

A dark blue world map is centered in the background of the slide. The map shows the continents in a slightly lighter shade of blue against the darker background.

BEST PRACTICES

GOVERNANCE AND GENERATIONAL TRANSITION PROCESSES

for FAMILY BUSINESS ENTERPRISES

Zurich, Switzerland . May 24, 2016



Dr. Kurt Moosmann
Owner



James C. Bly, Jr.
Founder, Chairman & CEO



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Zurich, Switzerland



HWSC

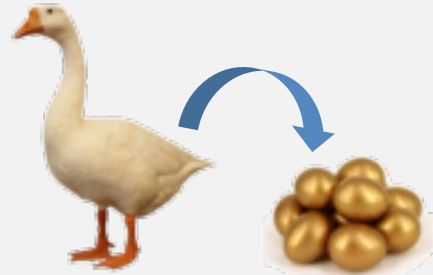
Pittsburgh, Pennsylvania, USA



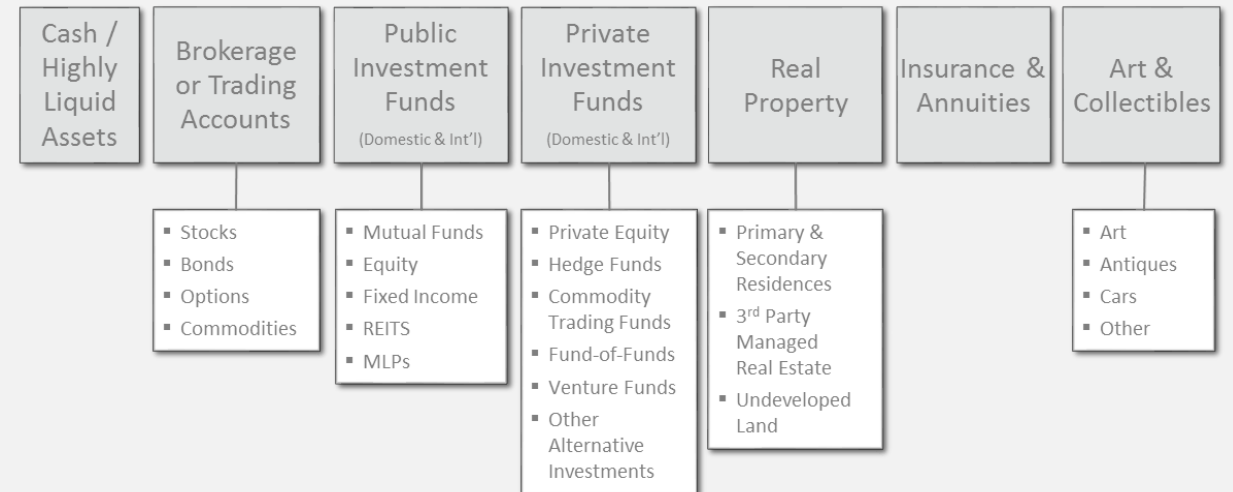
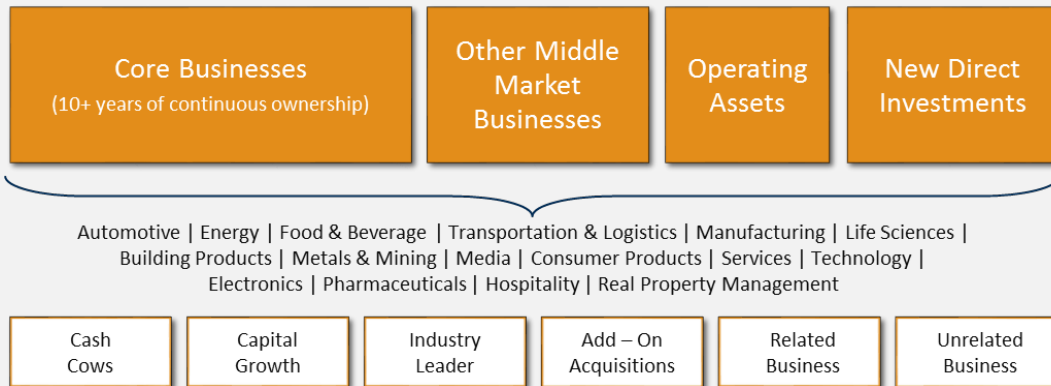
**“SHIRT SLEEVES TO SHIRT SLEEVES
IN THREE GENERATIONS”**

TOTAL FAMILY WEALTH

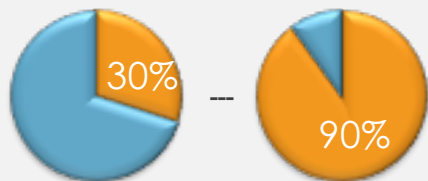
Operating Businesses



Other Investments

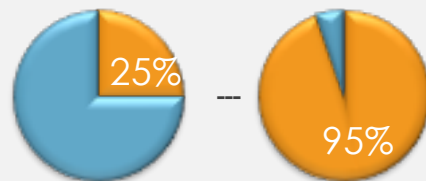


Family Net Worth



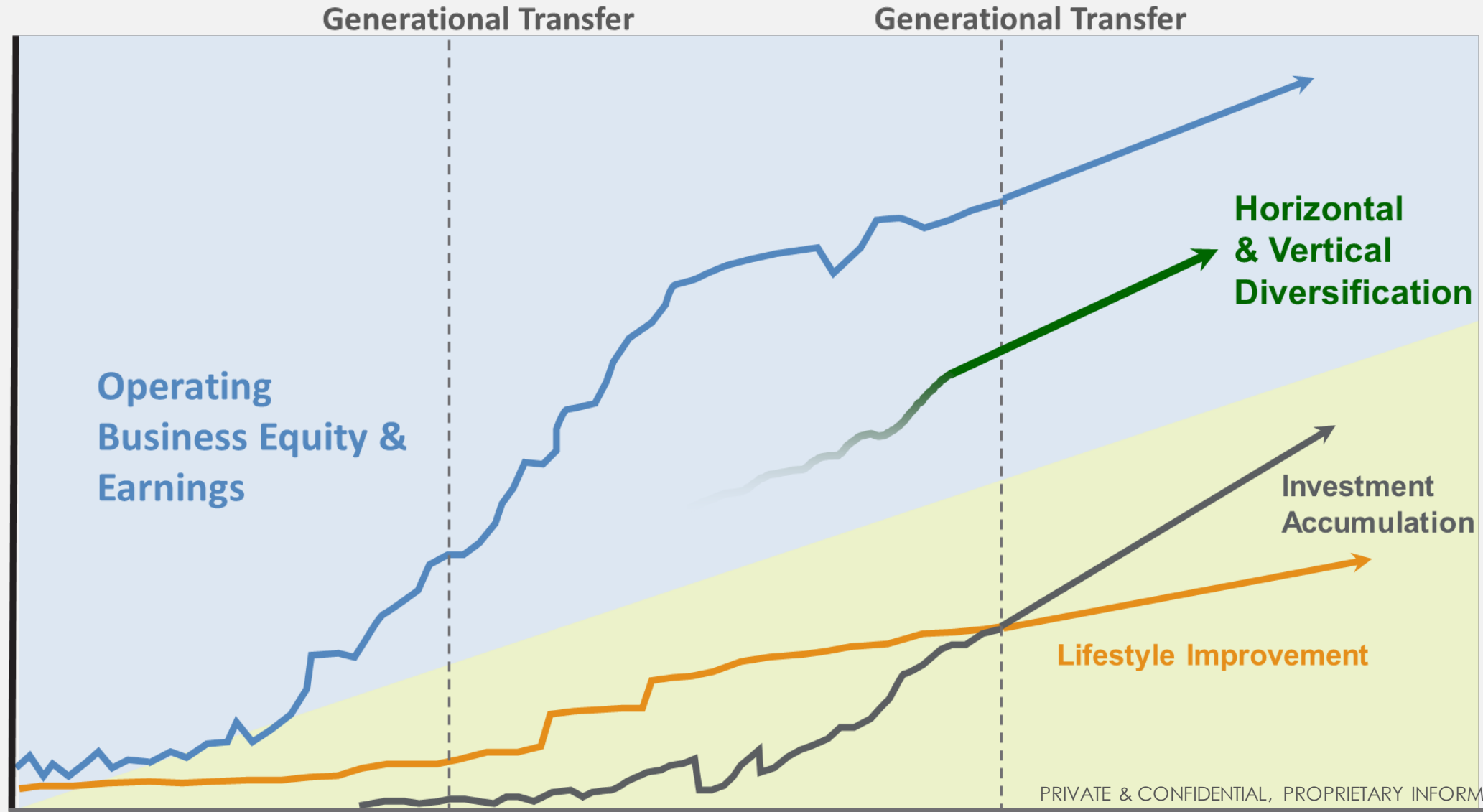
Business Equity Value = 30%-to-90% of Personal Net Worth

Family Income

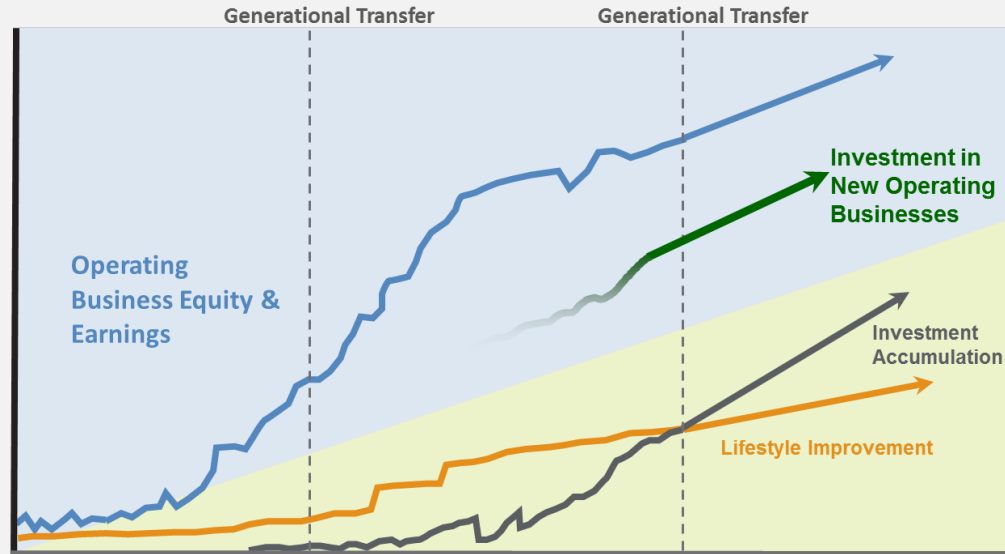


Business Generates 25%-to-95% of Annual Income

CONCEPTUAL EVOLUTION OF A MULTI-GENERATIONAL FAMILY BUSINESS ENTERPRISE (FBE)



ATTRACTIVE THEORY = DESIRE TO CONTINUE



Plan to Keep Ownership in the Family for the Next Generation



Source: Mass Mutual survey of 3,000 family business CEO's

A CLOSER LOOK AT GENERATIONAL TRANSFER STATISTICS

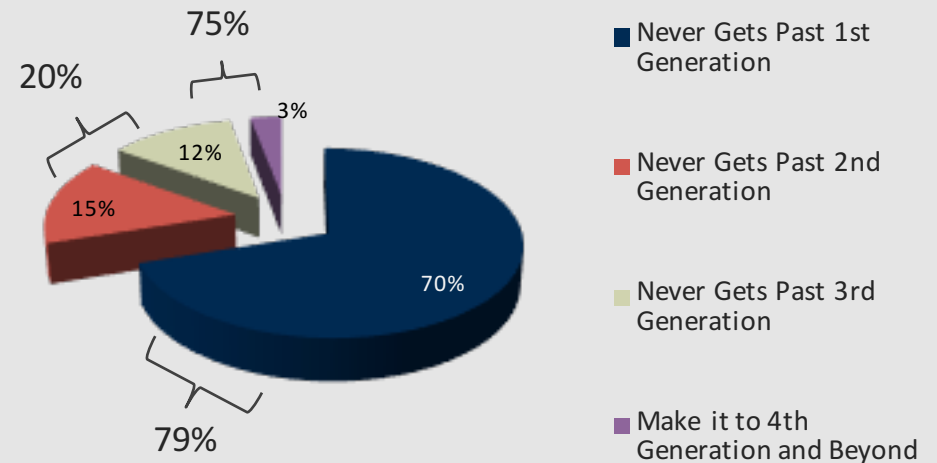
Plan to Keep Ownership in the Family for the Next Generation



Source: Mass Mutual survey of 3,000 family business CEO's

On average, 50% of Generational Transition Plans Fail

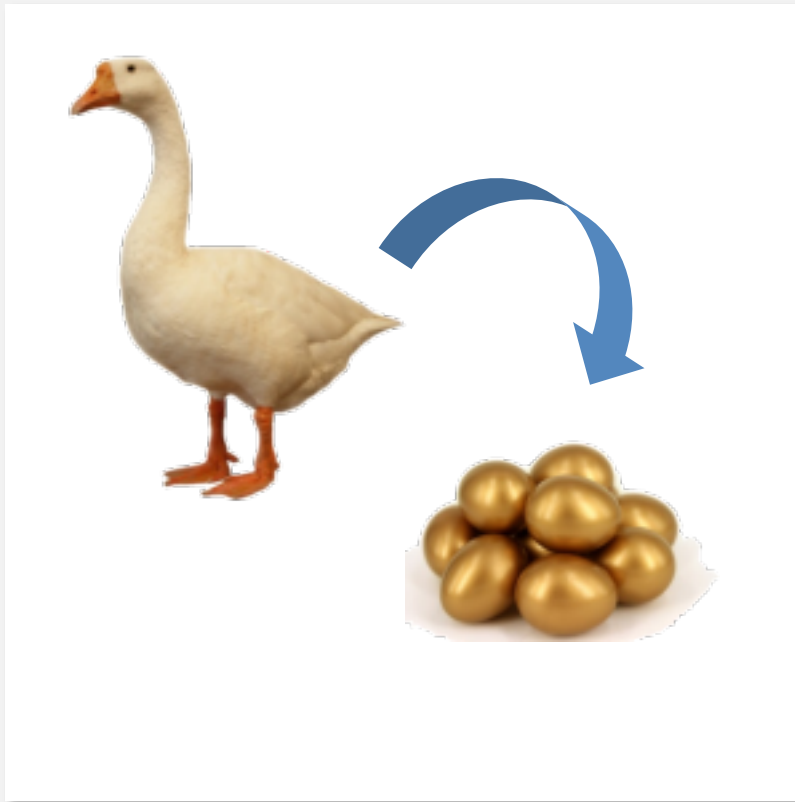
U.S. Generational Transfer Statistics





WHY THE HIGH FAILURE RATE FOR GENERATIONAL TRANSFERS?

GENERATIONAL TRANSITION INCREASES RISK



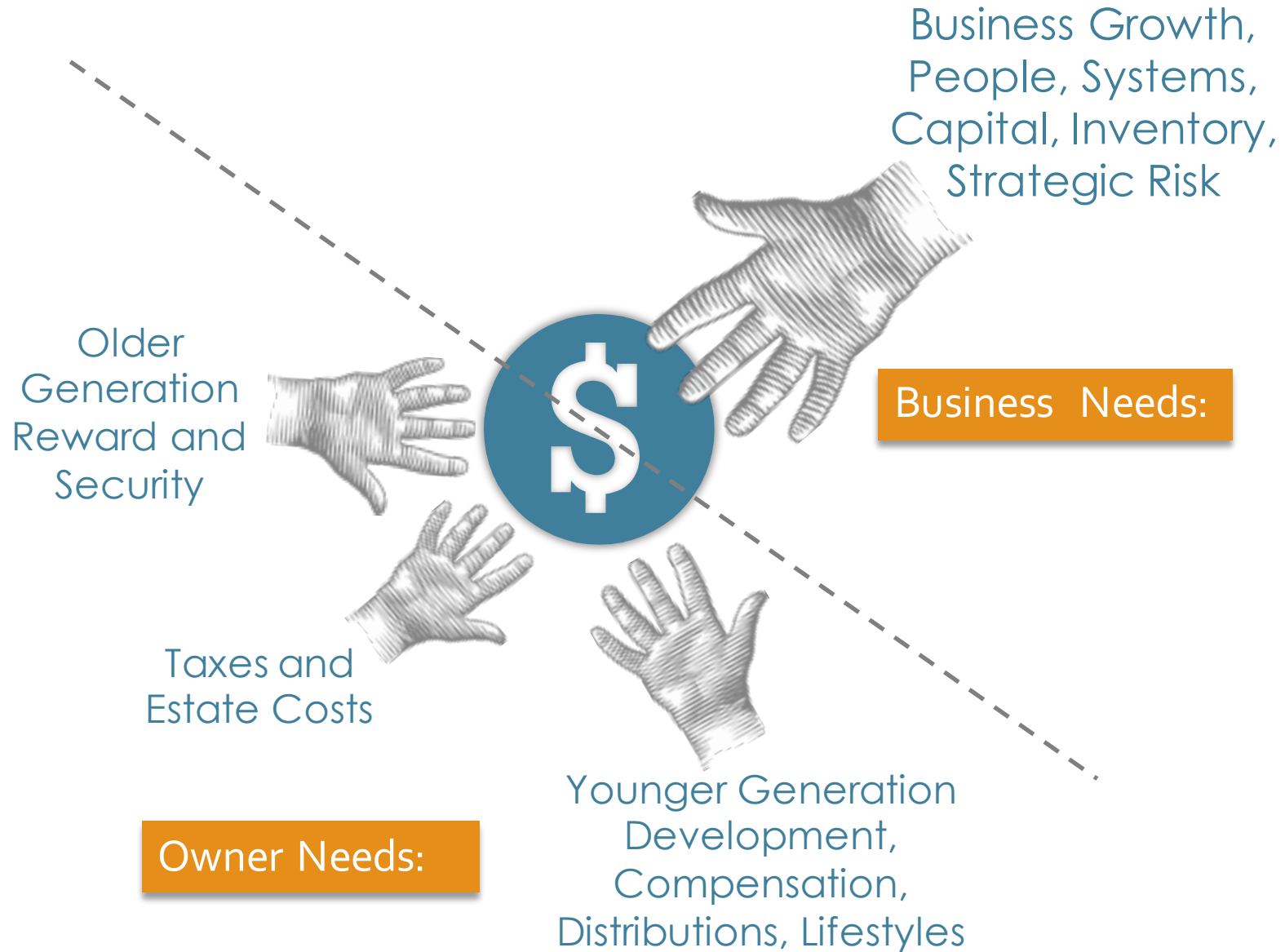
Is the Goose
at Risk?



FIVE PRINCIPAL CAUSES FOR UNSUCCESSFUL GENERATIONAL TRANSITIONS

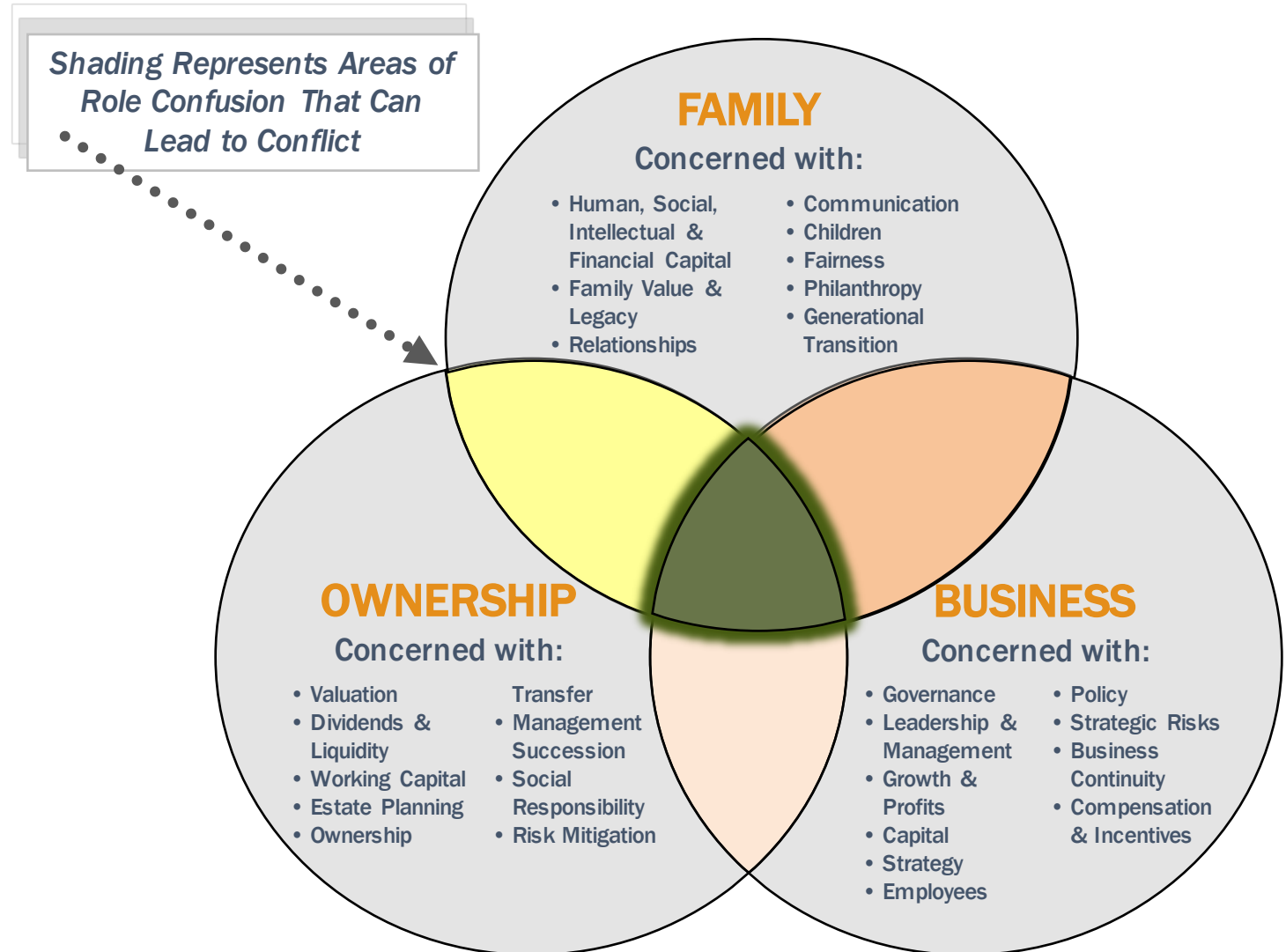
1. Uncoordinated Financial Demands on Business Profits
2. Unclear Boundaries
3. Lack of Non-Financial Capital Development
4. Inadequate Operating Business Oversight
5. The Elephant in the Room – Internal & External Risks

1. Uncoordinated Financial Demands on Business Profits



2. Unclear Boundaries

BOUNDARIES BLUR WHEN FAMILY MEMBERS SERVE IN DIFFERENT ROLES



3. Lack of Non-Financial Capital Development

SUCCESSFUL GENERATIONAL TRANSITIONS REQUIRE A BROADER UNDERSTANDING OF CAPITAL

Sustainable Wealth Preservation lies in accepting the correlation between the growth of a family's human, intellectual, and social capital and its financial capital:

HUMAN CAPITAL

The knowledge, talents, values, passions and aspirations of an individual family member

INTELLECTUAL CAPITAL

Alludes to the individual's learning aptitude and the family's capabilities to communicate, resolve conflicts and make joint decisions

SOCIAL CAPITAL

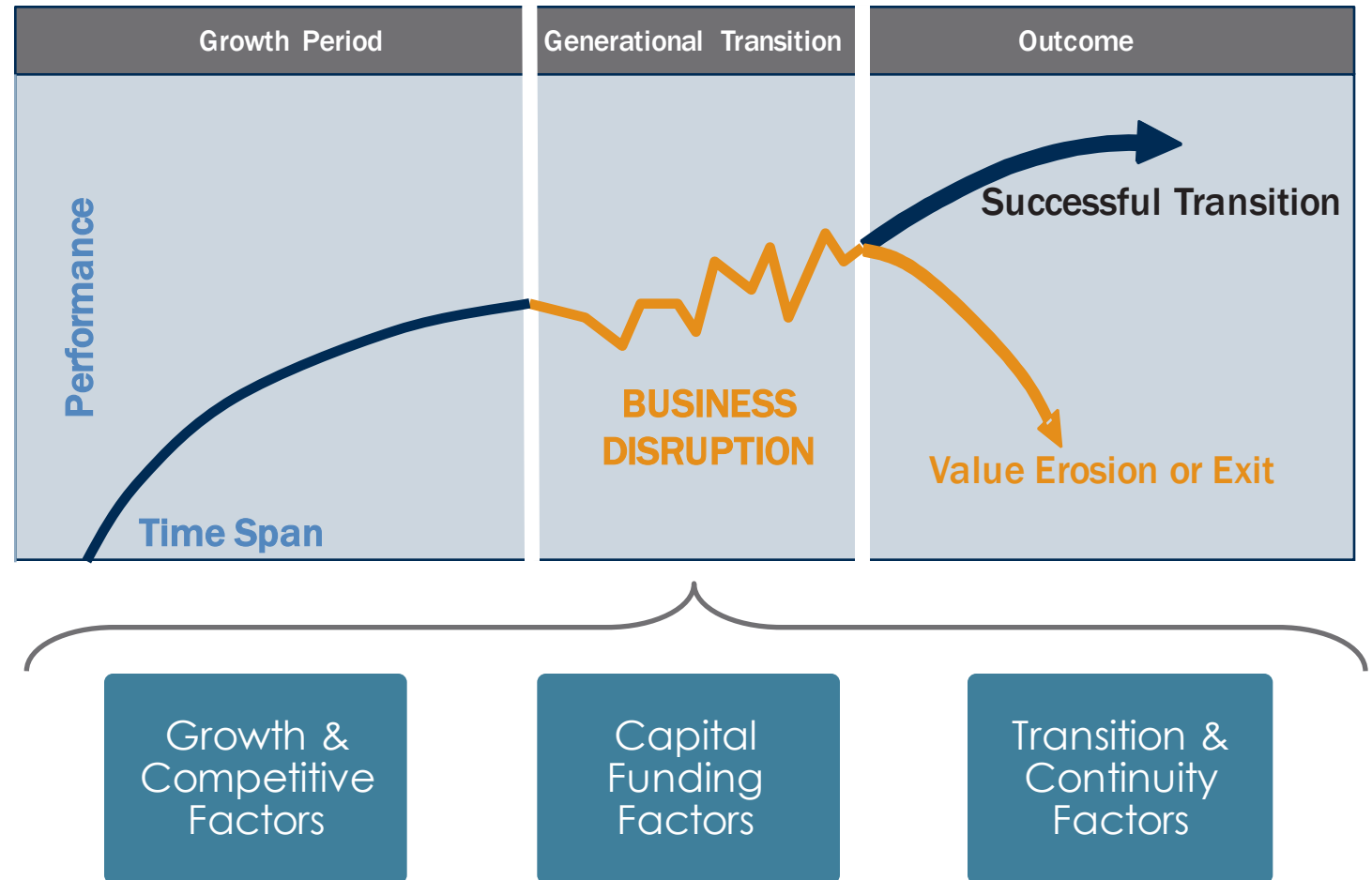
The networks of relationships among people who live and work in a particular society, enabling that society to function effectively

Consequently, understanding and allocating your family's human and intellectual capital will allow you to sustainably enhance the family's financial capital:

Family Wealth = Human + Intellectual + Social Capital (+ Financial Capital)

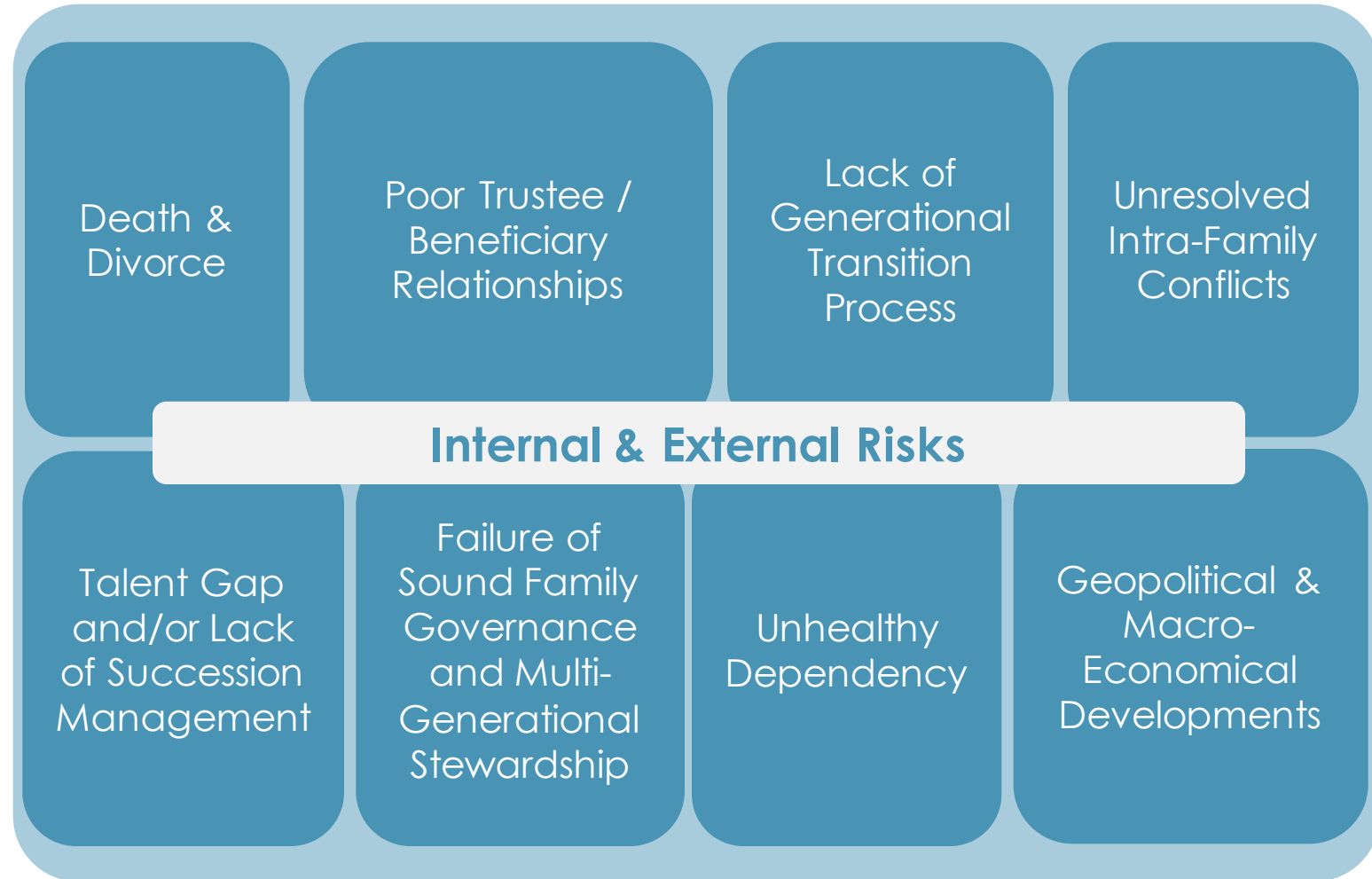
4. Inadequate Operating Business Oversight

GENERATIONAL TRANSITION OFTEN INCREASES BUSINESS DISRUPTION RISK



5. The Elephant in the Room

Successful Generational Transition for Entrepreneurial Families requires a Generational Transition Process that takes into account factors other than business profits, which can negatively impact the successful transfer of a business from one generation to the next:





HOW DO SUCCESSFUL FAMILIES BEAT THE ODDS?

BEST PRACTICES: Family & Business Governance Systems

FUNDAMENTALS OF FAMILY GOVERNANCE

PRINCIPLES

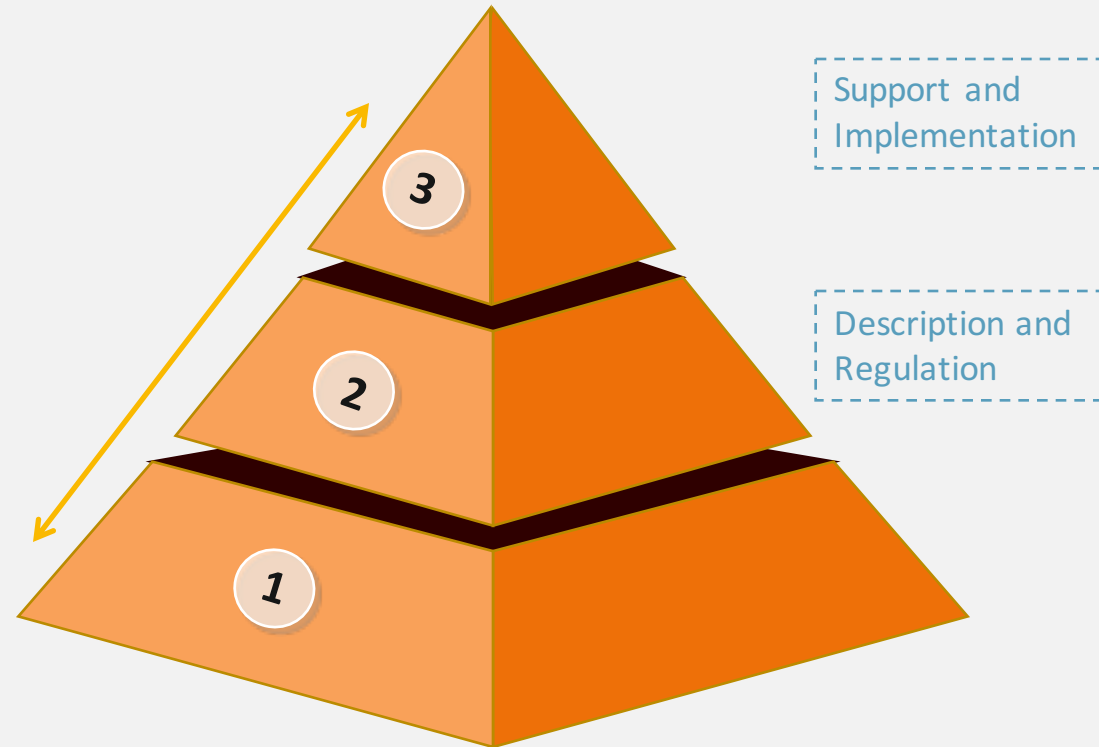
- 1 Family Vision
Mission
Values

POLICIES

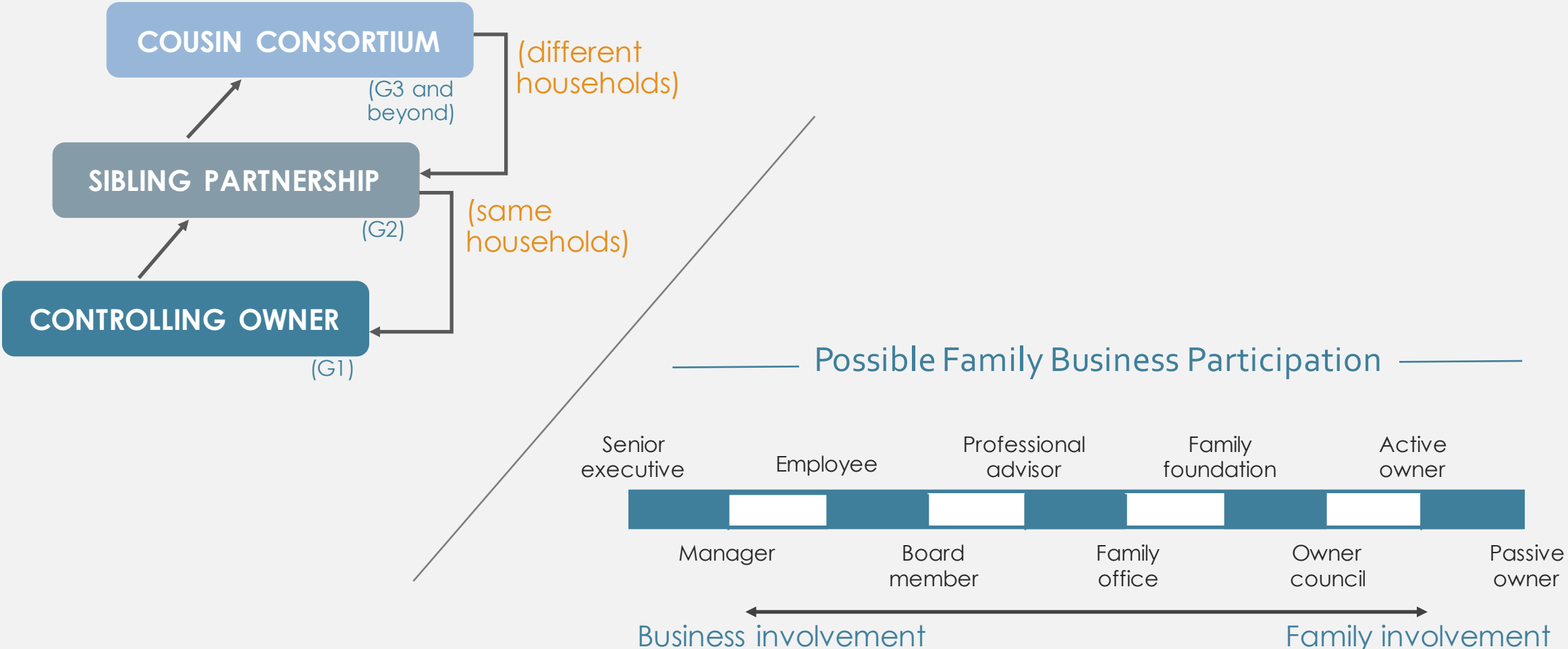
- 2 Family Constitution / Charter
Rules of Communications & Decision Making
Rules for Family Business
Expectation for Family Participation

PRACTICES

- 3 Family Meetings & Committees
Family Office / Co-Ordinated Advisors
Family Wealth Education Programs
Charitable Giving

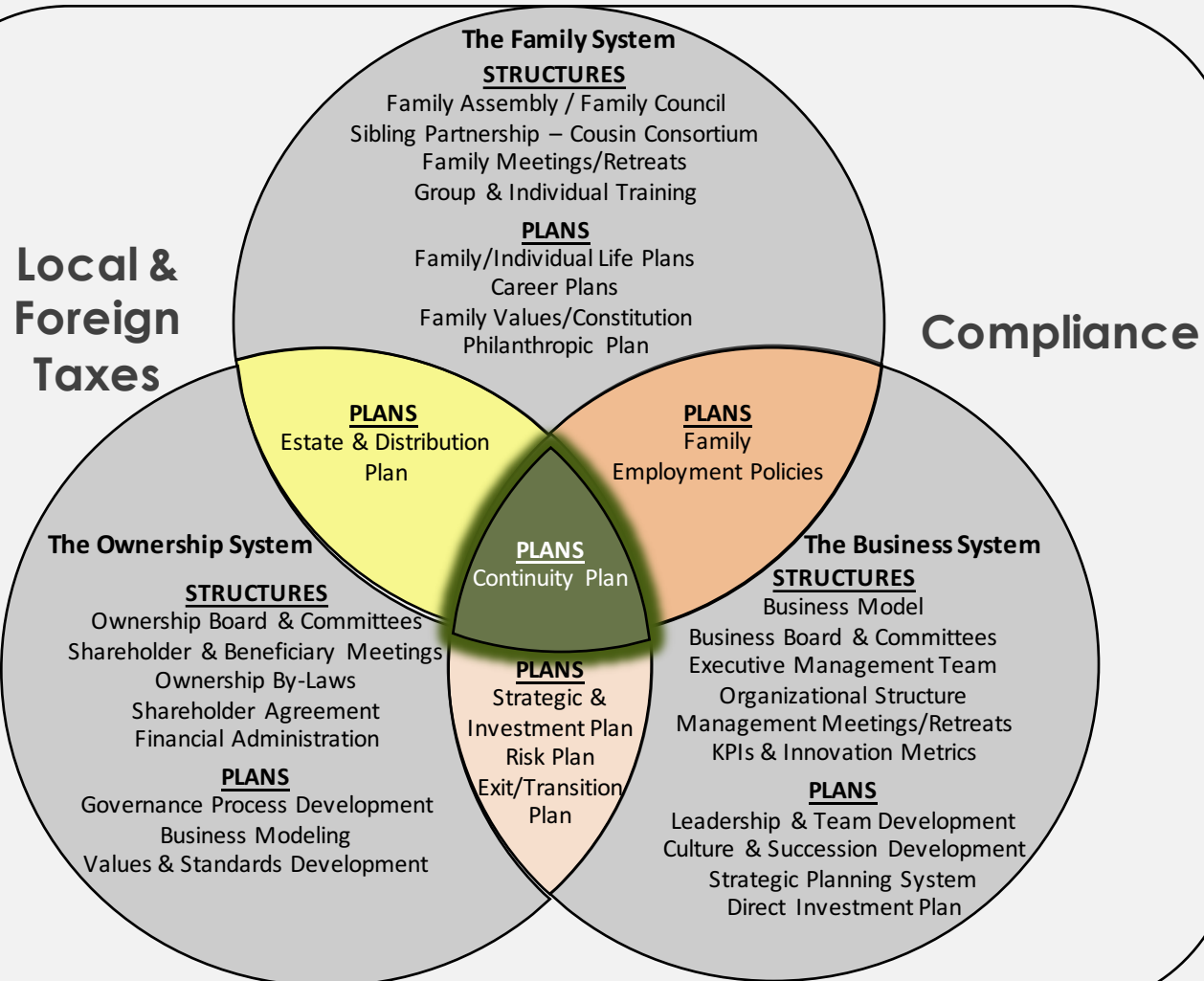


GOVERNANCE SYSTEMS & FAMILY INVOLVEMENT CHANGE



EXAMPLE OF GOVERNANCE SYSTEM STRUCTURES & PLANS

Geopolitical & Global Macro Mega-Trends & Risks



OWNERSHIP

Concerned with:

- Valuation
- Dividends & Liquidity
- Working Capital
- Estate Planning
- Ownership
- Transfer
- Management Succession
- Social Responsibility
- Risk Mitigation

FAMILY

Concerned with:

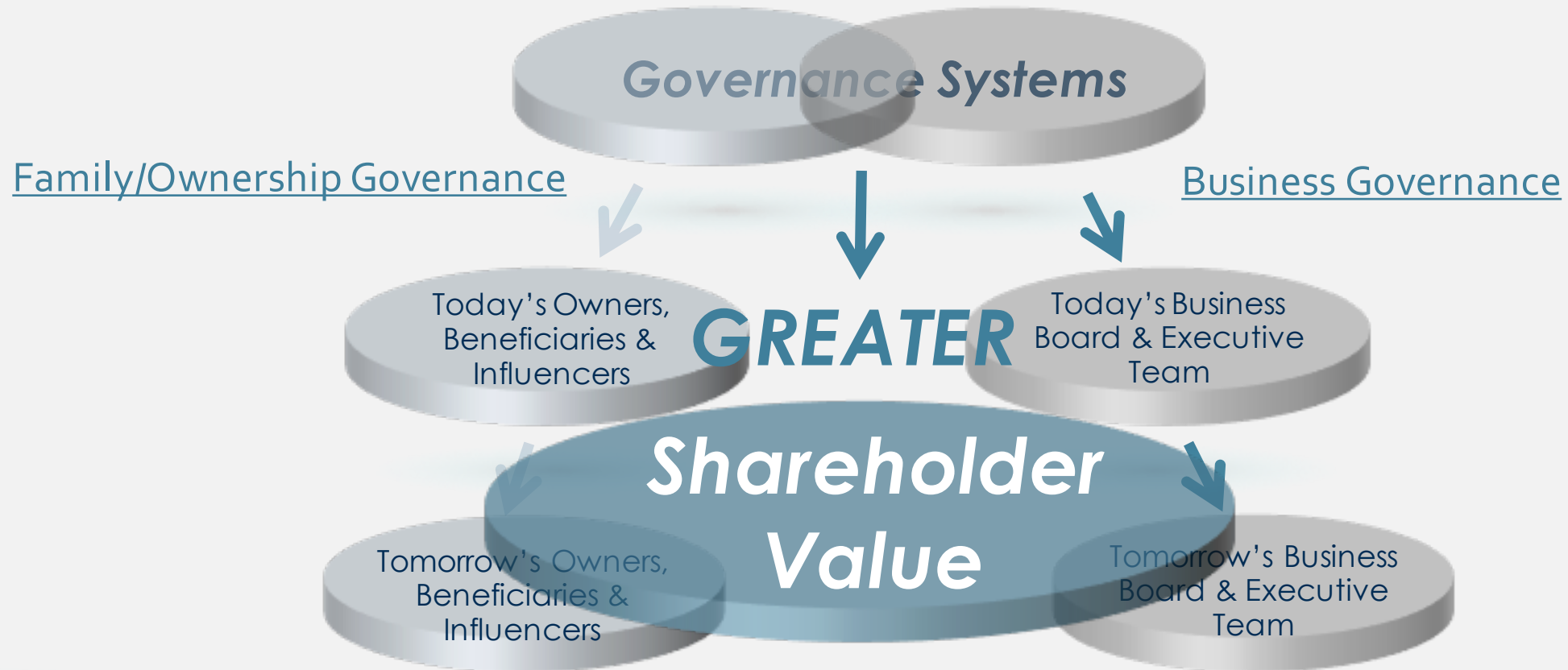
- Human, Social, Intellectual & Financial Capital
- Family Value & Legacy
- Relationships
- Communication
- Children
- Fairness
- Philanthropy
- Generational Transition

BUSINESS

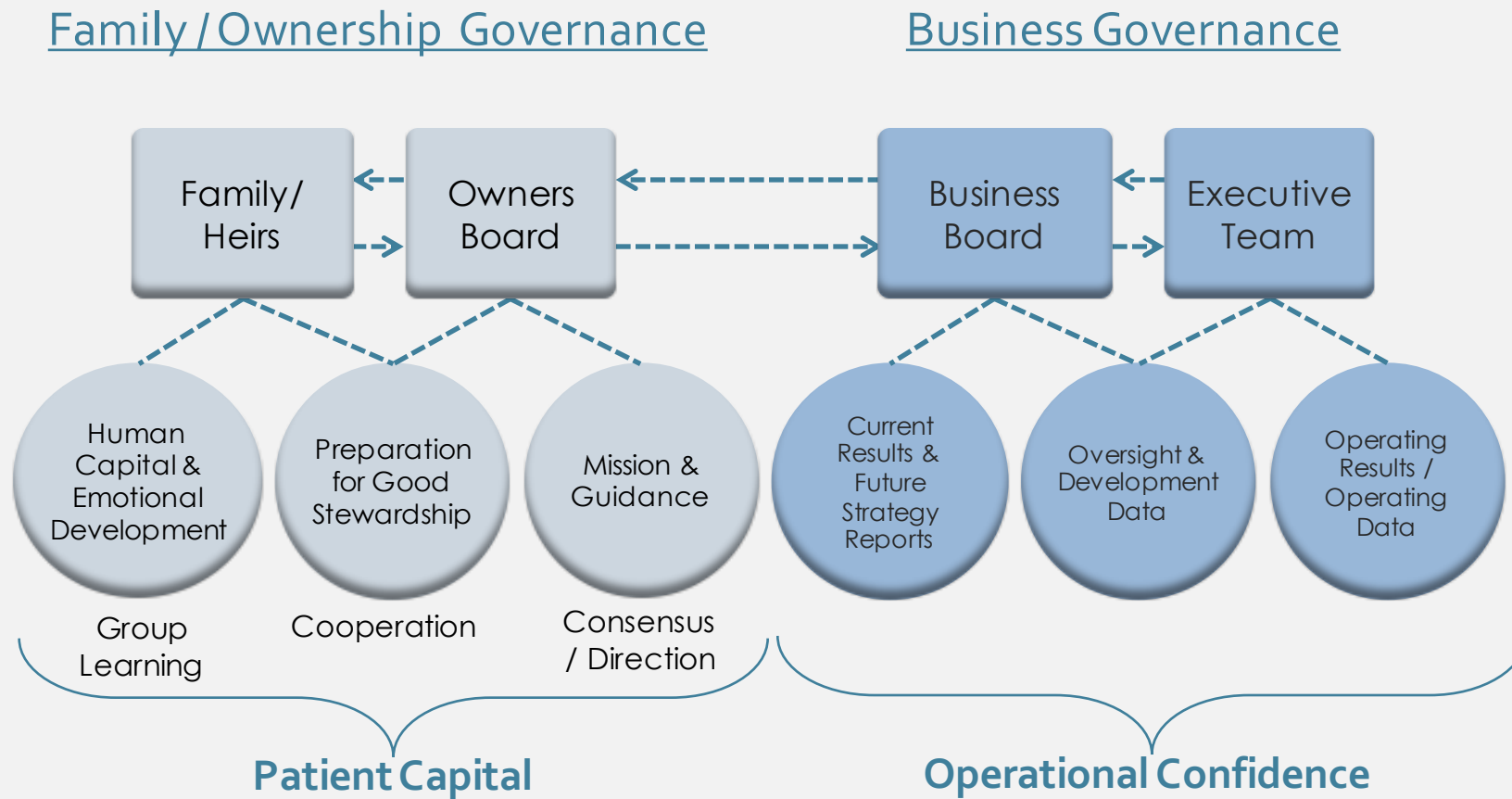
Concerned with:

- Governance
- Leadership & Management
- Growth & Profits
- Capital
- Strategy
- Employees
- Policy
- Strategic Risks
- Business Continuity
- Compensation & Incentives

MOST SUCCESSFUL MULTI-GENERATIONAL FAMILY BUSINESS ENTERPRISES DEVELOP PARALLEL GOVERNANCE SYSTEMS



"BEST PRACTICES" RELATIONSHIP BETWEEN FAMILY / OWNERSHIP GOVERNANCE & BUSINESS GOVERNANCE SYSTEMS

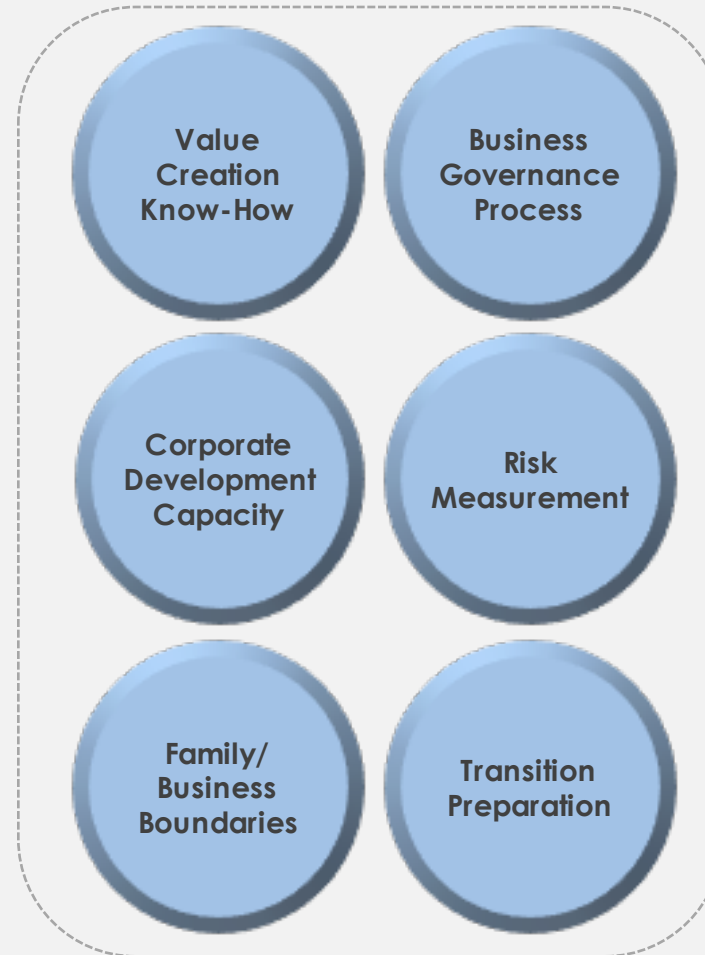


BEST PRACTICES SUMMARY OF FAMILY AND BUSINESS GOVERNANCE ACTIVITIES

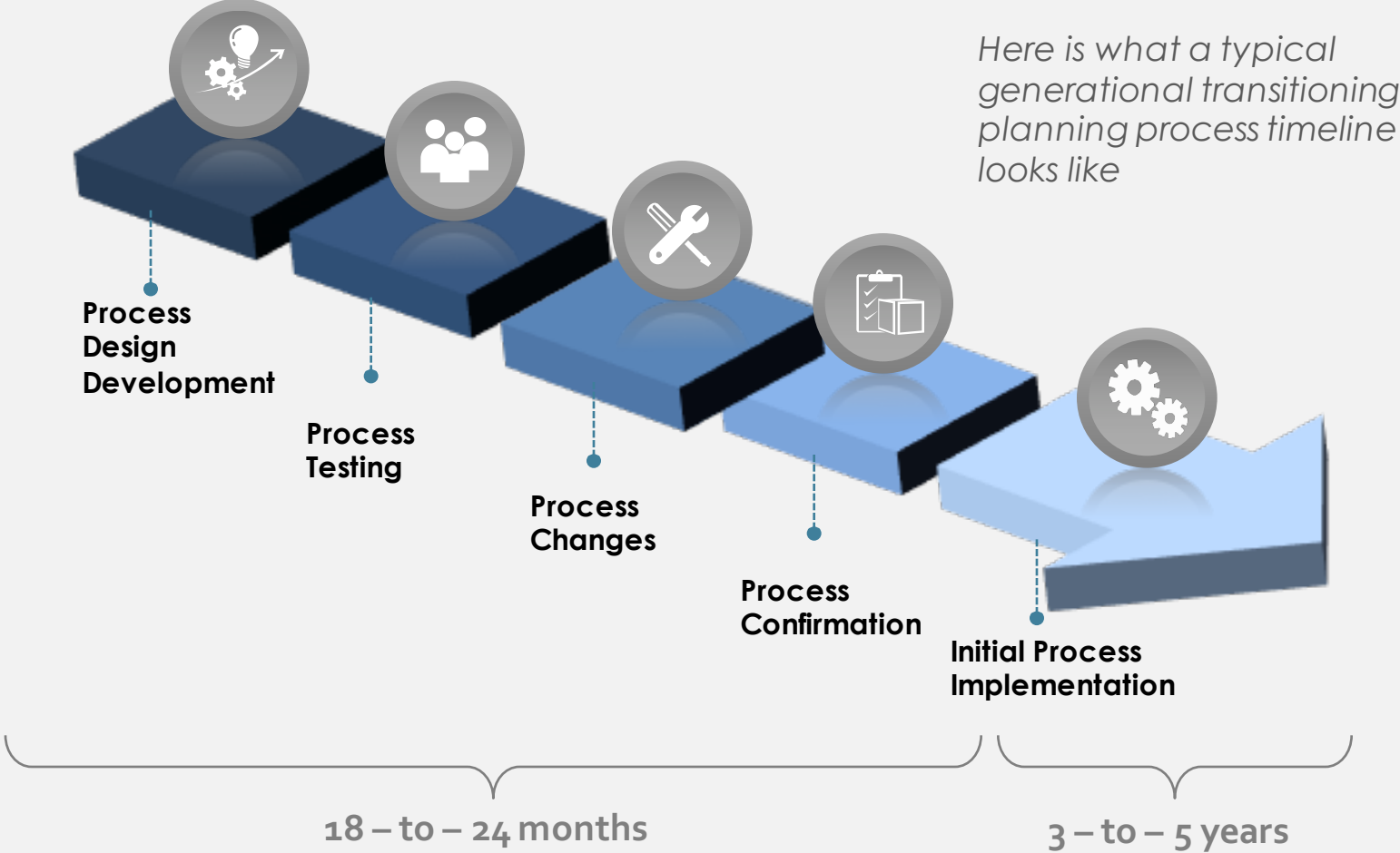
Family /Ownership Governance



Business Governance

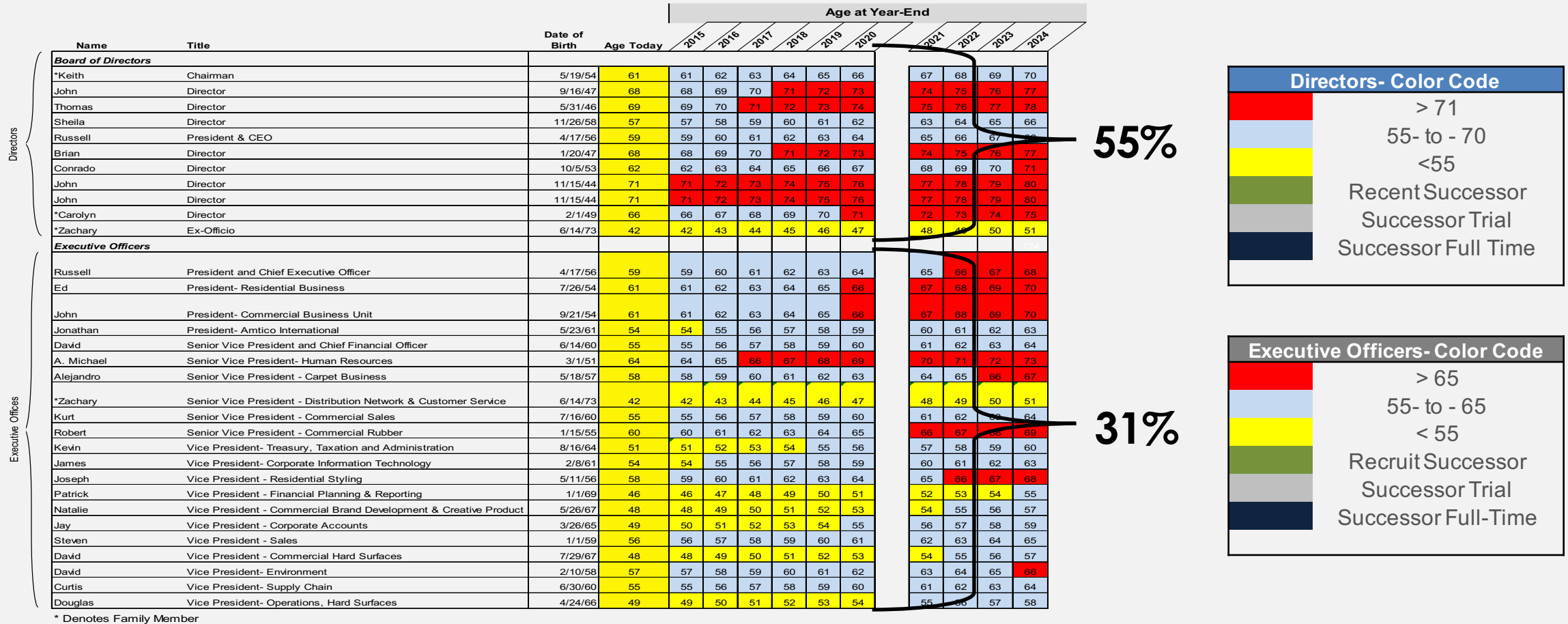


CREATE GENERATIONAL TRANSITION PROCESS



EXAMPLE OF A PROCESS TOOL

BOARD OF DIRECTORS AND EXECUTIVE OFFICERS TRANSITION OVERVIEW



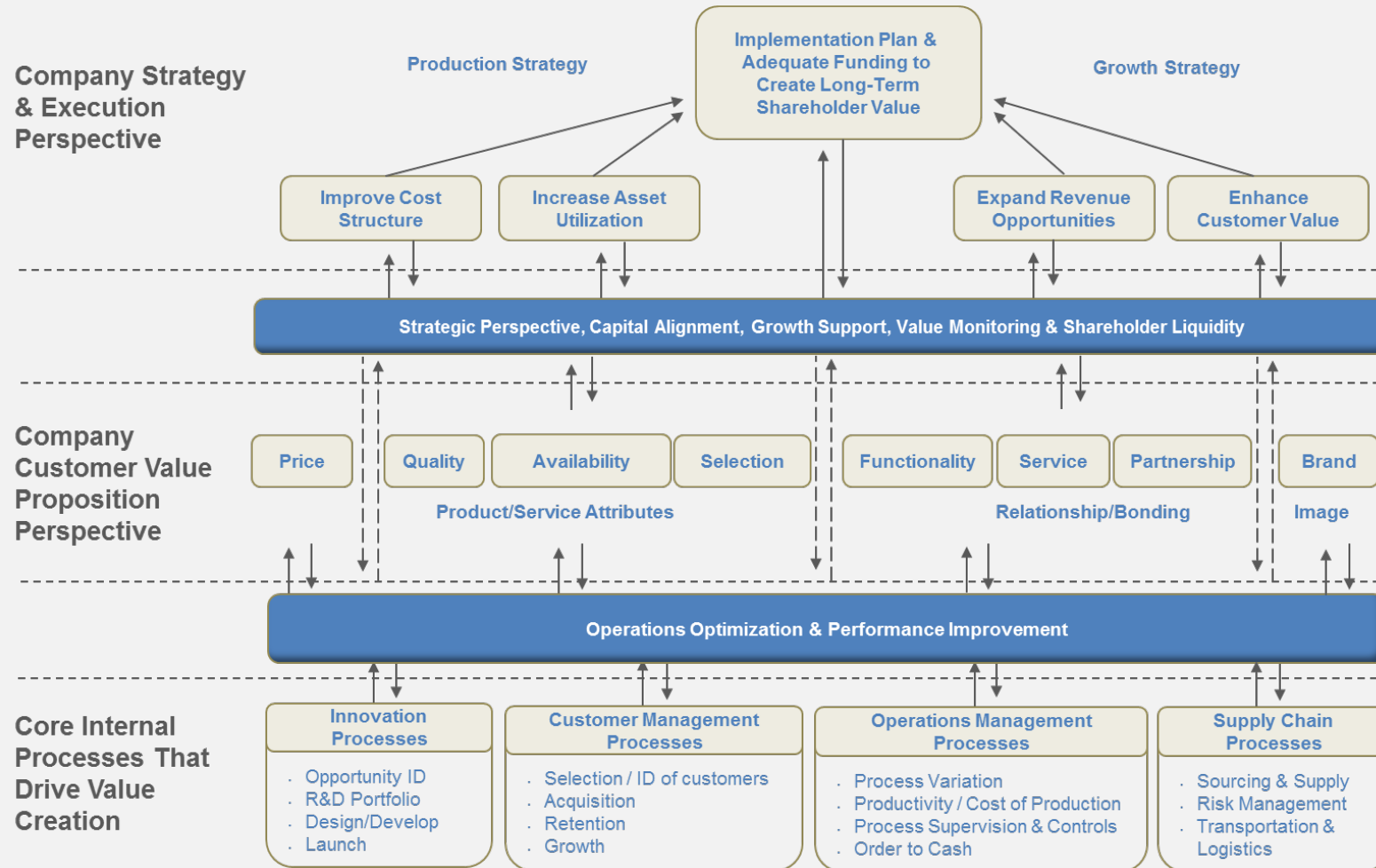
* Denotes Family Member



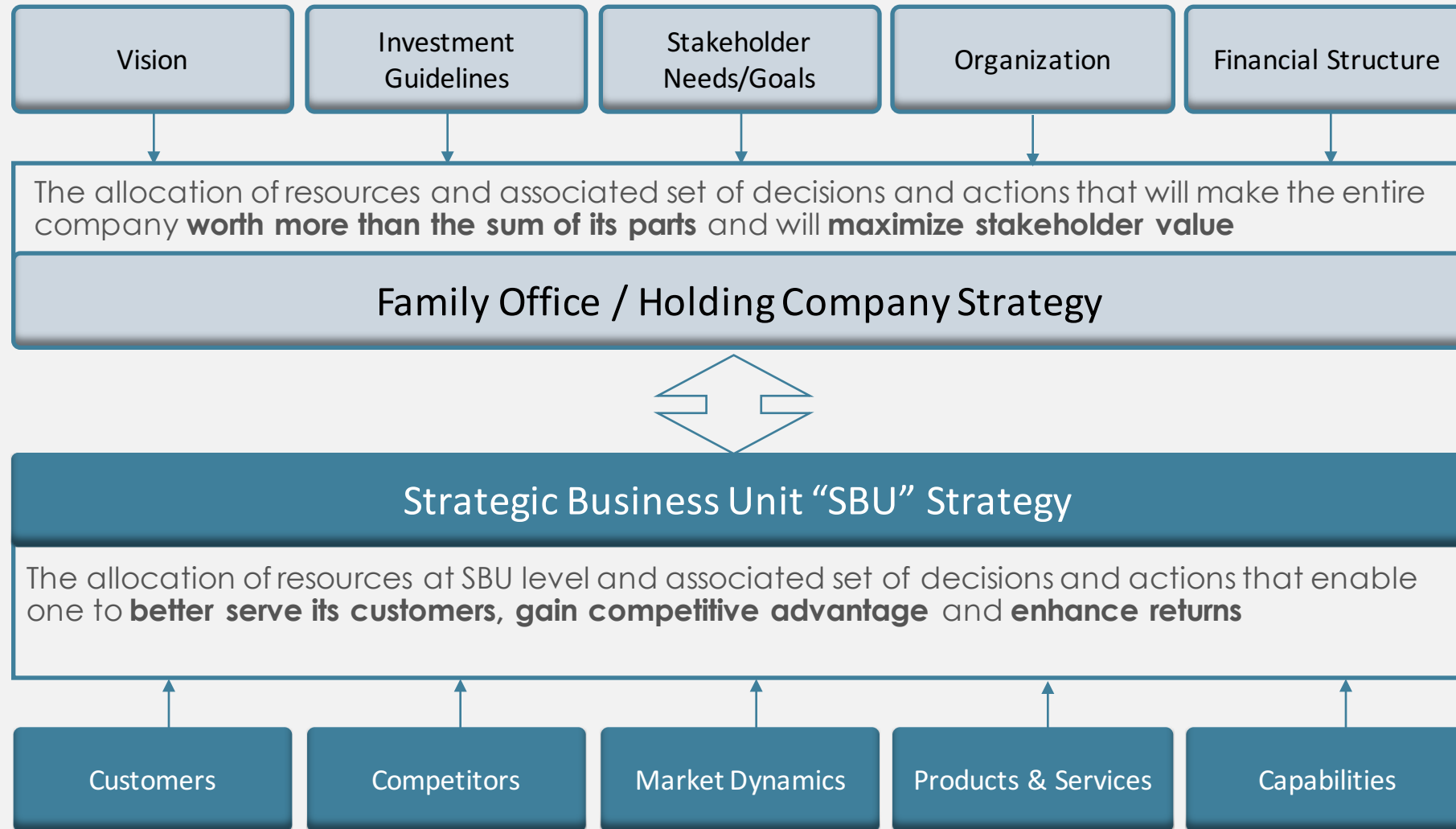
DESIGNING THE BUSINESS GOVERNANCE MODEL

- BOARD & ORGANIZATIONAL DESIGN**
- SHAREHOLDER INVOLVEMENT**

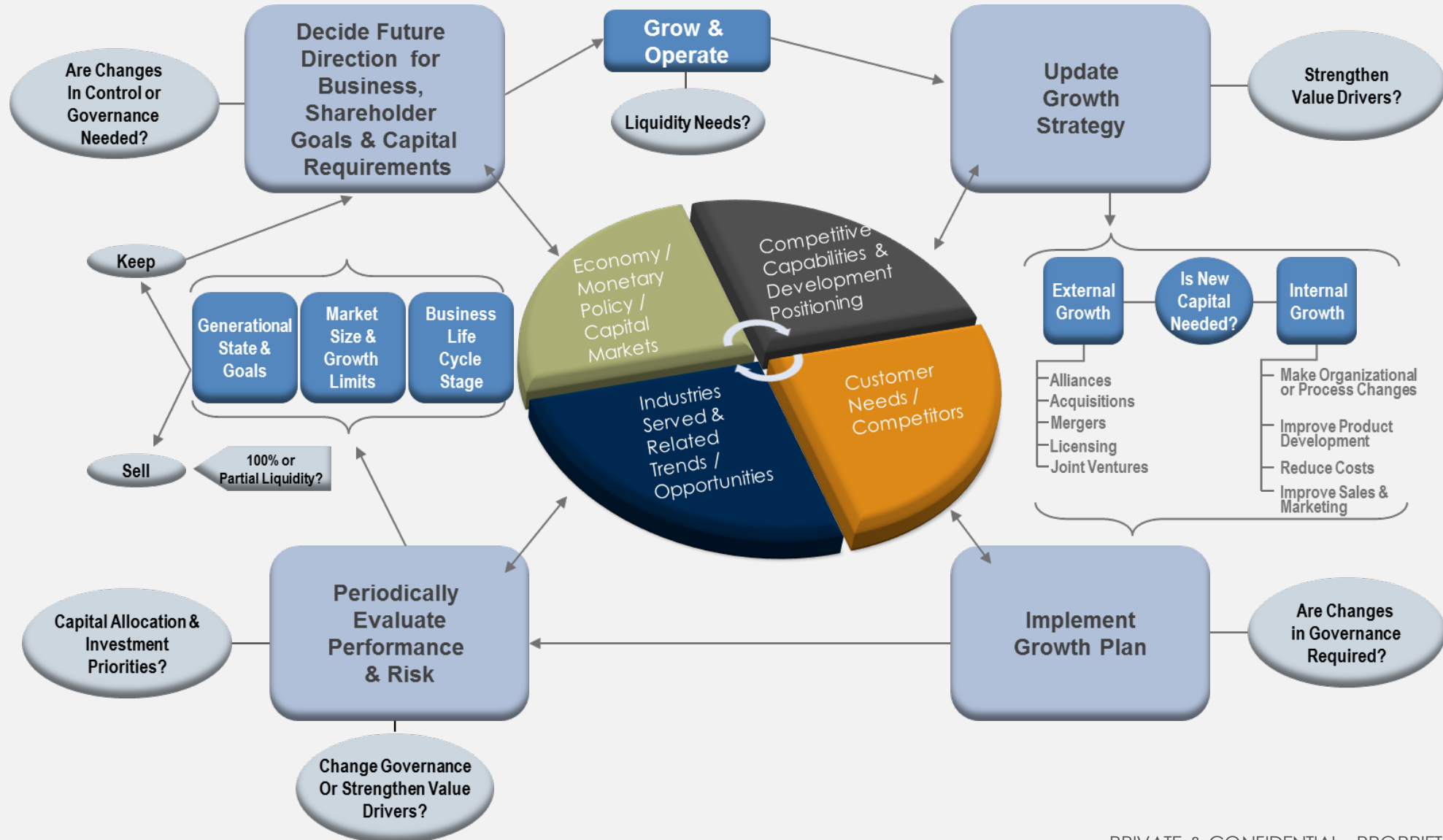
UNDERSTAND HOW THE BUSINESS CREATES VALUE



STRATEGY FRAMEWORK FOR BUSINESS PORTFOLIO



DESIGN A GOVERNANCE PROCESS TO SUSTAIN VALUE

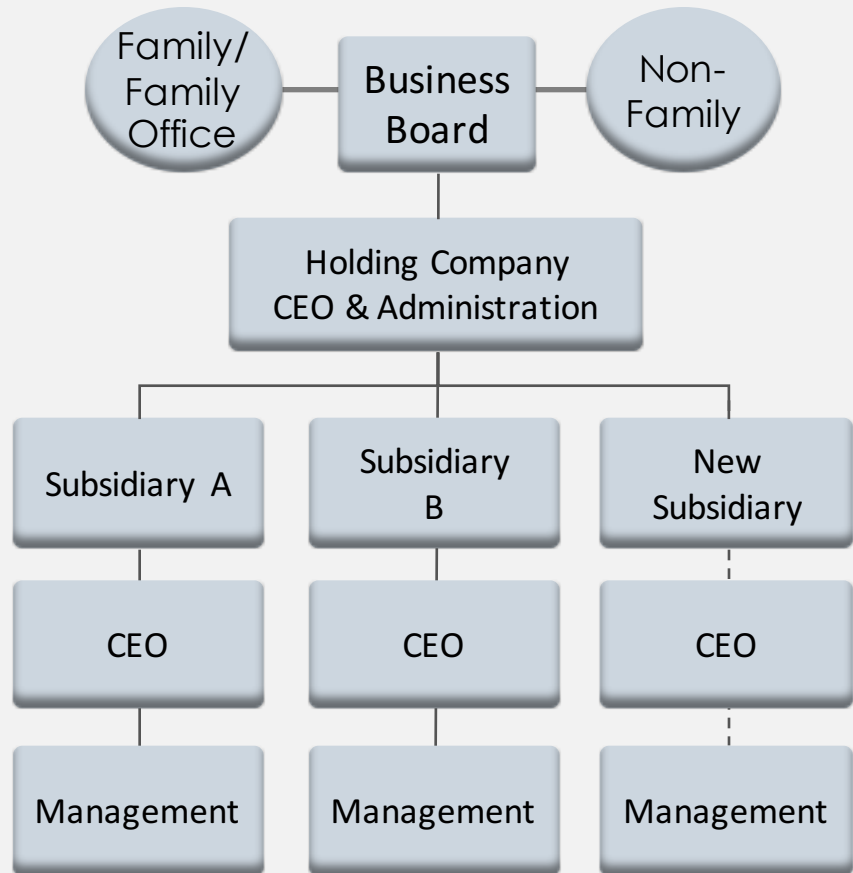


DECIDE UPON BUSINESS GOVERNANCE MODEL

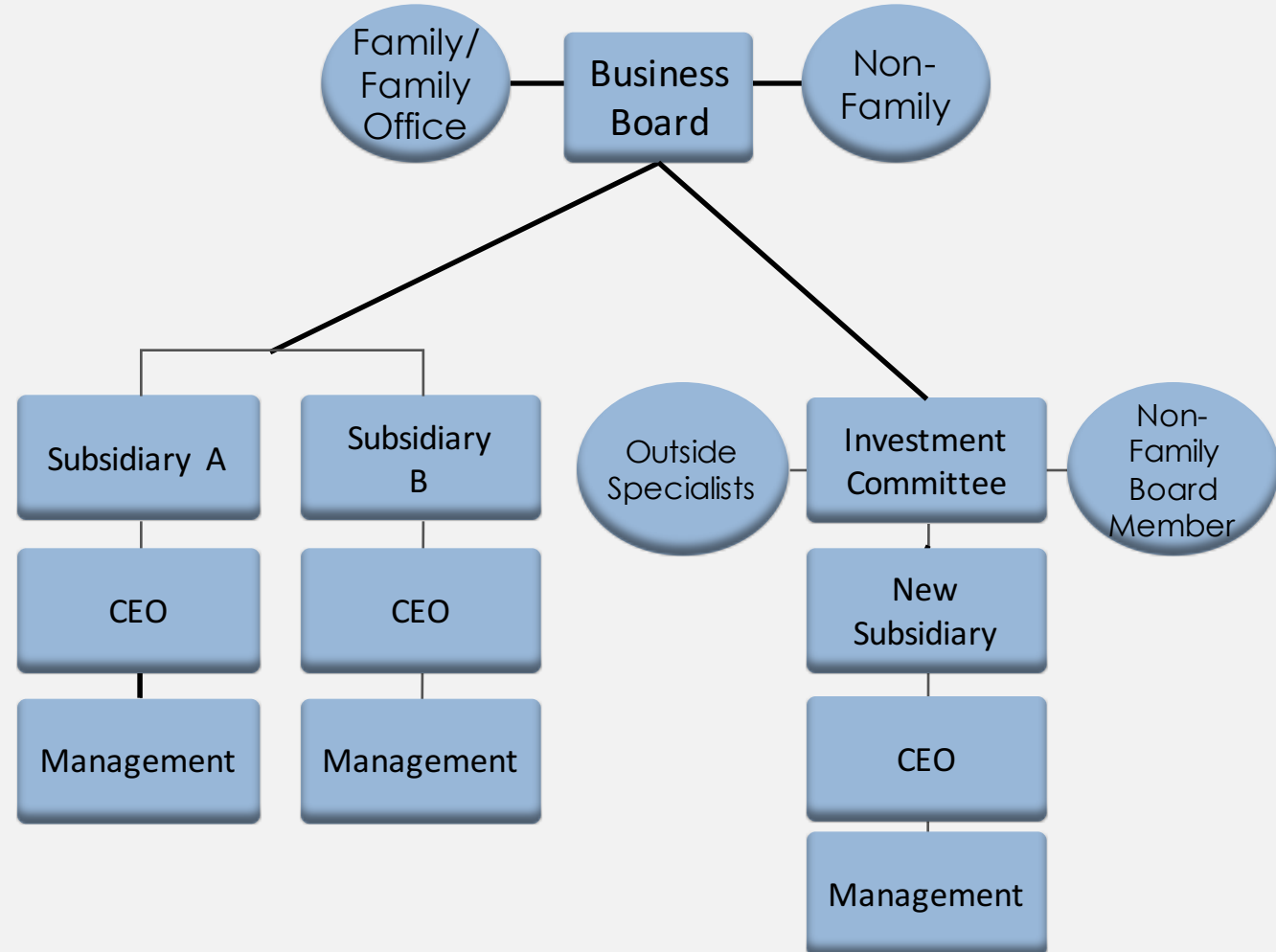
	Entrepreneurial CEO Model	BOD Oversight of CEO Model	Active BOD Model
Board member selection	By CEO	BOD recruits and recommends Board members to shareholders	BOD recruits and recommends Board members to shareholders
CEO role	<p>Runs BOD agenda; controls operations; determines information to convey to shareholders</p> <p>CEO typically has voting control (outright or through trusts) or de facto control of shares</p>	<p>Develop strategic direction and implement strategy; create growth plan and select management team</p> <p>CEO does not have voting control</p>	<p>Develop growth strategy in conjunction with BOD or Strategy Committee</p> <p>CEO does not have voting control</p>
BOD role	<p>Advisors or confidants of CEO</p> <p>Typical 1st Generation Model, but does sometimes repeat in future generations</p>	<p>CEO selection (should be proven and seasoned), oversight and monitoring</p> <p>Typical Public Co Model</p>	<p>CEO selection, oversight and monitoring; active involvement with future growth plans</p> <p>Typical Multi-Gen Family Business Enterprise Model</p>
CEO/BOD interaction	Less formal or structured	More formal and structured, less active involvement	More formal and structured, more active involvement
Committees	Few, if any	Active	Active, especially Strategy Committee
Average CEO tenure	20-30 years	3-5 years	8-15 years

HOLDING COMPANY BUSINESS GOVERNANCE MODEL

Model A



Model B





GLOBAL MEGA-TRENDS

POTENTIAL IMPACT ON FAMILY BUSINESS ENTERPRISES

GLOBAL MEGA-TRENDS

A Mega-Trend is a large-scale pattern or movement that has a major, long-lasting impact on business or society.



TEN NORTH AMERICA MEGA-TRENDS





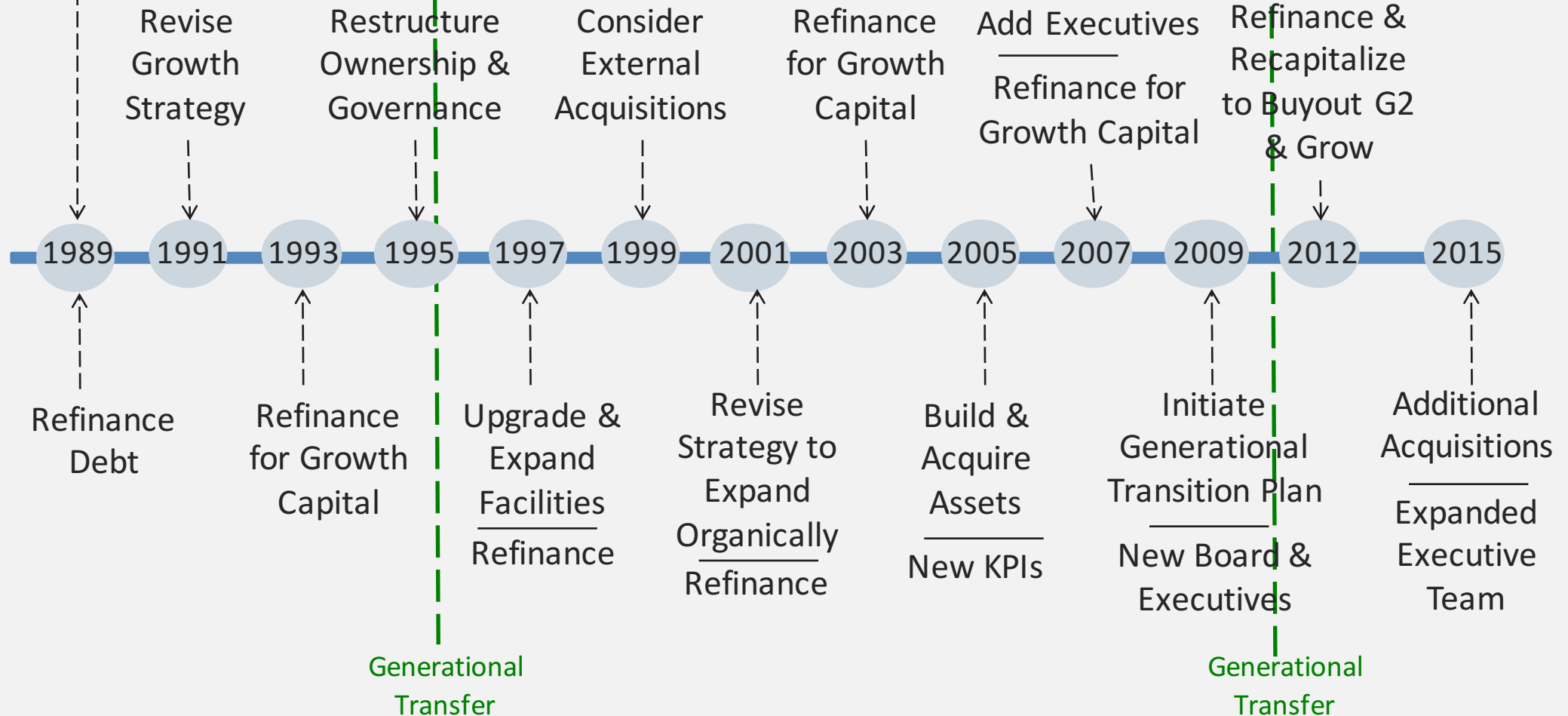
CASE STUDIES

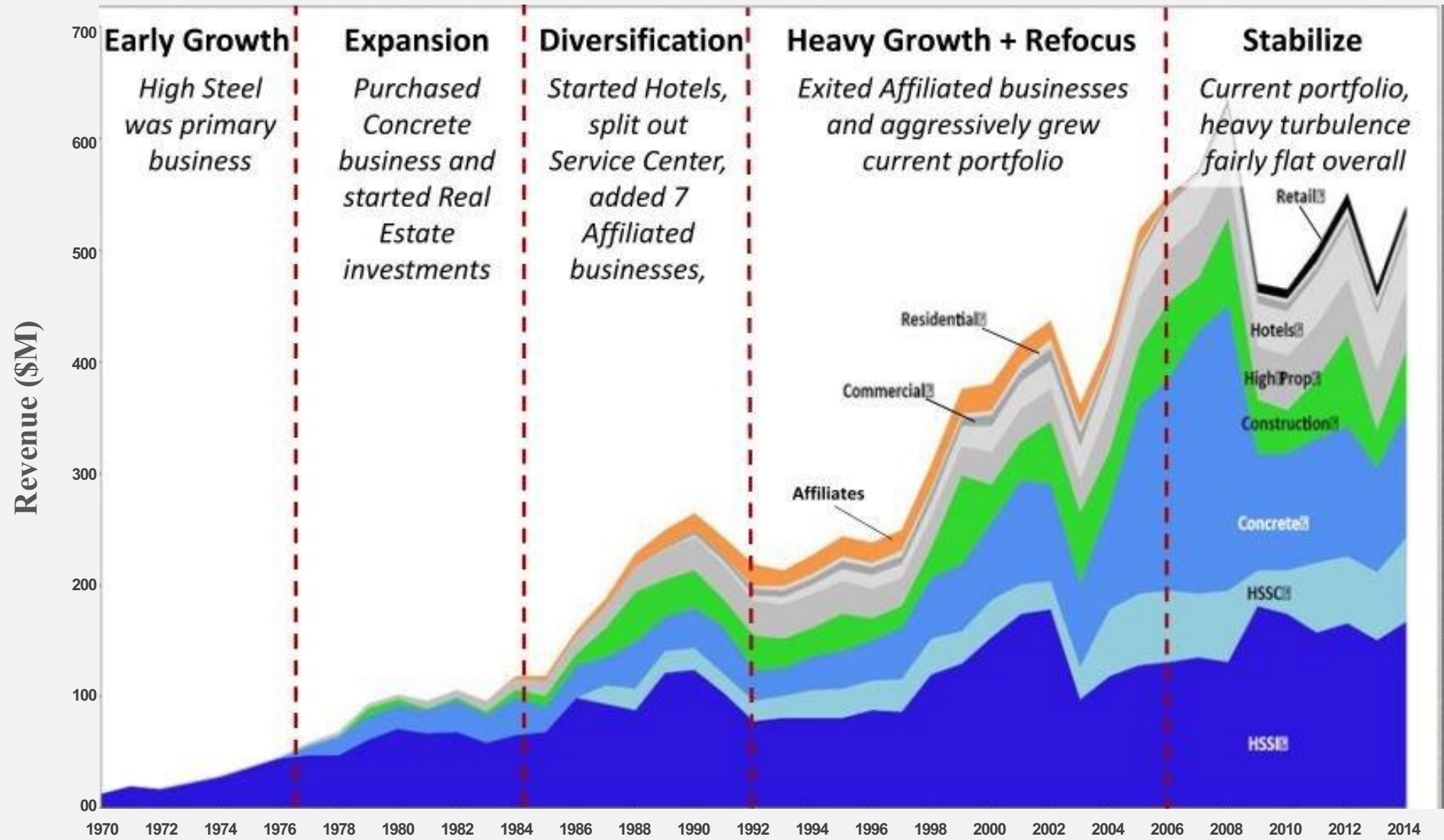
\$35MM Rev
Small Business

\$100MM Rev

\$3.1B Rev

\$3.7B Rev
Large Business







GOVERNANCE KEY QUESTIONS

ANSWER KEY QUESTIONS

VISION

- Why do we want to remain in business together?
- Do we want to work together at all?
- What do we expect the business to look like in the future?
- What role should the owners play?
- What do you expect from other family members to enable the owners to operate effectively and inter-dependently together?
- What values and principles will guide the owners and the business?

OWNERSHIP

- Who will be allowed to participate in ownership?
- How can ownership be transferred most effectively?
- What can be done to ensure future owners are prepared for this great responsibility?
- Are any owners dependent upon dividends or liquidity for their shares?

LEADERSHIP

- What leadership attributes will be required to provide stewardship for the business in the future, and to manage the business?
- What leadership attributes will be required to best manage and develop the Future Ownership Base to assure we maintain the strategic advantage of “patient capital”?
- How might this change as the business grows and evolves?
- What are the processes and policies needed to ensure that the next generation of owners and business leaders will be prepared?

ANSWER KEY QUESTIONS (CONTINUED)

BUSINESS GOVERNANCE

- What business governance model, and oversight structure and processes are needed to ensure ongoing business success?
- How will the owners interact with the current/ future board members to assure that the Company has an effective board of directors and executive management team in the future?

OWNERSHIP GOVERNANCE

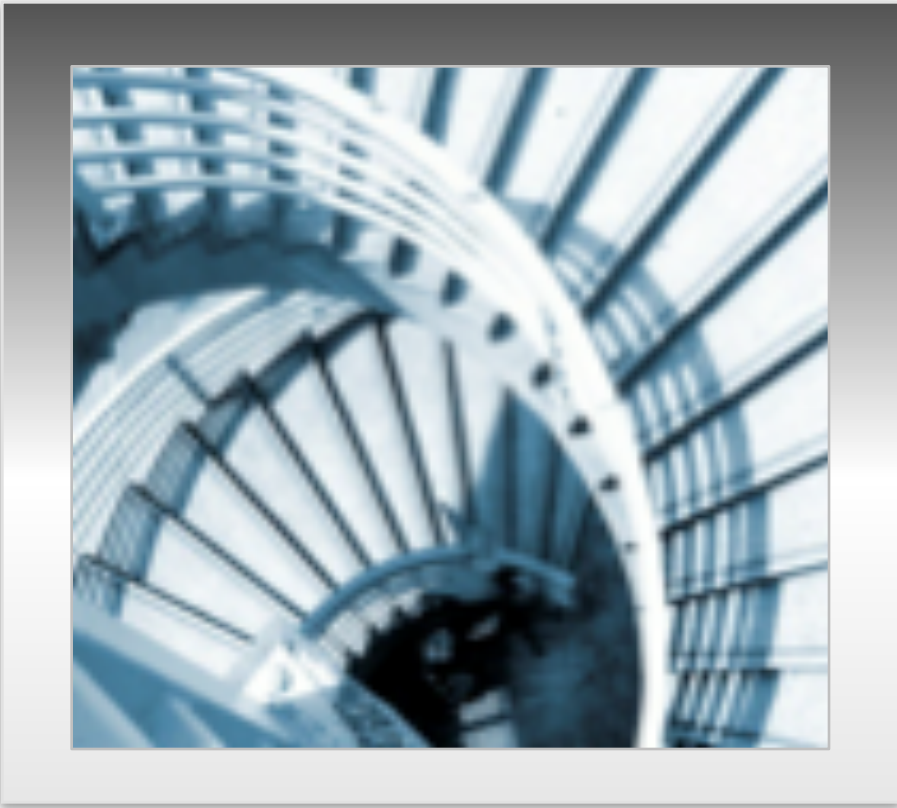
- What structure and processes are necessary for effective development of a capable group of owners and to best assure effective group decision making?
- What decisions will the owners oversee, and who will be allowed to participate?
- How should the boundaries be determined to assure separation of ownership issues from business operational issues?

CULTURAL CONTINUITY

- What role should history, traditions and culture play in helping to ensure continuity?
- What are the history and traditions of the past that remain relevant today?
- What must be reexamined or reemphasized to embrace the future?



GENERATIONAL TRANSITION RISK ASSESSMENT SURVEY



Generational Transition Plan

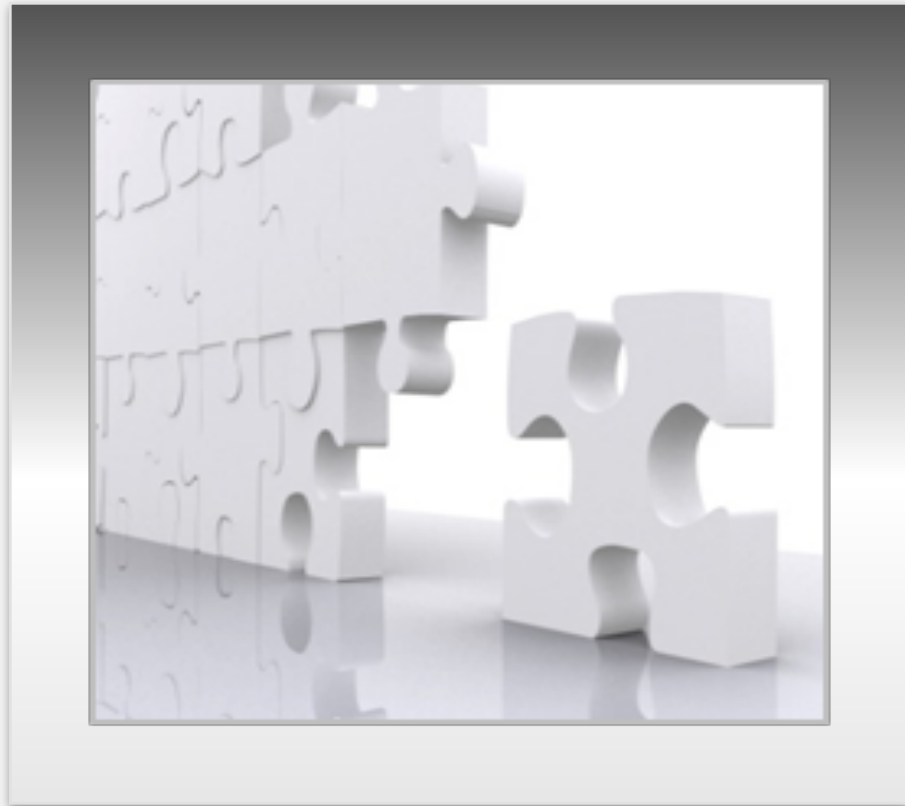
	Yes	Not Sure	No
1. Do you have a phased generational transition plan for your business(es) and other direct investments?			
2. Have you created a process with clear steps to implement your transition plan?			
3. Do you have a development program for helping potential future leaders build the appropriate skills?			
4. Do you have criteria for vetting future leaders?			
5. Has your generational transition plan been structured to avoid conflict or tension between the capital needs of the business versus the liquidity needs of the shareholders?			
6. Can your business operate effectively over a long period of time without the active involvement of your current CEO or President?			

Business Growth

	Yes	Not Sure	No
1. Is your business increasing shareholder value on a non-leveraged basis by 10% or more each year when considering adjusted EBITDA?			
2. Does your strategy take into account the mega-trends that will shape the US economy during the next decade?			
3. Can your current executive team take the business successfully to the next level of growth?			
4. Would your family members, who work in the business, be successful in comparable jobs at other companies?			



Company Capitalization	Yes	Not Sure	No
1. Do the capital markets view your industry favorably?			
2. Do you benefit from a low cost of capital?			
3. Are you managing your patient capital base?			
Shareholder Liquidity	Yes	Not Sure	No
1. Does your business have a formal liquidity plan for shareholders?			
2. Is the business adequately financed relative to future liquidity demands from shareholders or their estates?			
3. Have the future financial needs of the business and the personal liquidity needs of each shareholder been properly assessed to be certain that neither derails the other?			
4. Is there a clear exit strategy for older generation shareholders?			
5. If one of the principal shareholders died last week, would the company be faced with an unmanageable financial burden?			



Governance Process	Yes	Not Sure	No
1. Does your family have a mission statement that addresses all aspects of your family enterprise?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Have past conflicts been settled without build-up of ongoing resentment or negative feelings?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Do you have a clear committee structure and process for decision making for your business and for your family wealth?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. Does your governance process include integrated risk measurement relative to both your operating business(es) and direct investments, and your other investment holdings?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. Are family members who will inherit business ownership trained to be responsible owners and partners with other family members?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. Will your family and business governance processes support a successful generational transfer?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7. Have boundaries and processes been put in place that enable separation of family relationships versus exercise of good business judgement?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>



Philanthropy	Yes	Not Sure	No
1. Do you have a philanthropic mission statement that the family embraces?			
2. Do you have an efficient vehicle for administering your charitable intent?			
3. Do you have more than one generation involved in your philanthropic efforts?			
4. Do you have a well-defined process for deciding how to allocate funds each year?			
5. Do you consider a growing business, which employs more people, to be part of your family's philanthropic initiatives?			
Wealth Administration	Yes	Not Sure	No
1. Do you have a process for identifying errors and fraud in the management of your daily business or personal finances?			
2. Do you perform periodic insurance coverage reviews?			
3. Are your accounting systems (general ledger, portfolio, trust) integrated to support efficient administration?			