

FAMILY BUSINESS SUCCESSION PREPARATION

- Build emotional connections
- Develop responsible stakeholders
- Establish clear rules and career paths



OVERVIEW

MAINTAINING THE ENTREPRENEURIAL SPIRIT

PREPARING THE NEXT GENERATION

FINE-TUNING FAMILY BUSINESSES PREPARES THE NEXT GENERATION FOR SUCCESSION

Presentation Overview

Family Businesses did especially well in riding the rising tide. Family Businesses were the particular beneficiaries of three decades of favorable global economics. Propelled by fast growth in the emerging world, the share of Family Businesses in the global Fortune 500 grew from 15% in 2005 to 19% in 2013. Five years ago, founders or their families owned 60% of emerging-market companies with sales of \$1 billion or more. By 2025, an additional 4,000 companies may join the list. Family-owned businesses would represent 40% of the world's large enterprise.

However, despite the growing power and influence of Family Businesses, executives and investors have a poor understanding of the unique attributes providing the edge. It is difficult to parse the DNA of Family Businesses. It is a complex mix of family, management, and wealth creation, all overlaid with a rolling ownership dynamic that claims all but 30% of them. This 30% is claimed by the 3rd generation.

The number one worry of family owners is the challenge of developing the next generation as motivated and responsible shareholders. Addressing this concern is critical to the long-term sustainability of Family Businesses. It calls for both technical and interpersonal focus.

A key component of Succession Planning for Family Businesses is also preparing the next generation to take over. This presentation provides 2 critical elements in preparing the next generation for Succession.

- 1 The 3-prong Approach to Maintaining Entrepreneurial Spirit
- The 3 Principles in Engaging the Next Generation

Having a good grasp of the 2 critical elements will give Family Businesses the impetus to drive the next generation's continued success in leading the organization.

This deck also includes slide templates for you to use in your own business presentations.

Gearing the next generation for Succession increases potential of Family Businesses to outperform competitors during an era of expanding profitability.

A FAMILY BUSINESS IS AN ENGINE FOR CHANGE AND INNOVATION, REQUIRING A LONGER HORIZON OF EXECUTION

How Family Businesses Differ

Family businesses are unshackled from the quarter-to-quarter pressures of non-family firms.

Family firms can invest for the long term. They allow good ideas the time needed to prove themselves.

Stronger cultures and values

Measure success differently- more than just profit and growth

Decision making is faster/more streamlined

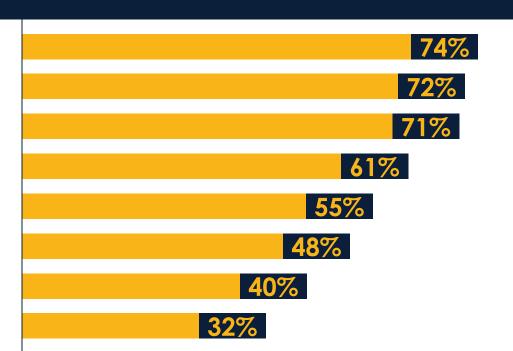
More entrepreneurial

Take a longer term approach to decision making

Need to work harder to recruit/ retain top talent

Take more risks

Find it harder to access capital



A Family Business is a classic example of "patient capital" and an invaluable counterbalance to the short-termism of many non-family businesses.

RENEWAL IS A STRATEGIC IMPERATIVE FOR FAMILY BUSINESSES

Maintaining the Entrepreneurial Spirit – Overview

Maintaining an entrepreneurial edge has become evidently critical for long-term survival. Creative destruction constantly churns the rankings of companies in the S&P 500 index of the largest US companies.

Many close-knit Family Businesses have the ingredients to retain the entrepreneurial edge.



- An innovative founder that leads through some of the company's most dramatic growth years
- A strategic long-term thinking and vision
- Strategic Investments and portfolio strategies

But as Family Businesses grow through the generation, barriers to entrepreneurship and innovation creep in. Family Businesses are careful with their capital.

- They are not willing to dilute the family's equity stake.
- They are risk averse about leverage.

This does not suit an era of profit constraints when advantage is shifting to nimble, idea-intensive sectors evolving around R&D, brands, software, and algorithms.

The challenge of renewal calls for breaking with long-held interests.

ADOPTING A 3-PRONG APPROACH CAN RESTORE ENTREPRENEURIAL ENERGY AND INNOVATION IN FAMILY BUSINESSES

Maintaining the Entrepreneurial Spirit – Approach

Family Businesses use a 3-prong approach to maintaining entrepreneurial spirit.

- Align on an Ownership Strategy
 - Align owners on one set of objectives and guidelines to reduce tensions
 - Use negotiations and extensive modeling of assumptions about growth, risk, and liquidity to align objectives for the future.

- Understand the Market's
 Natural Creative
 Destruction
 - Internalize the market's creative destruction that forces Family Businesses to build, operate, and terminate businesses constantly.
 - Divide the portfolio into creation part, core part, and a trading part.

- Foster Talent of Next Generation
 - Segment members by talent and match them with components of a dynamic portfolio.
 - Inject the market's dynamism into the ongoing business.
 - Master the expertise to operate and trade companies at the ownership level.

The 3-prong approach results to speedier decisions, diversity of managers, performance, business cultures, and new opportunities that lead old line businesses to the future.

DEVELOPING, ENGAGING, AND MOTIVATING THE NEXT GENERATION OF FAMILY LEADERS IS THE BIGGEST CHALLENGE

Preparing the Next Generation – Overview

Family owners want to keep the next generation involved. This is a key component of Succession Planning for Family Businesses.

It is important to keep the next generation involved for a number of important reasons:

- To maintain the business as a source of family pride.
- To preserve the founders' legacy to keeping it within the family.
- To better maintain the family's values and image in society.



Conducting generational transition is a challenging task during a period of swarming new competitors and tighter profit growth.

BUILD EMOTIONAL CONNECTIONS IS THE 1ST PRINCIPLE TO ENGAGING AND PREPARING THE NEXT GENERATION FOR SUCCESSION _____

1. Build Emotional Connections – Overview

PRINCIPLE

Build emotional connections

FINDINGS

77% of respondents rated their emotional ownership as high or very high.

GAP

Communication is difficult across generations and borders.

PROPOSED ACTIONS

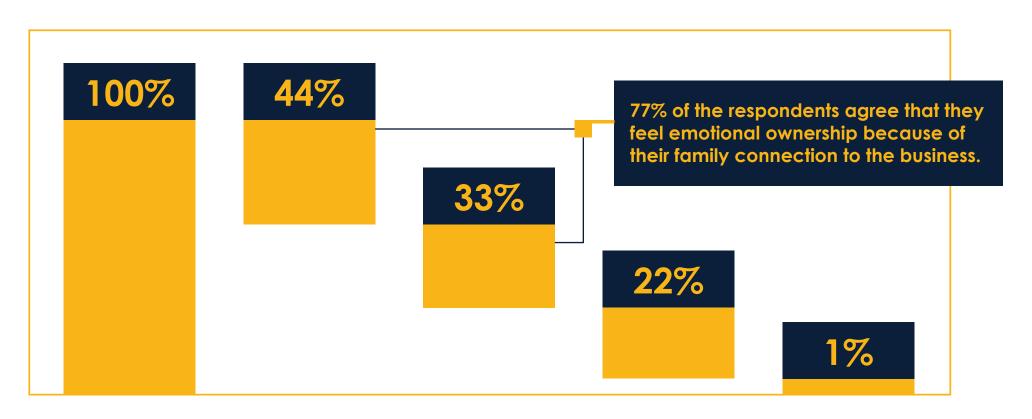
- Older leaders must undertake more active, clearer communication and support to promote active and emotional ownership among younger family members.
- Younger family members must be kept informed about what's happening in the business.
- The current leadership can stimulate communication to engage younger family members and transmit family values.

Older leaders play a vital role in bridging the gap in communication and engagement with younger family members.

EMOTIONAL OWNERSHIP FOR THE NEXT GENERATION IS HIGH

1. Build Emotional Connection – Emotional Ownership

The McKinsey Family Business Practice survey revealed high levels of emotional ownership in the presiding family group and the next generation.



Only 1% disagree or strongly d0isagree that the emotional ownership of family group and next generation is high.

DEVELOP RESPONSIBLE STAKEHOLDERS IS THE 2ND PRINCIPLE TO ENGAGING AND PREPARING THE NEXT GENERATION FOR SUCCESSION

2. Develop Responsible Stakeholders – Overview

PRINCIPLE

Develop responsible stakeholders

FINDINGS

The next generation family members are willing to take more responsibility in running the Family Business but lack the confidence to do so.

GAP

2/3 would like to have more responsible ownership roles yet, only 30% feel confident about making decisions involving Family Business.

PROPOSED ACTIONS

- Start with a concerted communications strategy to engage younger members.
- Allow younger family members to shape their own shareholder-education program and hire professionals to help them.
- Create mechanisms to help make the best decisions.
- Allow members to work together in informal and relaxed way that younger people value.

The best advances come when the next generation takes charge of its own personal development.

ESTABLISH CLEAR RULES AND ROLES IS THE 3RD PRINCIPLE TO ENGAGING AND PREPARING THE NEXT GENERATION FOR SUCCESSION

3. Establish Clear Rules and Roles – Overview

PRINCIPLE

Establish clear rules and roles

FINDINGS

A leadership position is not the only role for members of the next generation. There are several important roles to be played above and beyond full-time employment.

GAP

A critical need to develop a path and make family members understand how they can embark on those paths.

PROPOSED ACTIONS

- Establish an open-door policy for family members in the1st generation.
- Provide clear guidelines and guidance for those who want to join the business.
- Provide clear rules about meritocracy, explicit entry and exit requirement, and conditions for development.

Establishing an open-door policy for family members provides a wide variety of career paths in the working world.

About Dawgen Global

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Our Caribbean regional network covers Jamaica. Trinidad and Tobago, Bahamas, Bermuda, the Cayman Islands, the Eastern Caribbean (Barbados, Antigua, St Lucia, Grenada, and St Kitts & Nevis), the Netherlands Antilles (Bonaire, Curacao, and St Maarten) and Aruba and the Turks and Caicos Islands.

Our regional focus is to improve services to local, regional and international clients. Through our affiliation and membership in other Global Networks and Associations, we offer a global perspective while maintaining our regional insight by seeking alternatives for you – we tap the power of both.

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