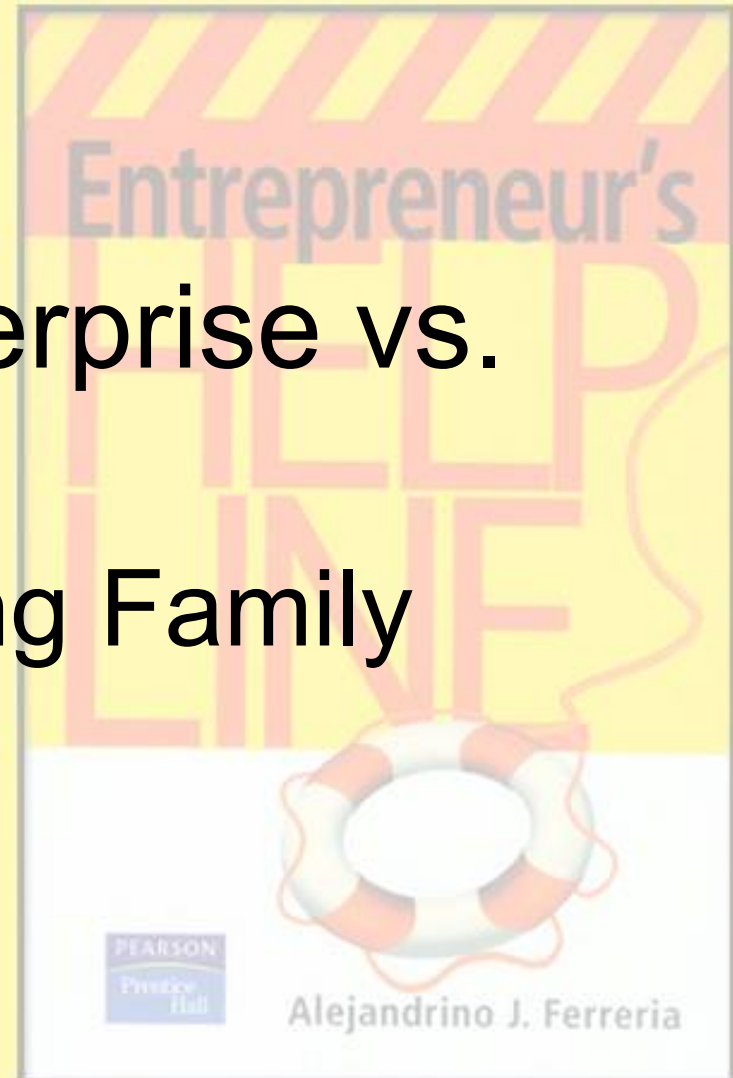
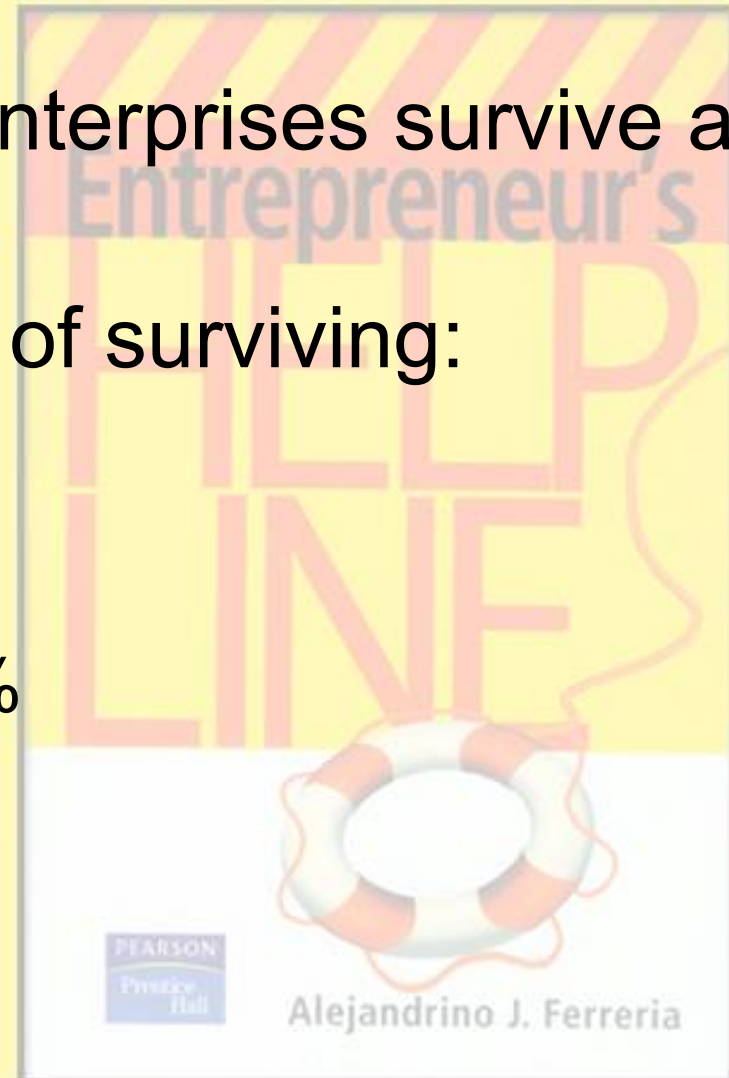


# Family Enterprise vs. Enterprising Family



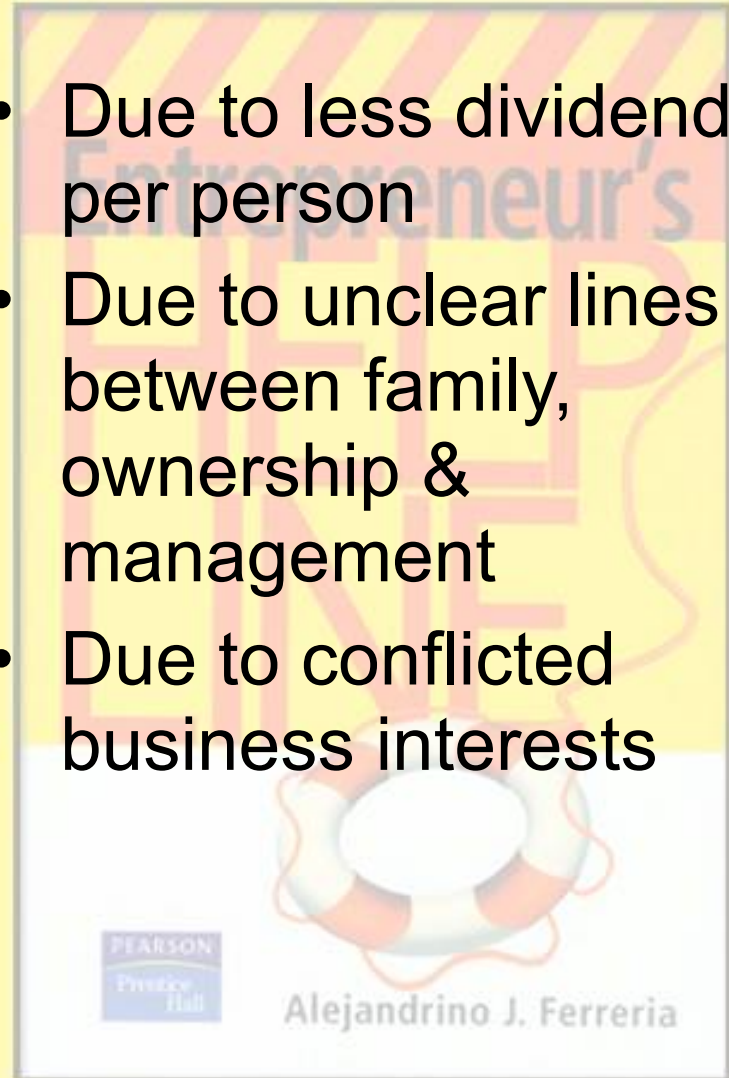
# Warning ! ! ! !

- Only 20% of Family Enterprises survive a 2<sup>nd</sup> generation
- As such, the chances of surviving:
  - 3<sup>rd</sup> generation is 4%
  - 4<sup>th</sup> generation is .8%
  - 5<sup>th</sup> generation is .16%
  - 6<sup>th</sup> generation is .032%



# Why is this the situation in family firms?

- Conflicts
- Conflicts
- Conflicts
- Due to less dividends per person
- Due to unclear lines between family, ownership & management
- Due to conflicted business interests



# Why is this the situation in family firms?

- Conflict
- Conflict
- Conflict
- Due to absence of a conflict resolution process.
- Due to earlier generation who are running the business not wanting to retire.
- Due to next generation not wanting to work in the family business.

# Why is this the situation in family firms?

- Conflict
- Conflict
- Due to undistinguished family rules/roles, owners rules/roles & management rules/roles.
- Due to undistinguished business funds, family funds & individual funds



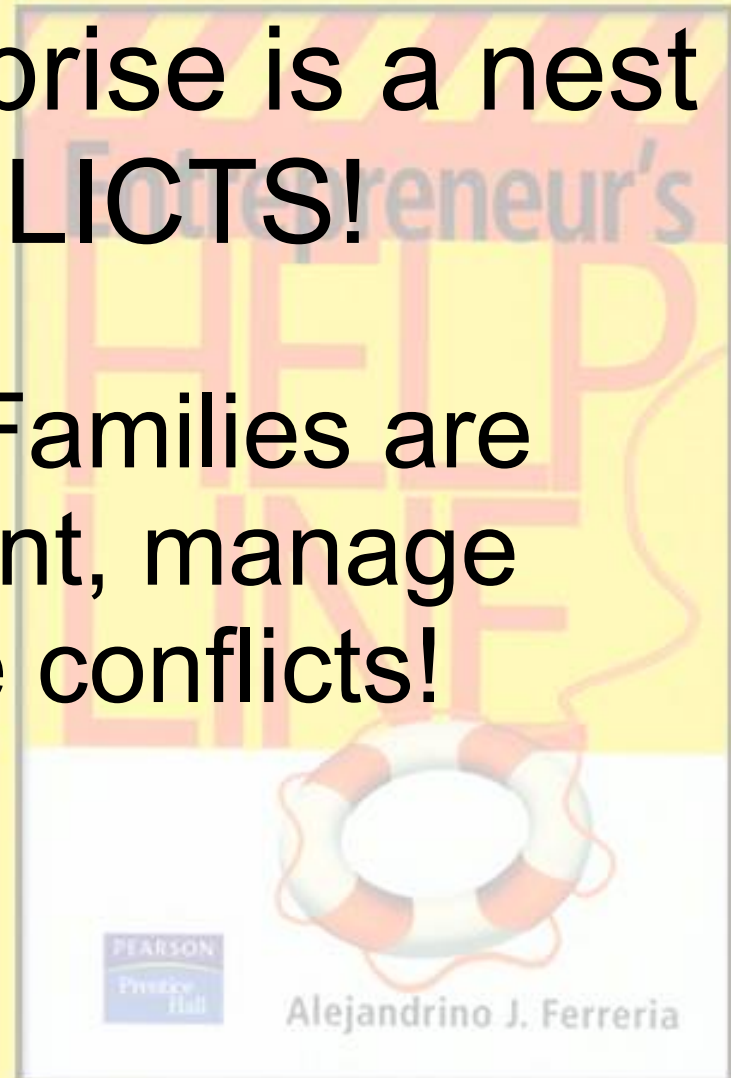
# Why is this the situation in family firms?

- Conflict
- Conflict
- Conflict
- Due to succession of who will manage.
- Due to more family members than management positions available.
- Due to the absence of shared values and vision



**A Family Enterprise is a nest  
of CONFLICTS!**

**Enterprising Families are  
able to prevent, manage  
and resolve conflicts!**



# Enterprising Families

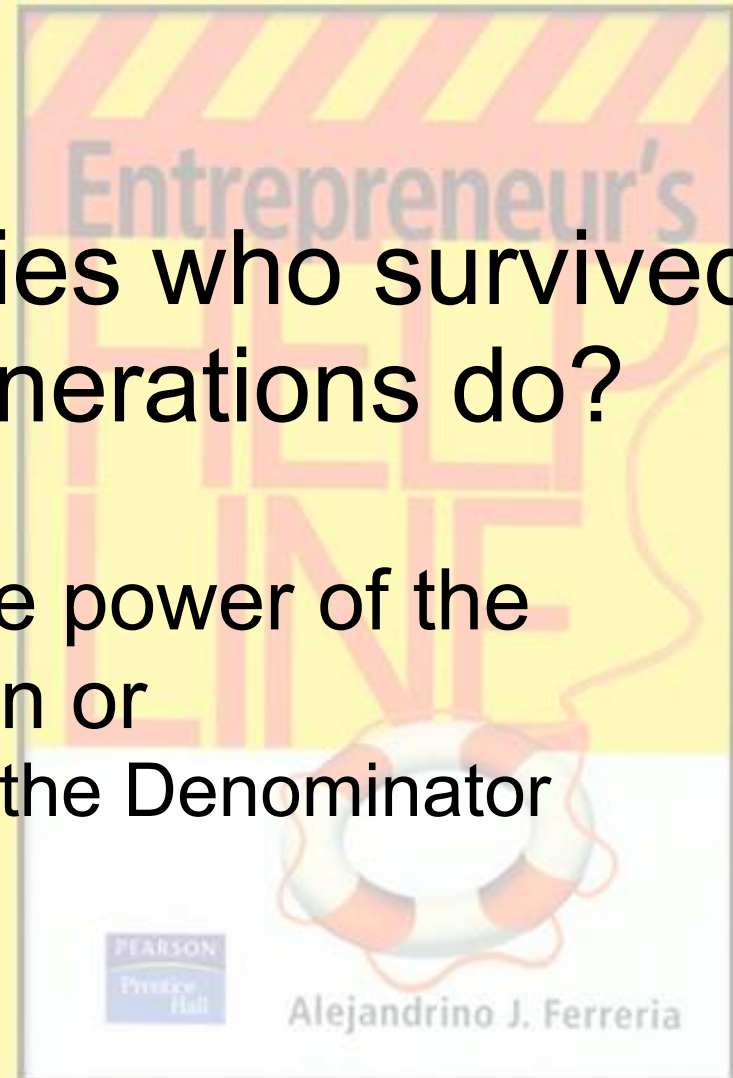
Relationships are  
harmonious, transparent  
and sustainable.





What did the families who survived  
more than 2 generations do?

They realized the power of the  
fraction or  
Numerator over the Denominator

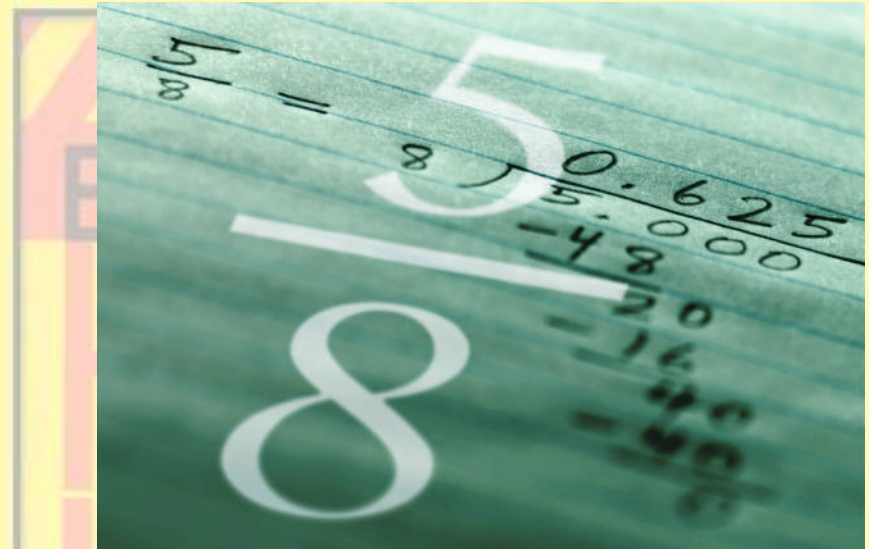


# The Power of Fraction

Numerator

---

Denominator



If numerator increases faster than denominator,  
number becomes larger.

If denominator increases faster than numerator,  
number becomes smaller.

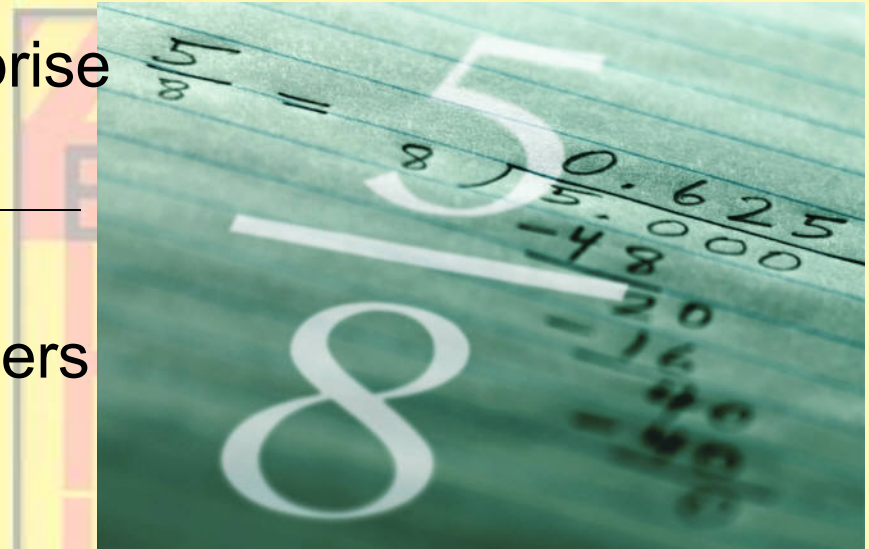
PEARSON  
Prentice  
Hall

Aleandrino J. Ferreria

# The Power of Fraction

Numerator = family enterprise  
= dividends

Denominator = number of  
family members

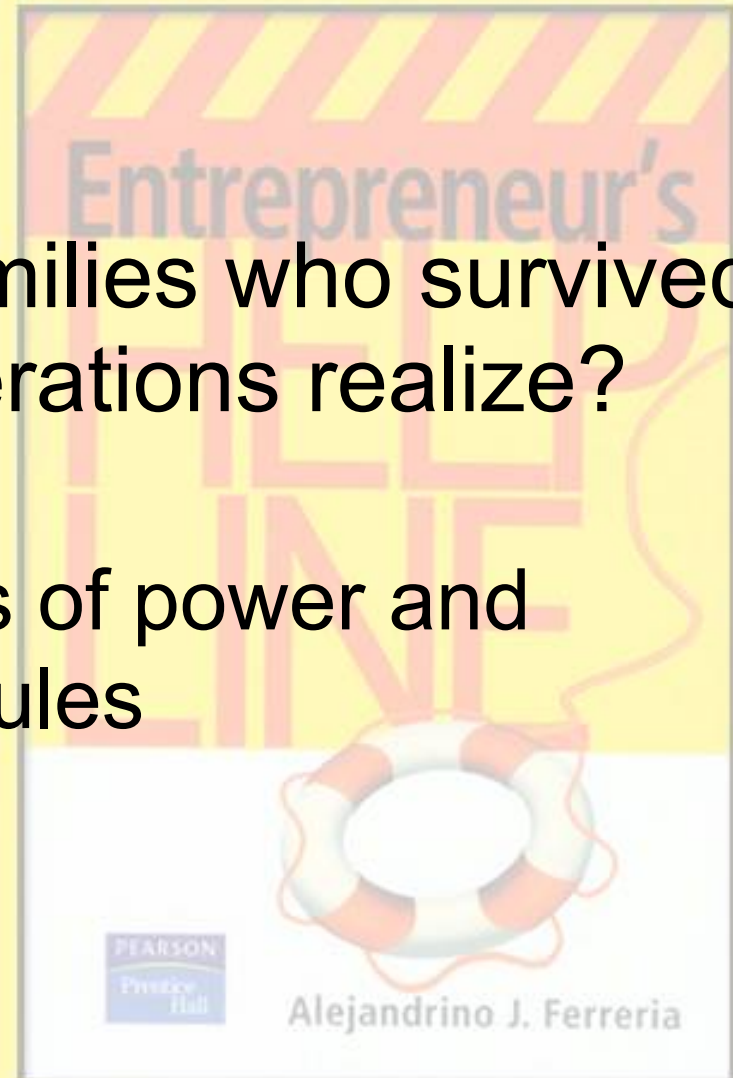


Number of family members increase in a geometric progression.

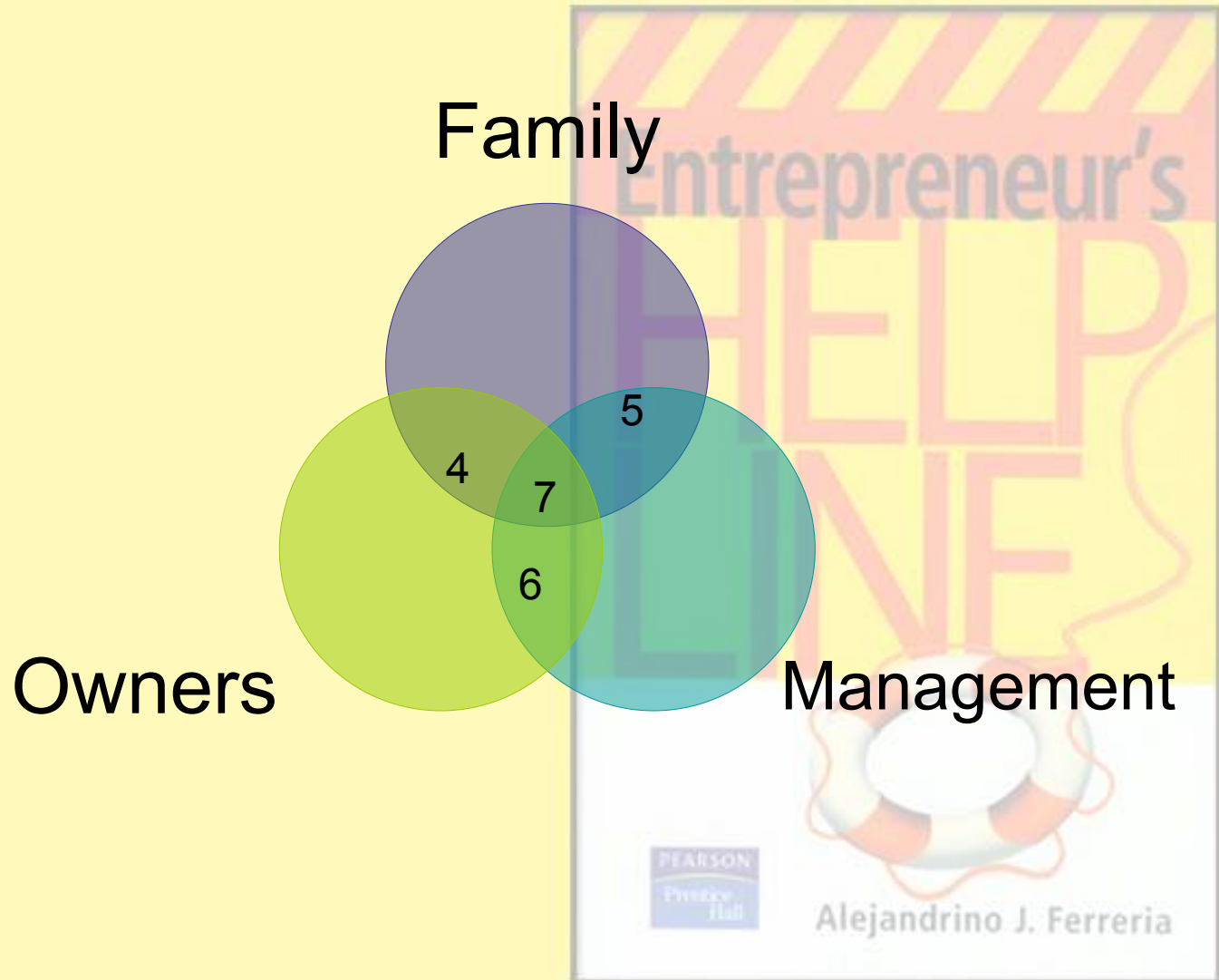
If the family enterprise dividends do not increase in a geometric progression, there will be trouble in the family.

What else did the families who survived more than 2 generations realize?

The three circles of power and their rules

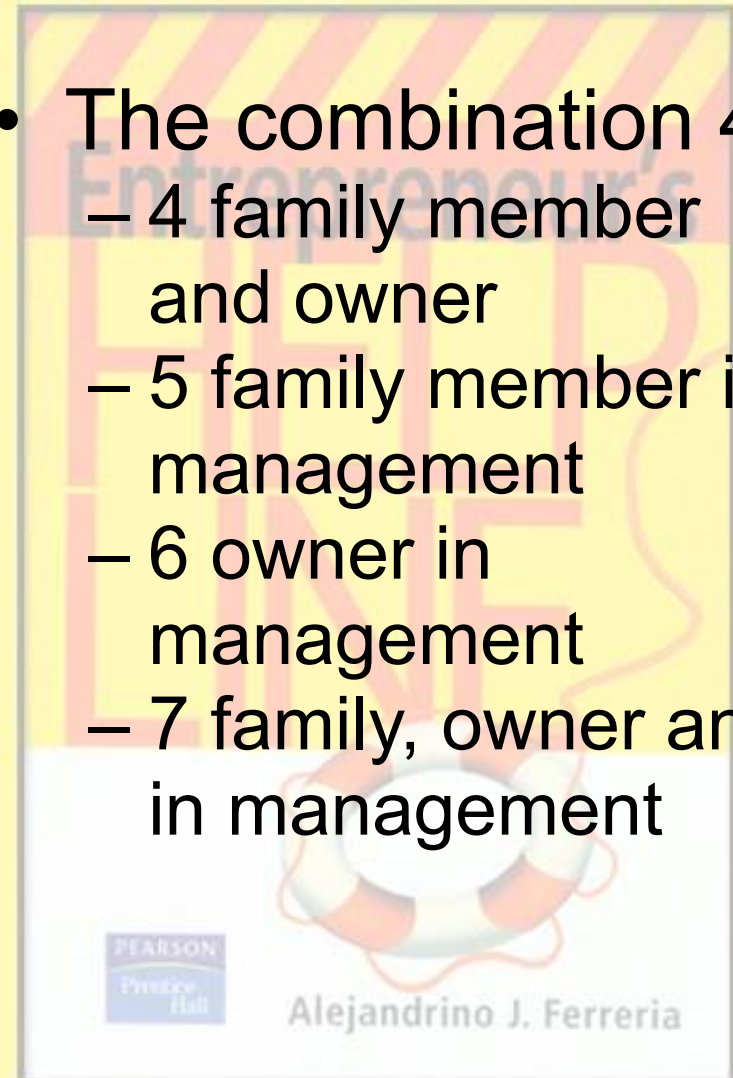


# The 3 Circles

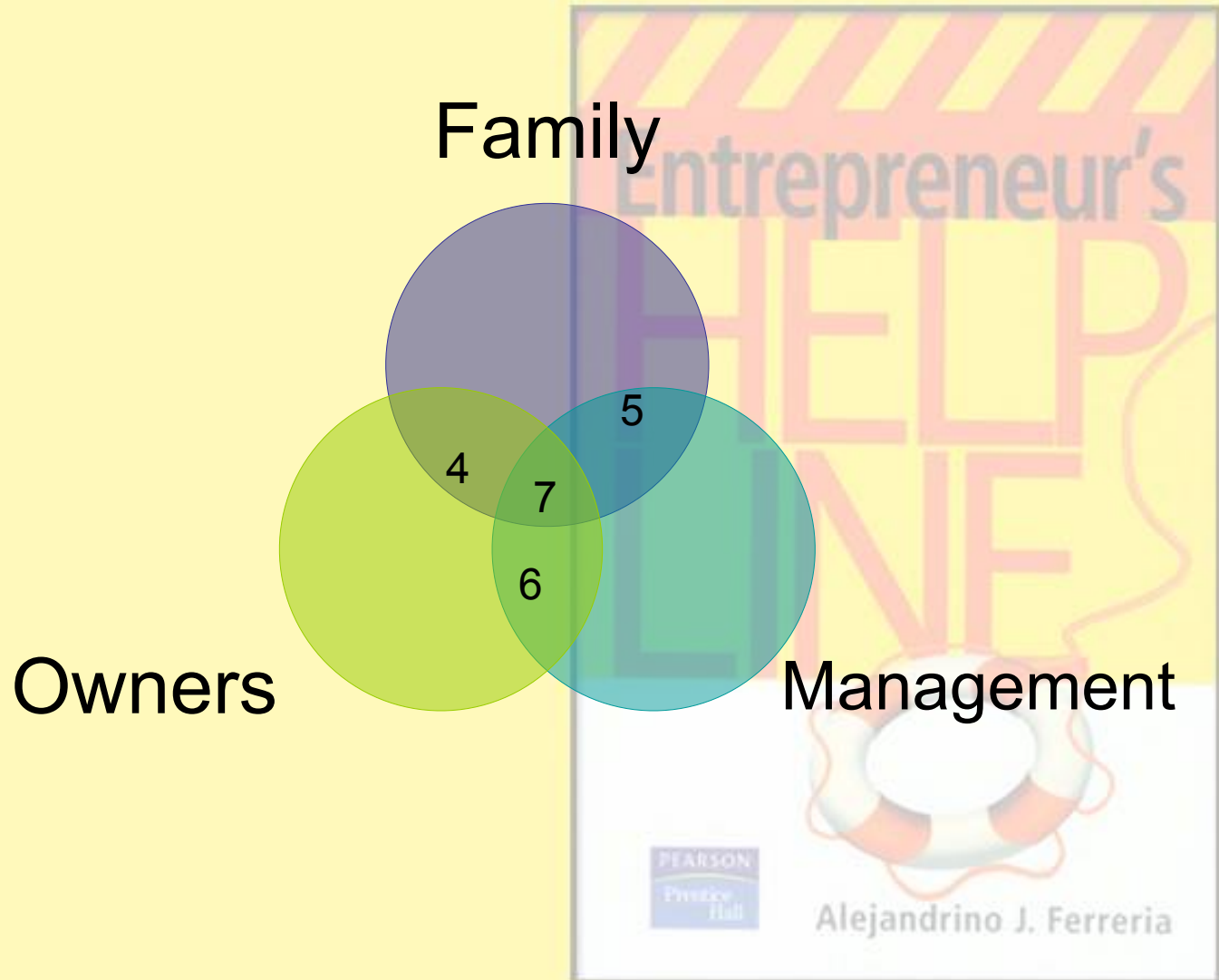


# The 7 numbers in the 3 Circles

- Basic 3
  - 1 owner
    - Deserves dividends
  - 2 management
    - Deserves a salary
  - 3 family member
    - Deserves living allowance when not economically/financially independent
- The combination 4
  - 4 family member and owner
  - 5 family member in management
  - 6 owner in management
  - 7 family, owner and in management



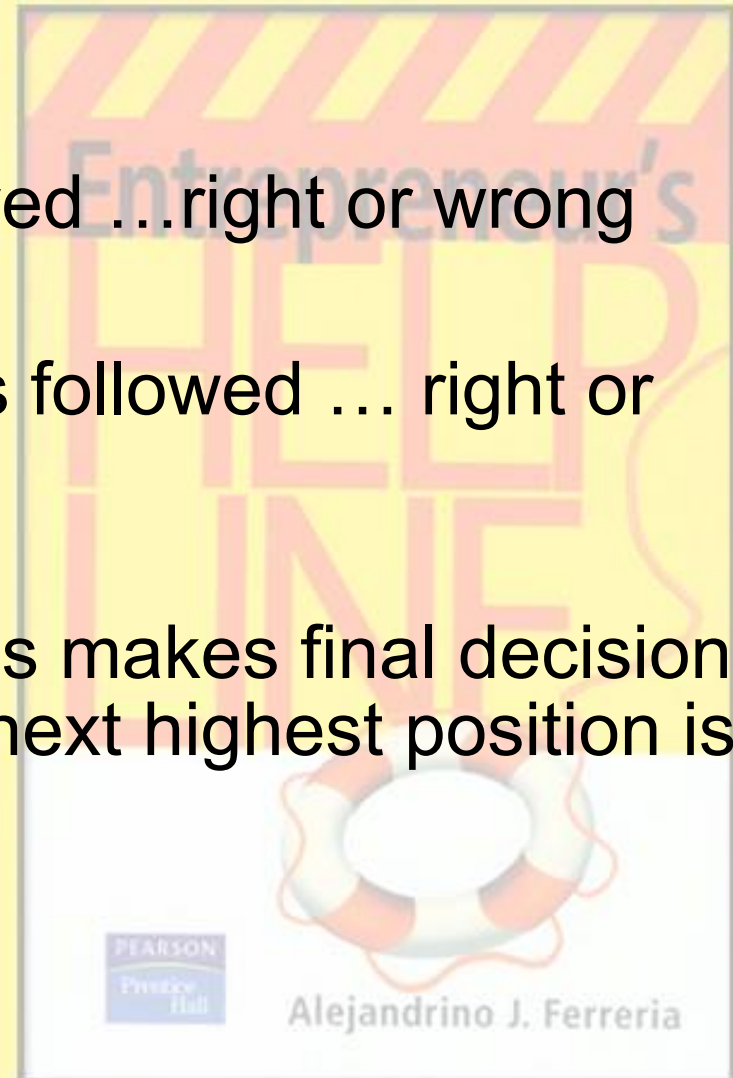
# The 3 Circles





# The 3 Circles and their Rules

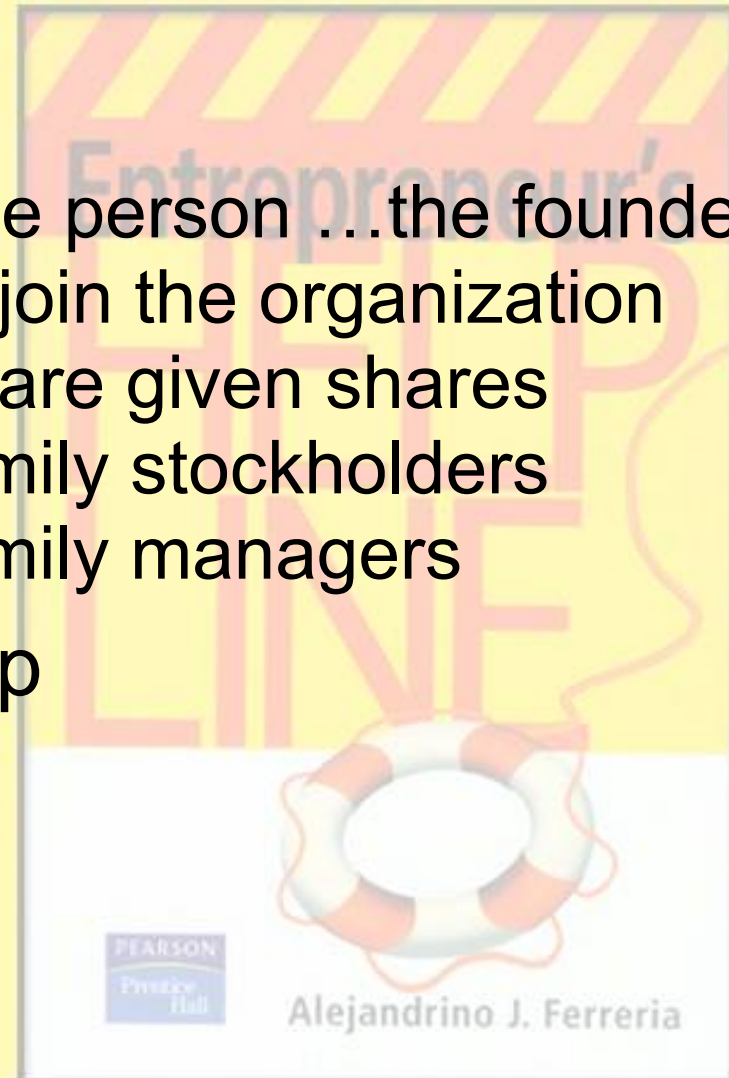
- Family circle
  - Eldest is always followed ...right or wrong
- Owners circle
  - Majority shareholder is followed ... right or wrong
- Management circle
  - One who hold functions makes final decision
  - In case of conflict the next highest position is followed





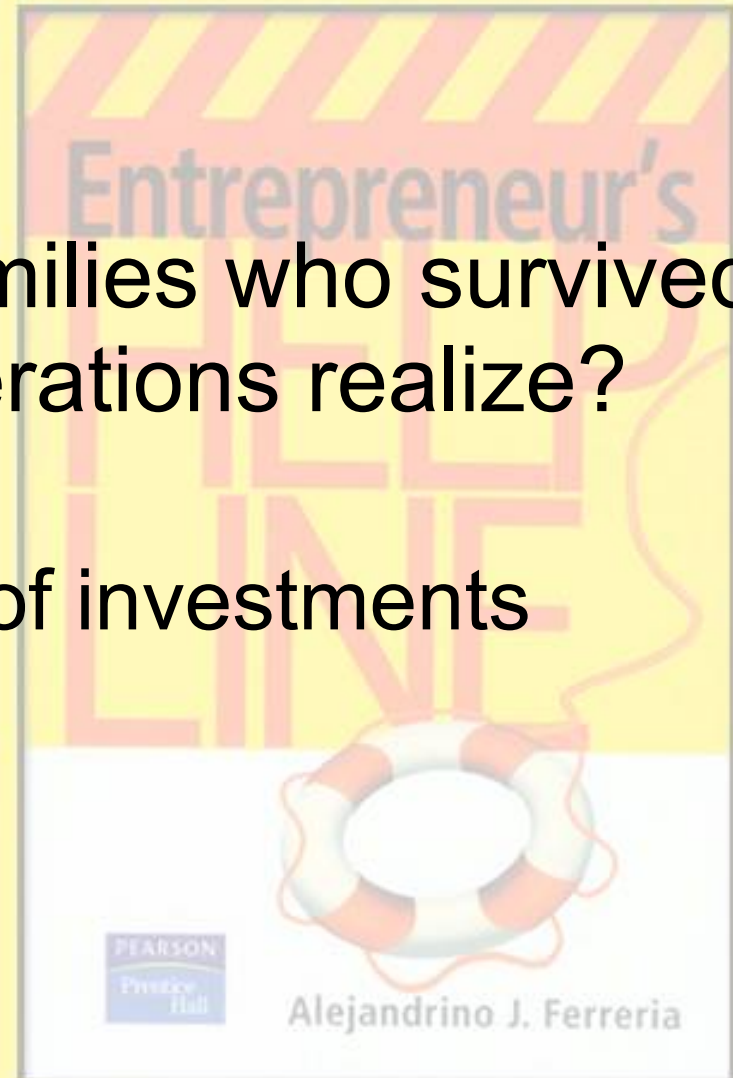
# The 3 Circles

- The problem is:
  - At first this was just one person ...the founder
  - Later family members join the organization
  - Later family members are given shares
  - Later there are non family stockholders
  - Later there are non family managers
- The rules get mixed up



What else did the families who survived more than 2 generations realize?

The three rules of investments



# The 3 rules of investments

- Invest money, get dividends
- Put in time, get salary
- Lend to the business, get interest.



INTEREST

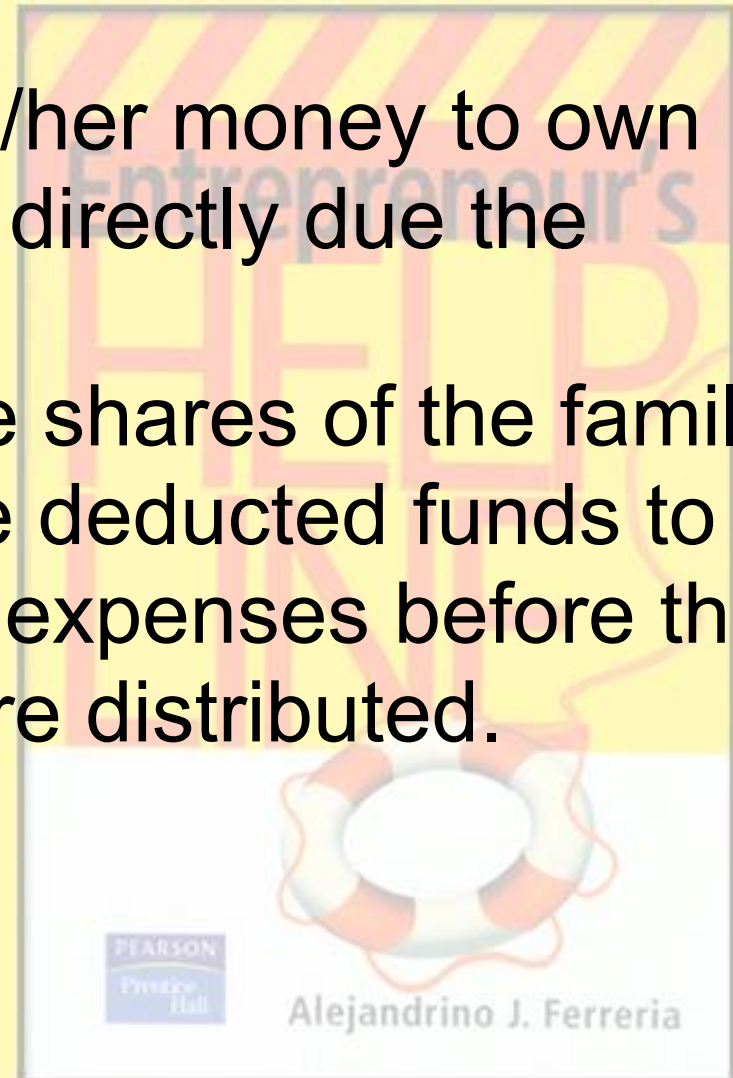


PEARSON  
Prentice  
Hall

Aleandrino J. Ferreria

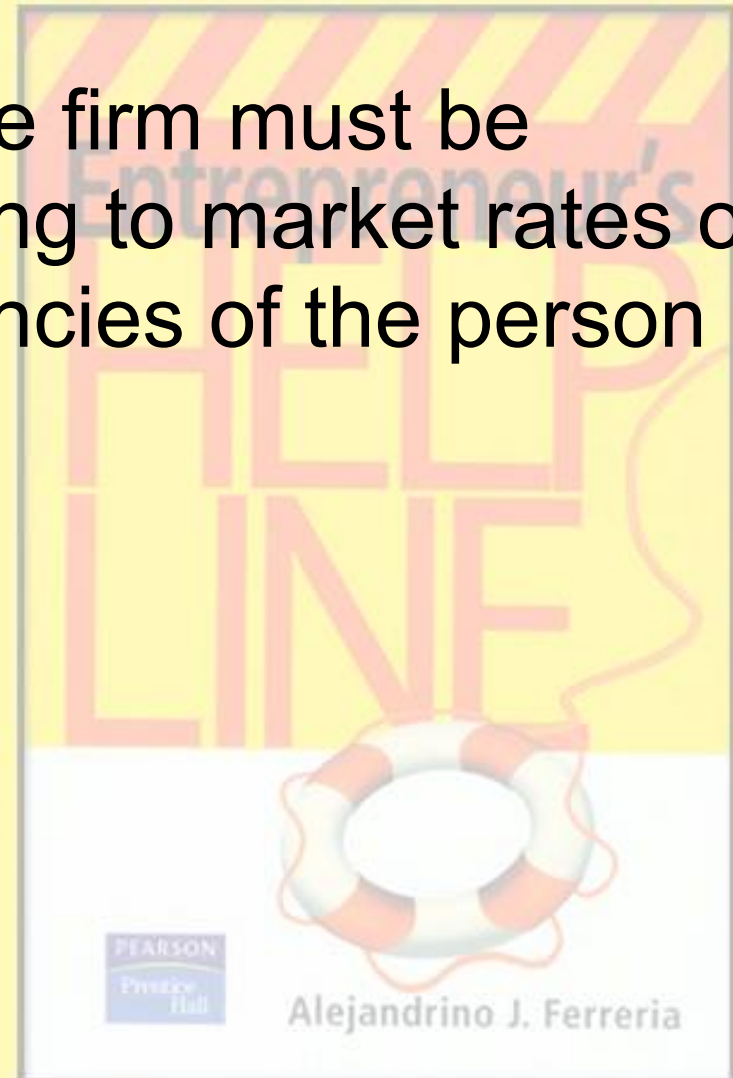
# Rules of Investments: Shares

- If a person invests his/her money to own shares, dividends are directly due the investor.
- If a person inherits the shares of the family firm, the dividends are deducted funds to be used to pay family expenses before the individual dividends are distributed.



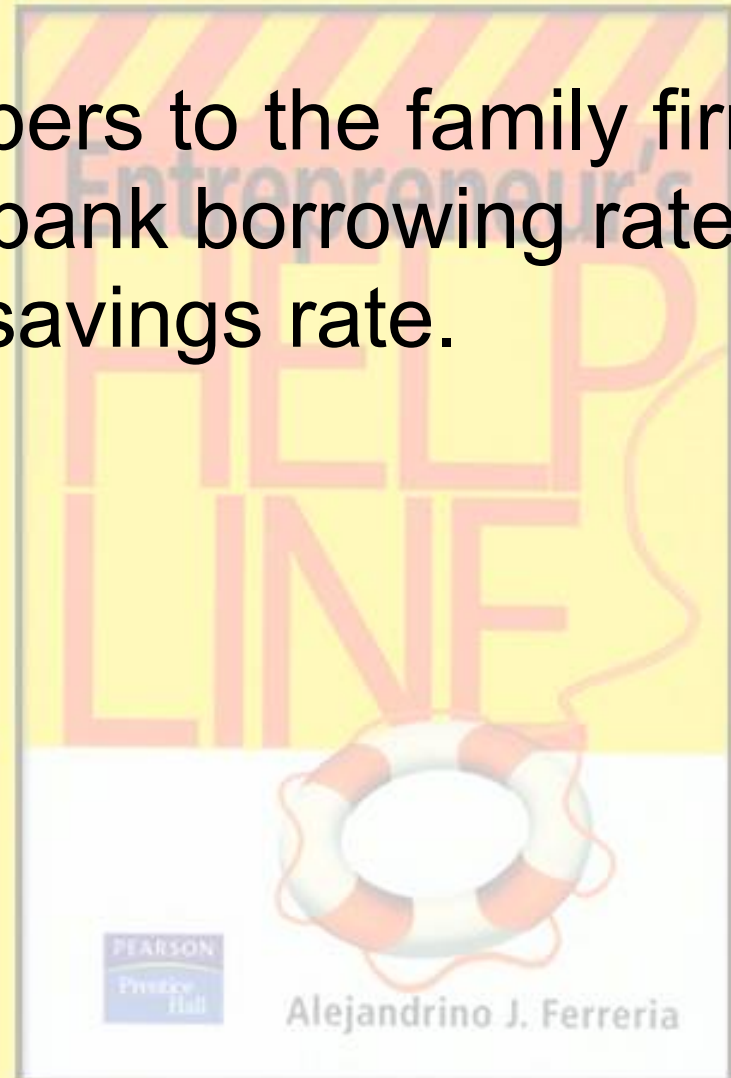
# Rules of Investments: Time

- Family members in the firm must be compensated according to market rates of position and competencies of the person



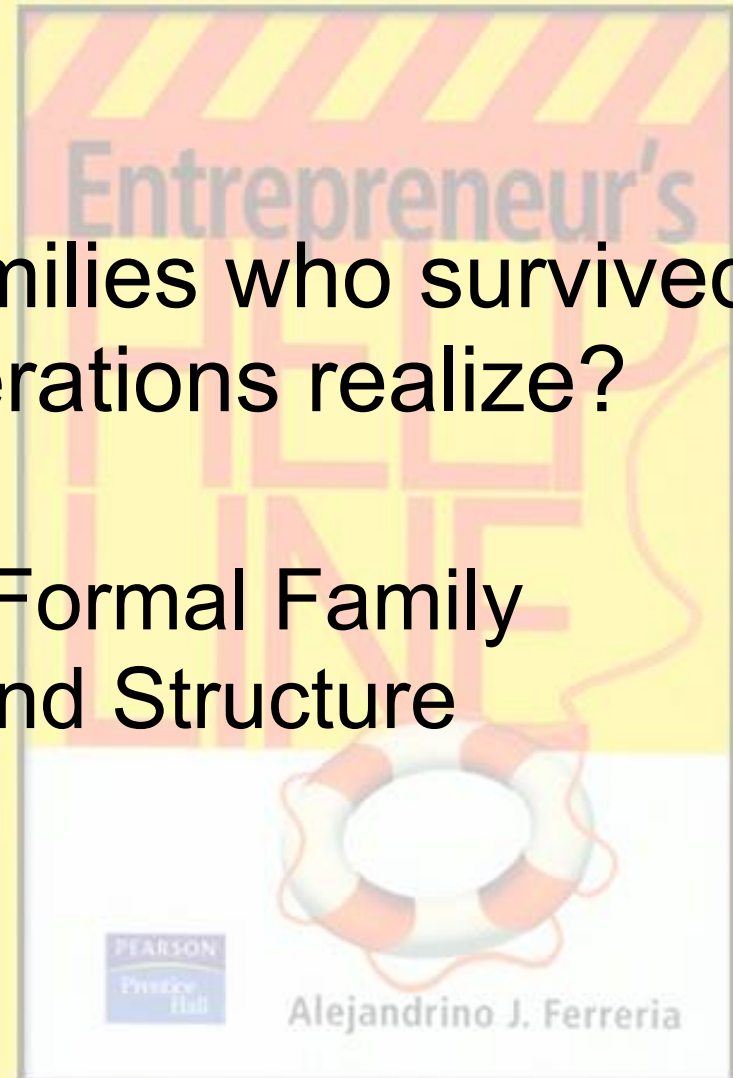
# Rules of Investments:Loans

- Loans by family members to the family firm should be lower than bank borrowing rates but higher than bank savings rate.



What else did the families who survived more than 2 generations realize?

The Need for a Formal Family Governance and Structure



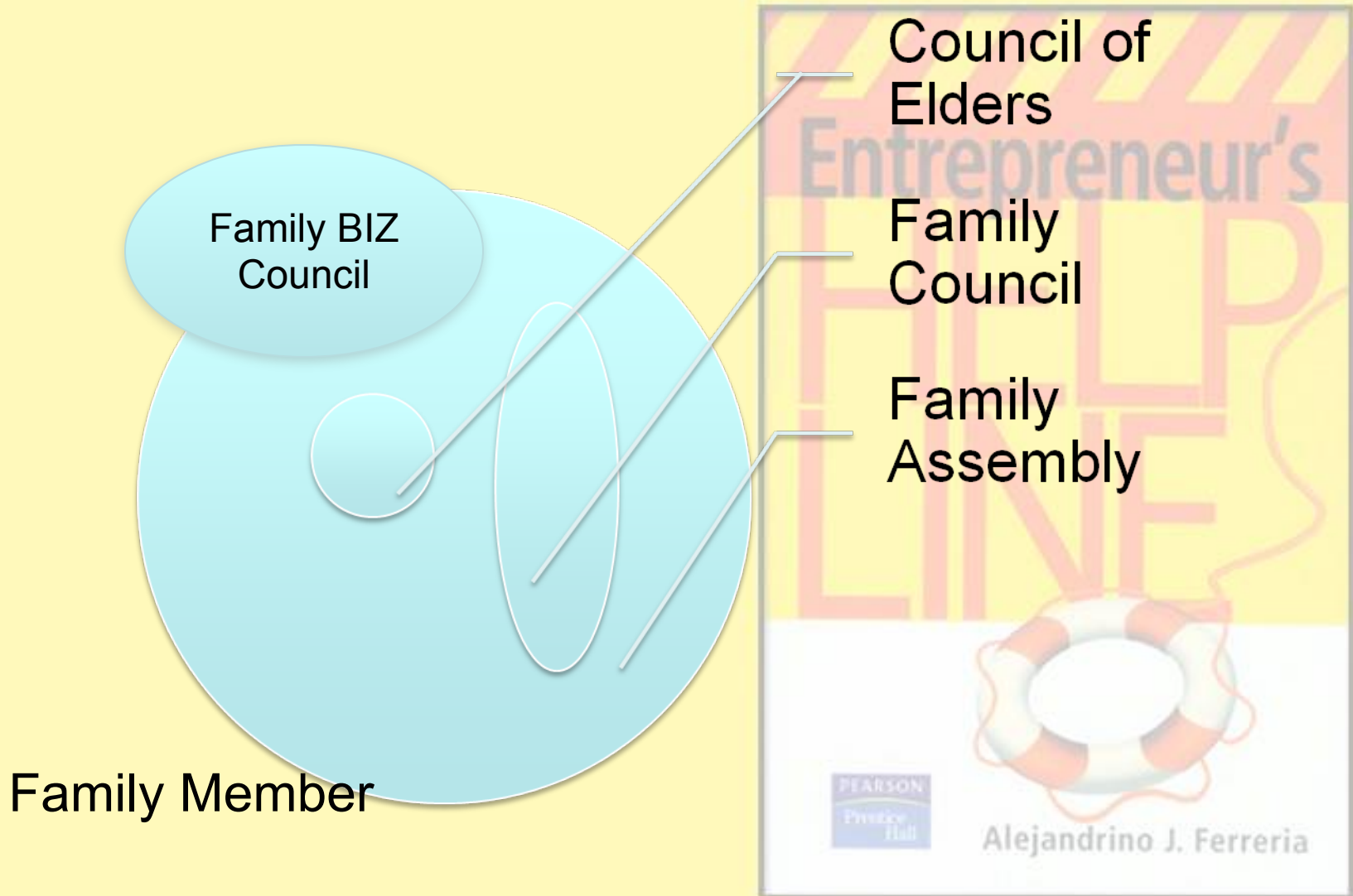
# Family Governance and Structure

- When Parents were around or First Generation
  - Parents
    - Owners, Managers and Head of family
  - Children
- After several generations
  - Council of Elders
  - Family Council
  - Family Business Council
  - Family Assembly
  - Family Member



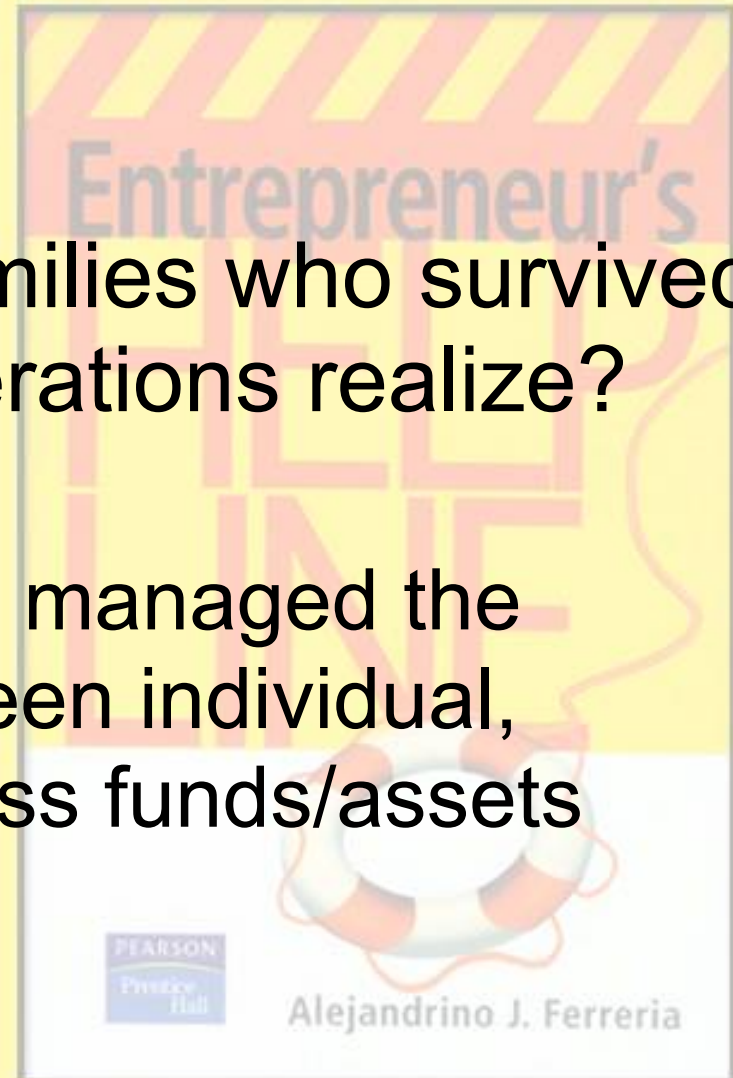


# Family Governance and Structure



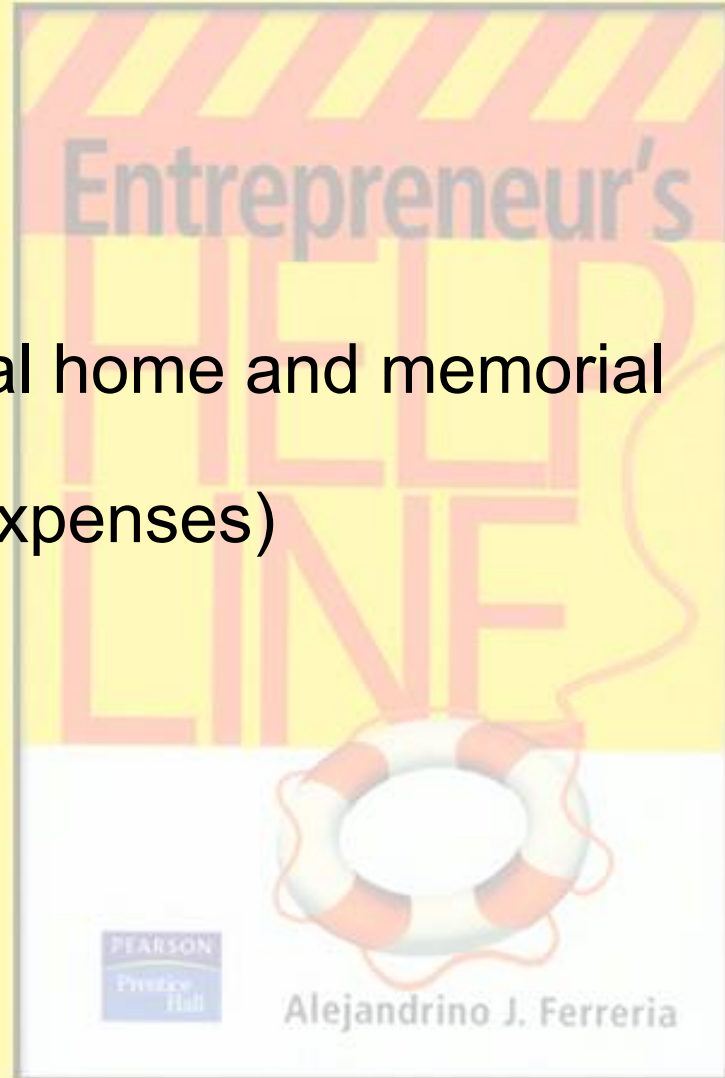
What else did the families who survived more than 2 generations realize?

Understood and managed the difference between individual, family and business funds/assets



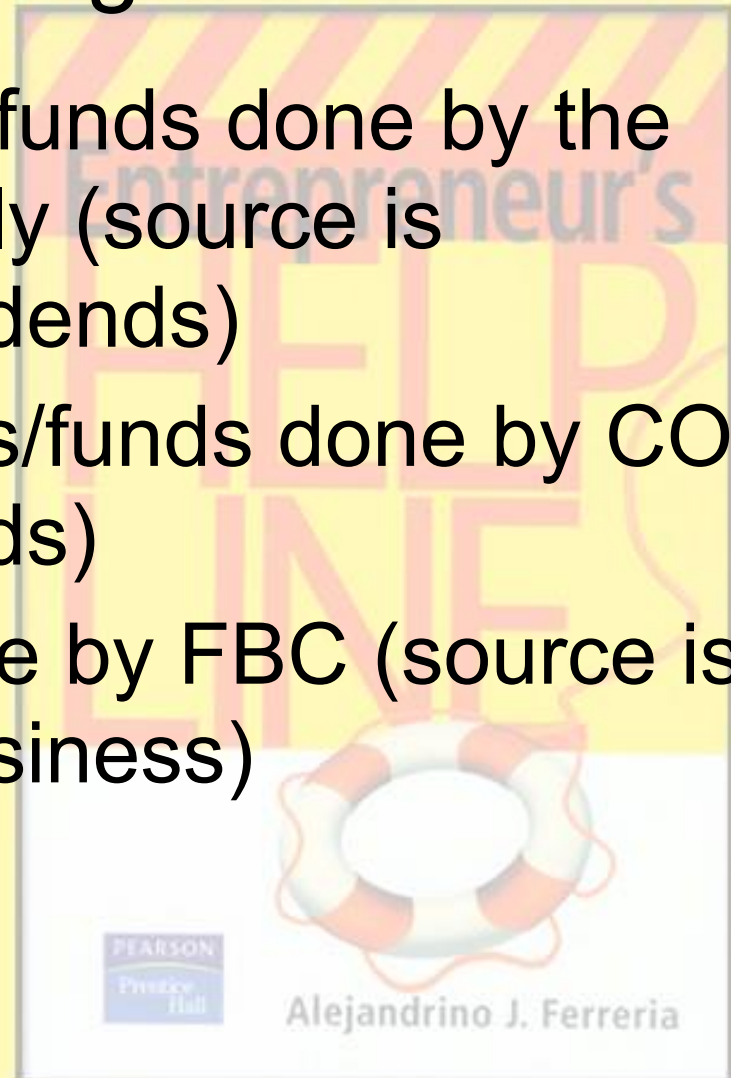
# Funds/Assets Management: the difference

- Individual
  - Individual assets/funds
- Family
  - Non biz assets (ancestral home and memorial park)
  - Family fund (for family expenses)
- Business
  - Business assets/funds
  - Investment funds



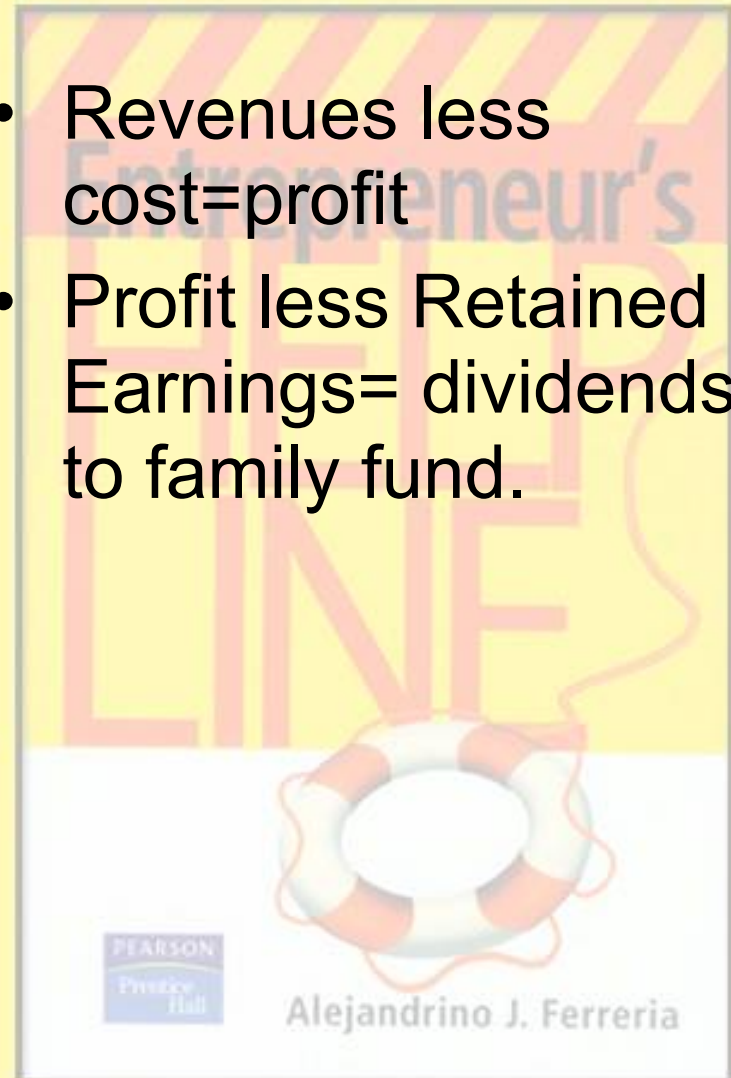
# Funds/Assets Management: Who Manages?

- The individual assets/funds done by the individuals in the family (source is individual income/dividends)
- Family Non-Biz assets/funds done by COE (source is Biz dividends)
- Biz Assets/Funds done by FBC (source is revenues of family business)



# Fund Movement

- Business funds to Family Funds
- Revenues less cost=profit
- Profit less Retained Earnings= dividends to family fund.

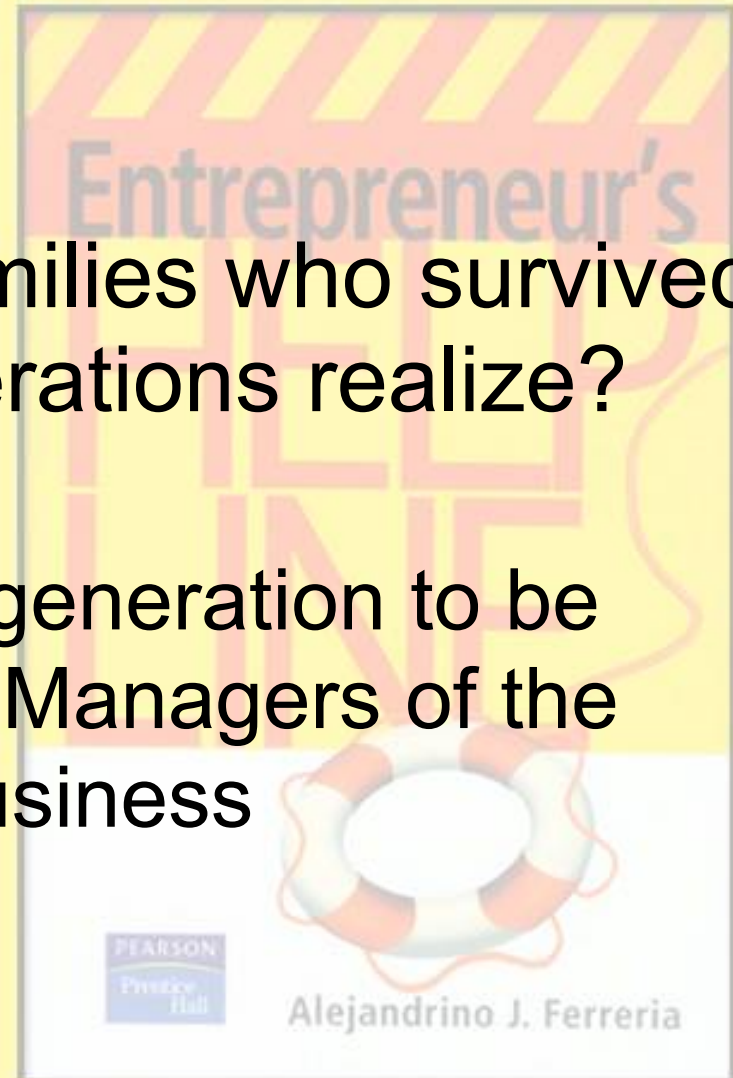


# Fund Movement

- Family Funds to Individual Dividends
- Family funds less family expenses for non business or family assets/expenses (like ancestral home, memorial plot, family vacations) equals funds for individual dividends.

What else did the families who survived more than 2 generations realize?

Prepare the Next generation to be Entrepreneurs not Managers of the family Business



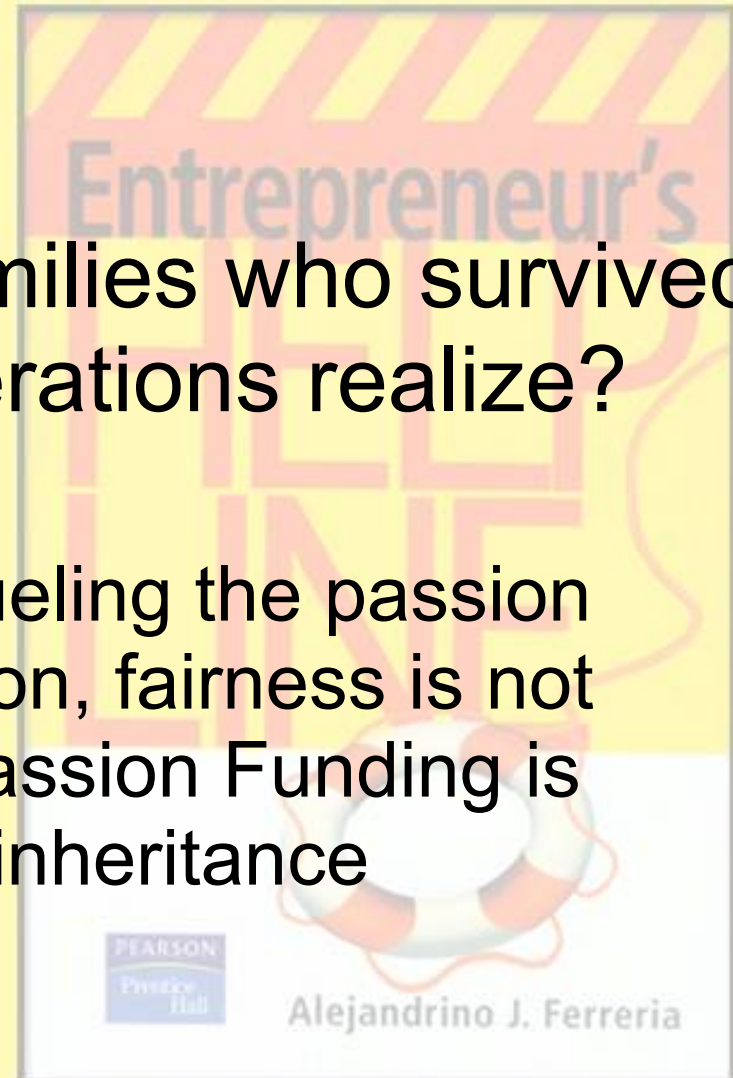
# Preparing the Next Generation

- The old school:
  - Introduce the next generation to the family business as early as they can count.
  - Expect next generation to learn the business and be managers in the future.
- The new school
  - Let the next generation learn entrepreneurship in the context of the family business as early as they can count.
  - Expect the next generation to be responsible owners and/or passionate managers.
  - Expect next generation to be entrepreneurs not managers.



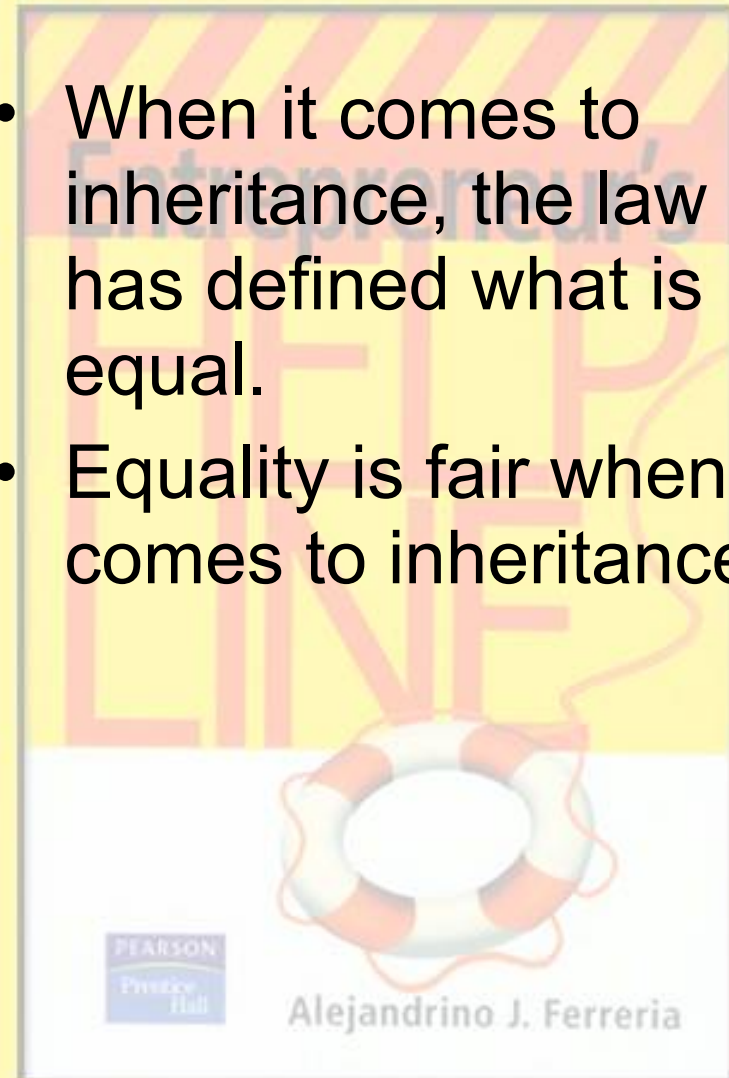
What else did the families who survived more than 2 generations realize?

When it comes to fueling the passion of the next generation, fairness is not same as equal. : Passion Funding is not same as inheritance



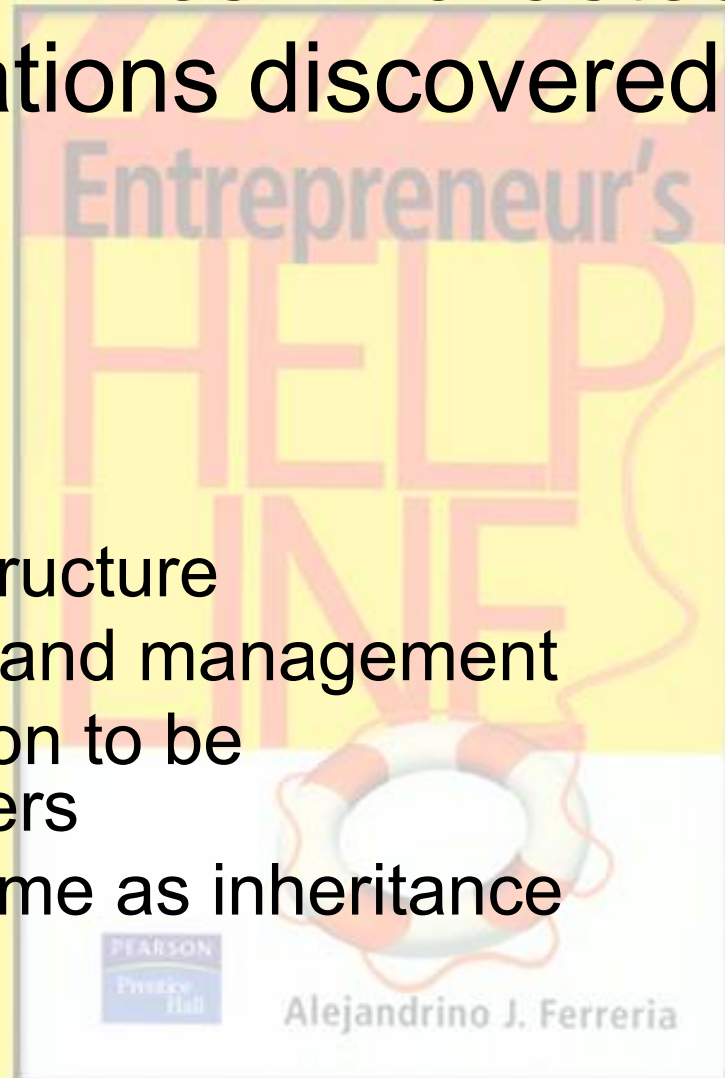
# Fairness and Equality is the Givers' decision

- Fairness is not always equal when it comes to fueling the next generations' passion
- What is important is fueling the passion to blossom to a VERY sustainable contributor to the Family Fund.
- When it comes to inheritance, the law has defined what is equal.
- Equality is fair when it comes to inheritance.



# The seven things families who lasted more than 2 generations discovered.

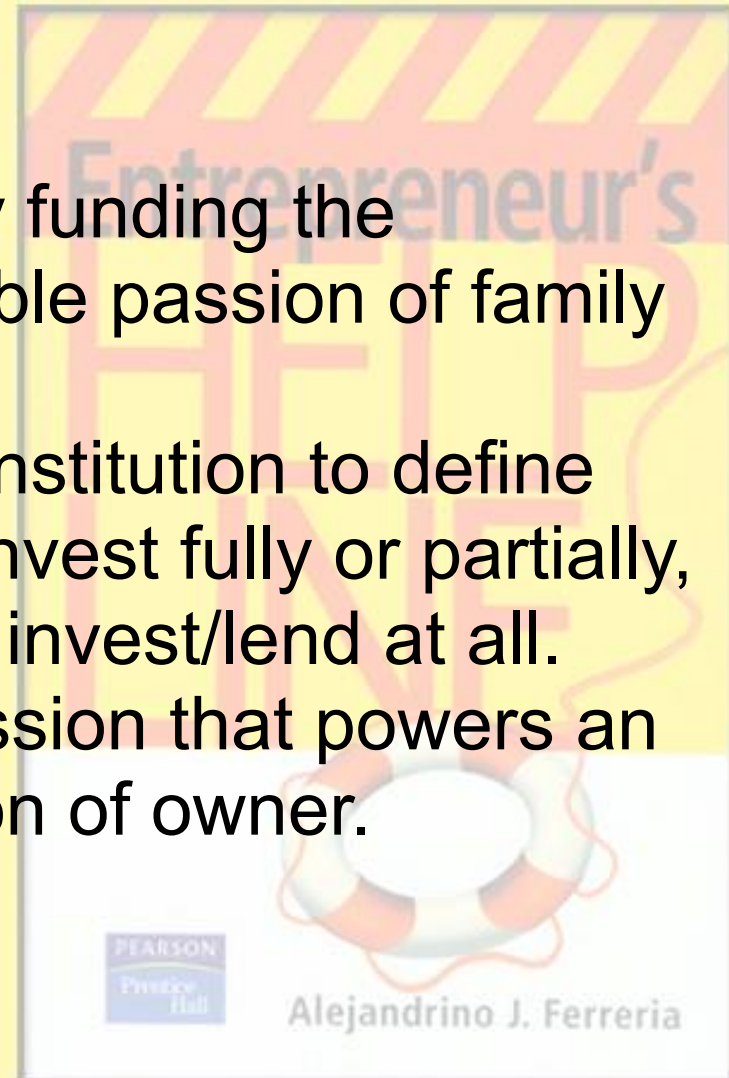
- The power of the fraction
- The three circles
- The rules of investments
- Family governance and structure
- Fund/asset differentiation and management
- Prepare the next generation to be entrepreneurs not managers
- Passion Funding is not same as inheritance



# How did Enterprising Families apply the rules?

- Power of Fractions

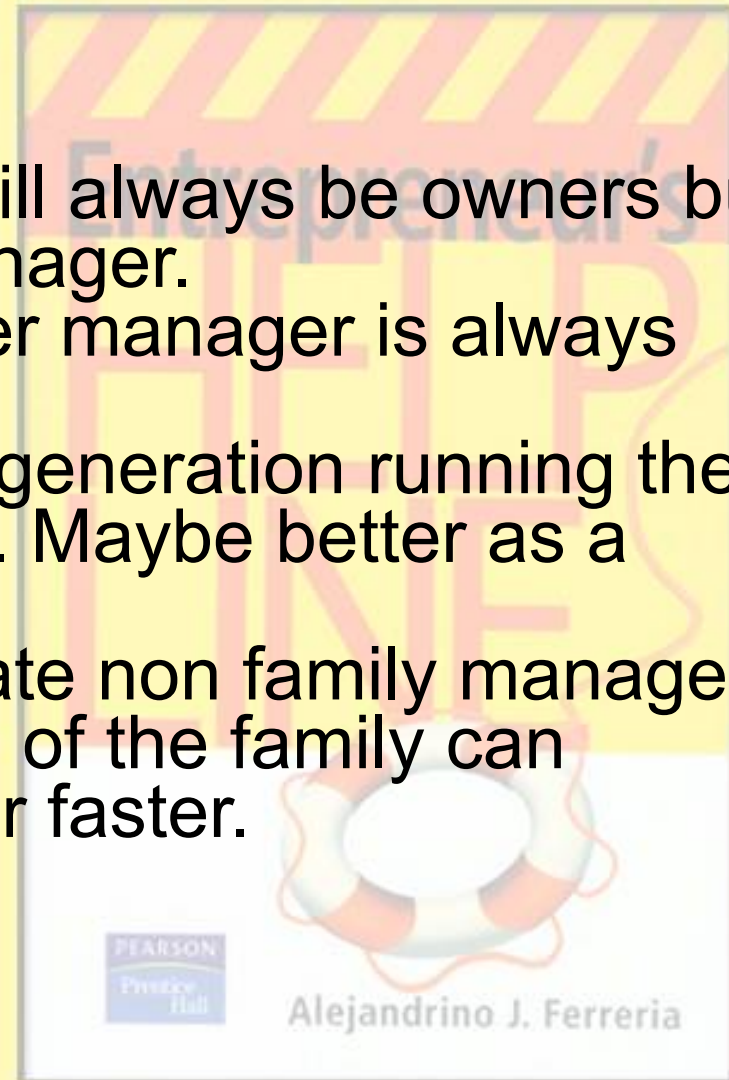
- Increase numerator by funding the economically sustainable passion of family members.
- Discover the family constitution to define where the family can invest fully or partially, lend or not lend or not invest/lend at all.
- It is the manager's passion that powers an enterprise...not passion of owner.



# How did Enterprising Families apply the rules?

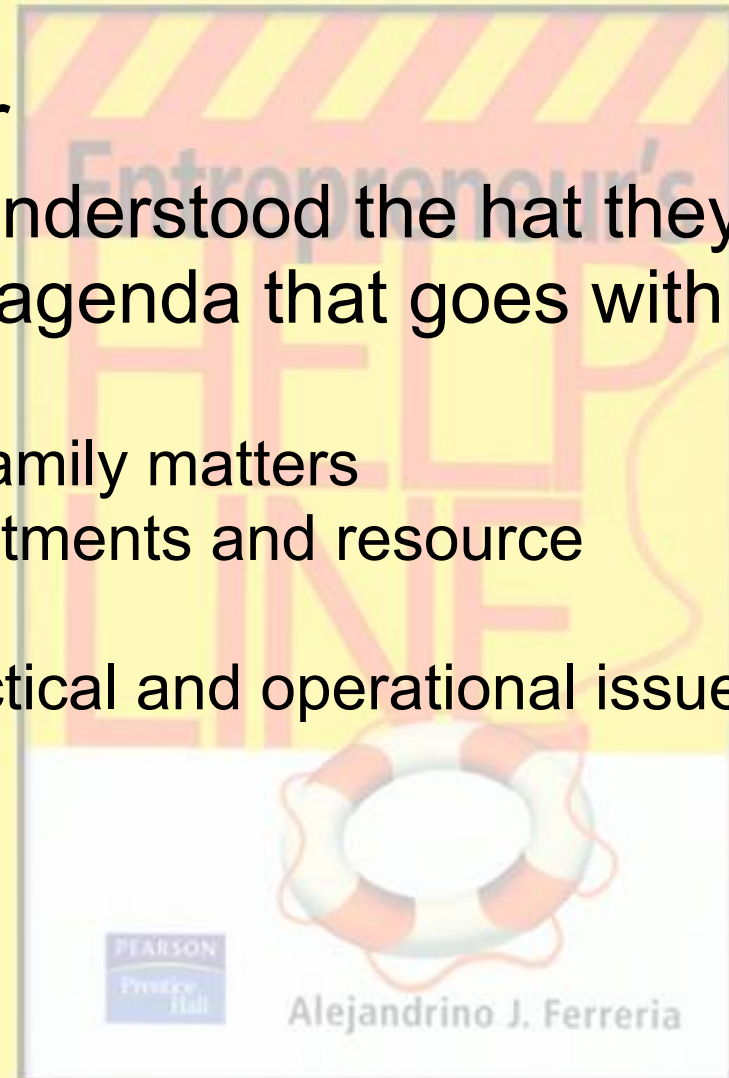
- Power of Fractions

- The next generation will always be owners but no necessarily the manager.
- But a passionate owner manager is always better.
- An impassionate next generation running the enterprise is the worst. Maybe better as a responsible owner.
- A competent, passionate non family manager who shares the values of the family can increase the numerator faster.



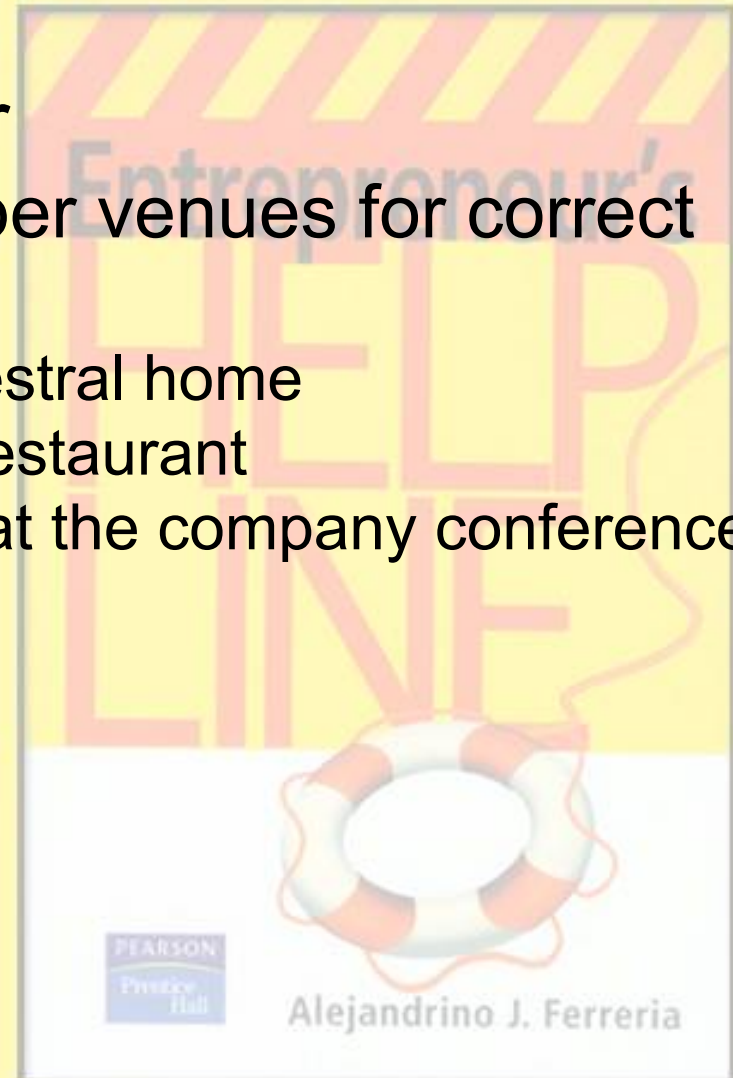
# How did Enterprising Families apply the rules?

- The 3 circles of power
  - Each family member understood the hat they were wearing and the agenda that goes with the hat.
    - Family circle: only for family matters
    - Ownership circle: investments and resource allocation
    - Management circle: tactical and operational issues



# How did Enterprising Families apply the rules?

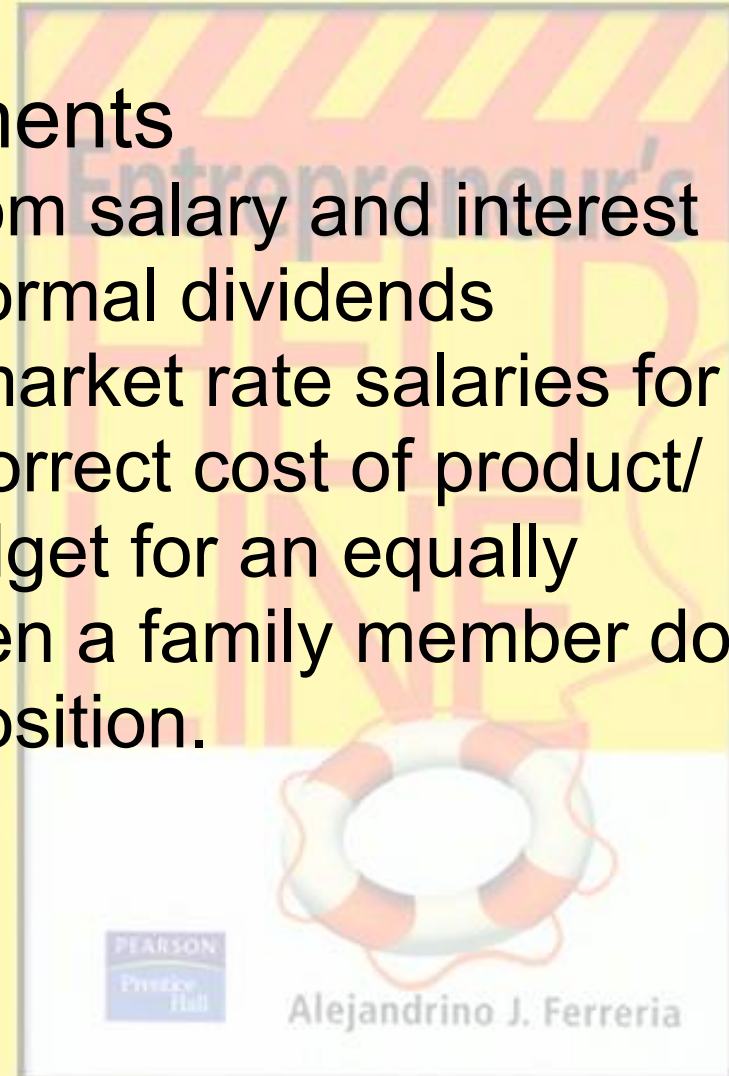
- The 3 circles of power
  - Have meetings at proper venues for correct home court advantage
    - Family meeting at ancestral home
    - Owners' meeting in a restaurant
    - Management meeting at the company conference room





# How did Enterprising Families apply the rules?

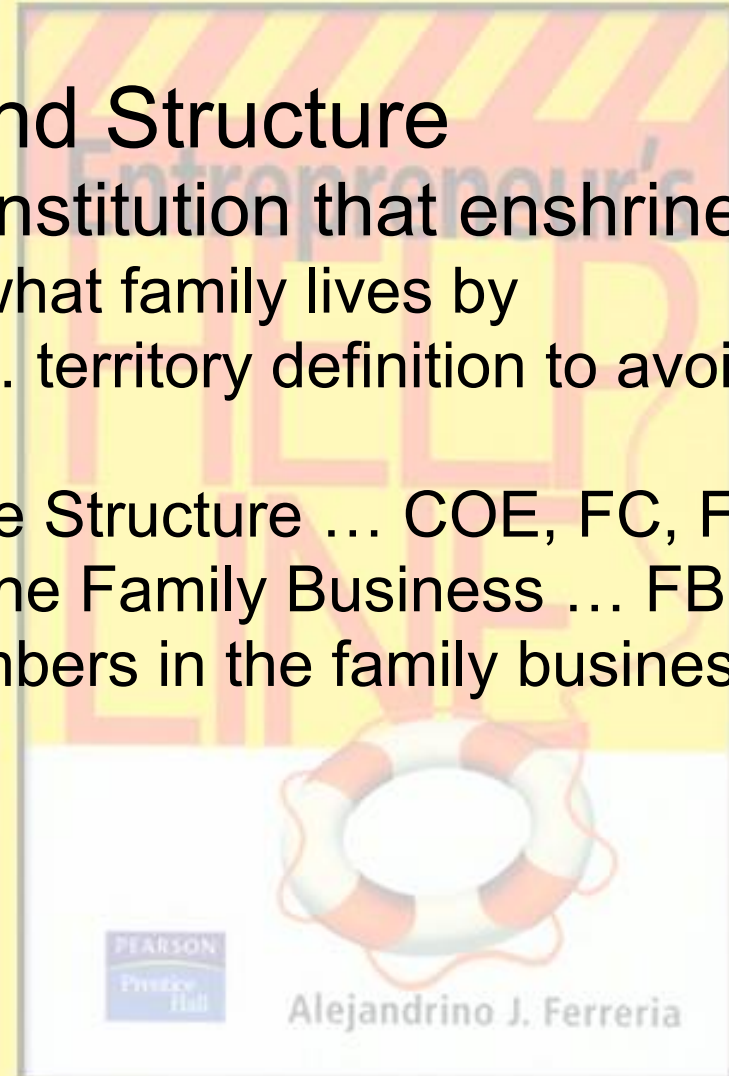
- The 3 rules of investments
  - Separate dividends from salary and interest
  - Identify formal and informal dividends
  - Pay family members market rate salaries for work done...to have correct cost of product/service and salary budget for an equally competent person when a family member does not want to take the position.





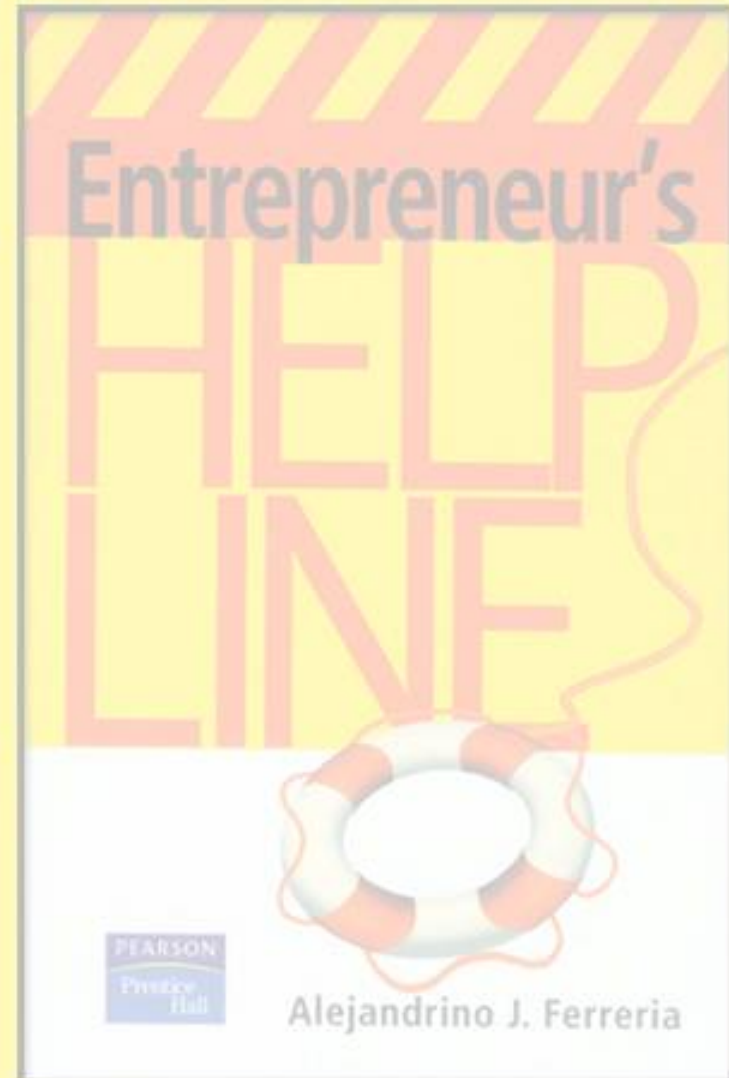
# How did Enterprising Families apply the rules?

- Family Governance and Structure
  - Developed a family constitution that enshrined
    - The Family Values ... what family lives by
    - The Family Business ... territory definition to avoid conflict of interest.
    - The Family Governance Structure ... COE, FC, FA
    - The Relationship with the Family Business ... FBC
    - Role of non family members in the family business



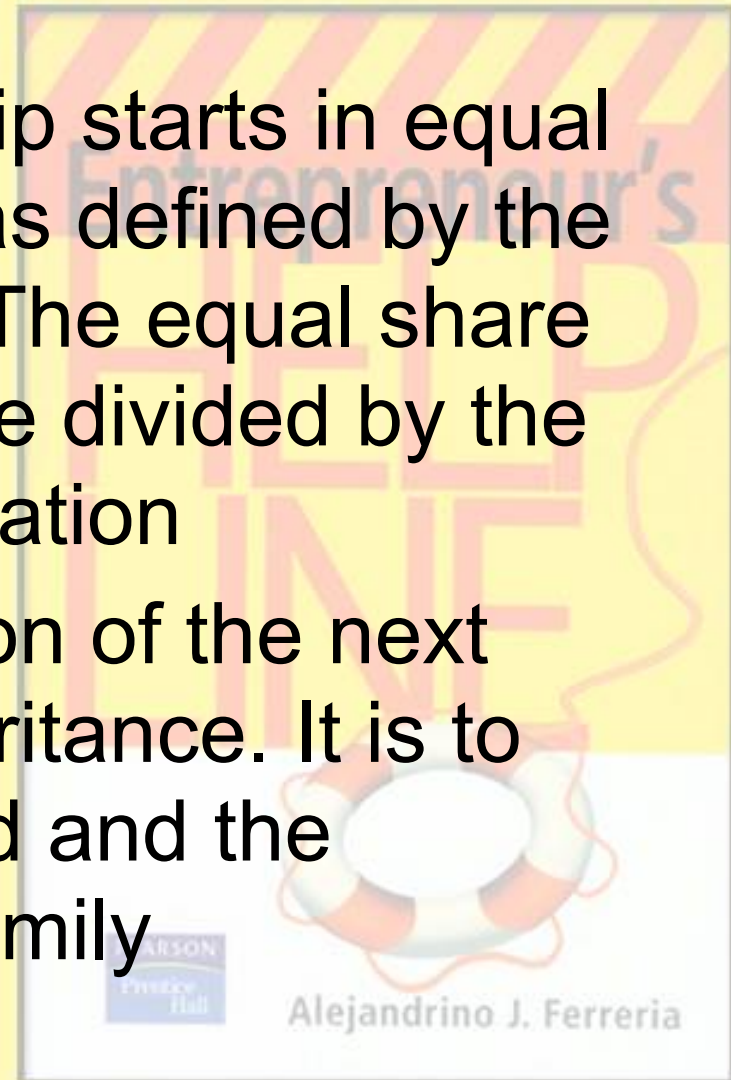
# How did Enterprising Families apply the rules?

- Fund/asset difference and management
  - FBC determines the dividends for the family as a function of family biz net income
  - COE determines the amount of funds to be retained for family expenses and individual dividends



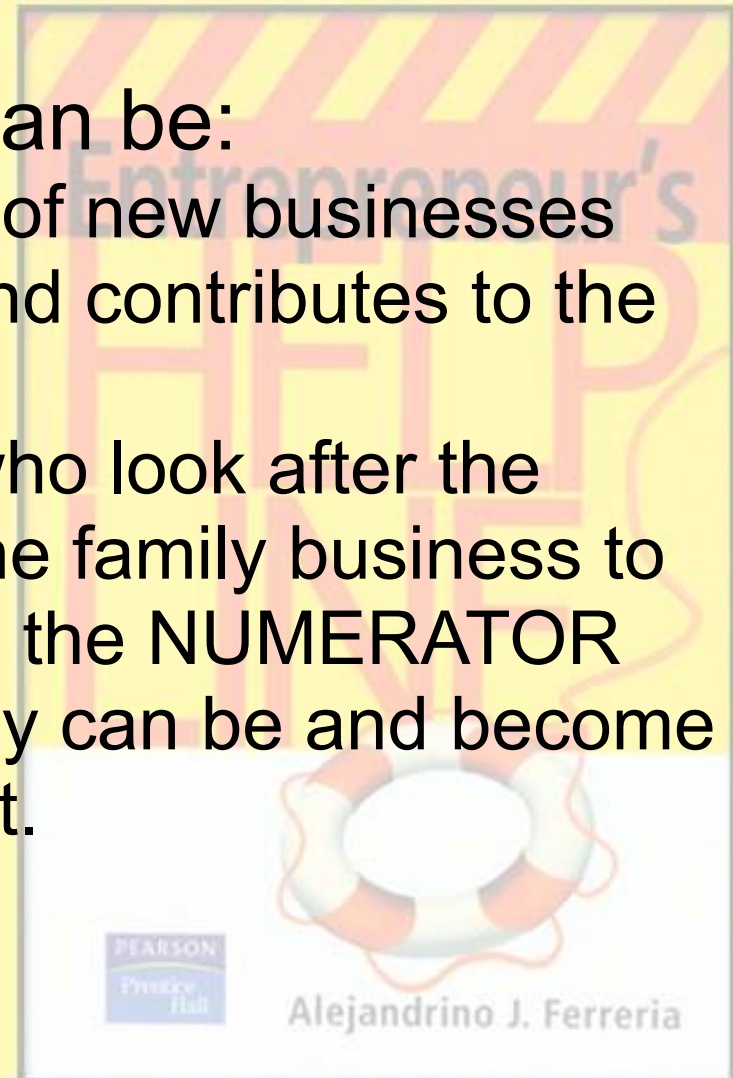
# Dealing with the next generation

- Responsible ownership starts in equal ownership of shares as defined by the founding generation. The equal share holdings will always be divided by the count of the 2<sup>nd</sup> generation
- the fund for the passion of the next generation is not inheritance. It is to sustain the family fund and the togetherness of the family



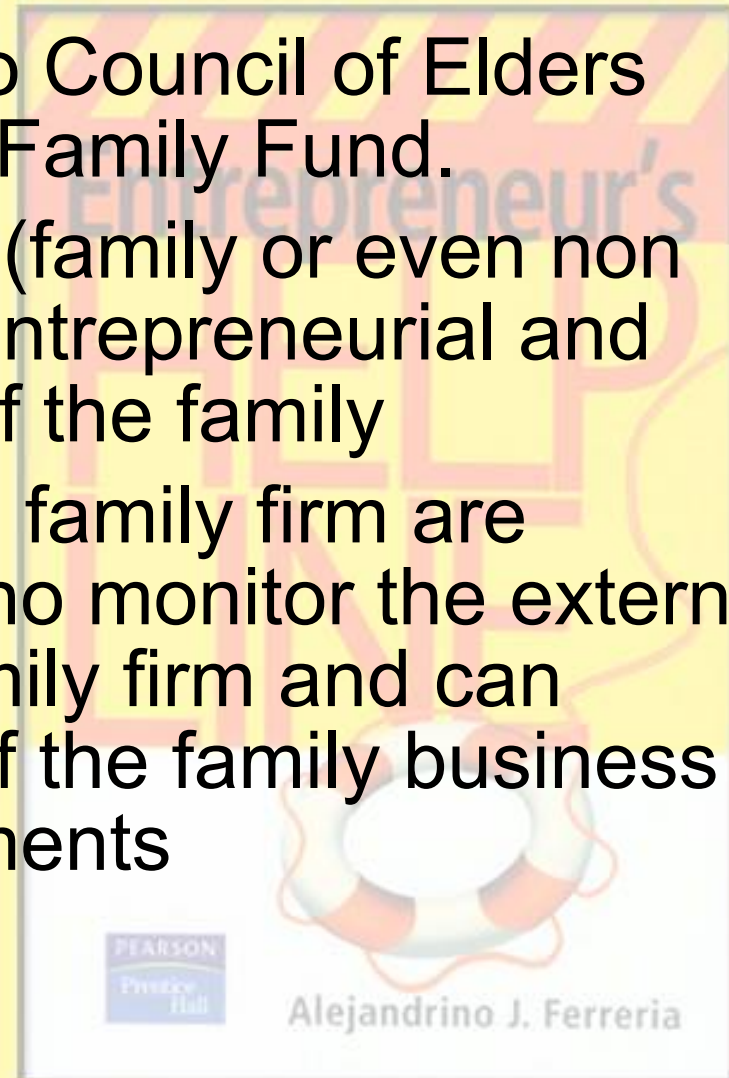
# Next generation Entrepreneurs

- The next generation can be:
  - Passionate managers of new businesses owned by the family and contributes to the NUMERATOR
  - Responsible owners who look after the strategic direction of the family business to ensure the growth ofm the NUMERATOR
  - Becoming the best they can be and become financially independent.



# New Roles

- The Elders graduate to Council of Elders manage the Clan and Family Fund.
- Passionate Managers (family or even non family members) are entrepreneurial and grow the enterprises of the family
- All shareholders of the family firm are responsible owners who monitor the external environment of the family firm and can understand the logic of the family business and its financial statements



**Don't be a Family Enterprise**

**Be an Enterprising Family**

**And happy Family Relationships  
Last Forever**



# Last Message

- You can resign or get fired from the Family Enterprise.
- You can sell your shares of the Family Enterprise.
- But you can not resign, get fired or sell out as a family member.

