Author

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