

# Family Governance: Keeping it Simple

Family business people often worry that family governance means introducing needless complexity and bureaucracy into their business. But good governance systems encourage families to communicate and work together more effectively, and – as Juliette Johnson explains – they're pivotal to family business success.

For family businesses, informality can be both a strength and a weakness. An informal approach often lies at the heart of their special culture and atmosphere, helping to streamline decision making and keep the firm ahead of the competition. But when it comes to the owning family's relationship with their business, informality can become a liability. Lack of communication among family members – especially unspoken assumptions, understandings and expectations – have spelled the death-knell of many family companies, undermining shared purpose and leading to conflict, unhappiness and business failure.

When things like this go wrong, family members tend to blame each other, but usually it's structural issues, not personalities, that lie behind the problems. And this highlights the key benefit of family governance – that formalising communication provides a structural framework for family stability and cohesion, helping families to manage their relationships and expectations. A system like this replaces complexity with simplicity, not the other way round!

### A dual challenge

The unique nature of family business ownership – especially the intimate, emotional connection between owners and with their business – presents a special governance challenge. It means successful families must learn to manage not just corporate governance of their business operations (in the same way as all commercial organisations) but also family governance, laying down agreed rules and guidelines about the family's roles and responsibilities in their interactions with the business.

It is much easier to start this early, organising governance while the family enterprise is young and the family group relatively small. Thinking about and preparing for sensitive, 'tinderbox' issues – like family employment and share ownership policies, branch politics and succession – before they become contentious, means that sensible rules, agreed in a calm, unemotional atmosphere, will be available when needed.

There are standardised models for corporate governance, but family governance requires a more tailor-made approach. A family governance system must reflect history and reinforce the culture and values of the family, but it will also be shaped by the age and development stage of the business, the family's degree of involvement and the personal dynamics among family members.

**In building family governance it's important to have a 'driver' behind the process. This can be a committed family member who is trusted by all and motivates others, and/or an independent facilitator, able to help family members discuss sensitive issues in an informed and logical way, and to guide them as they seek out a consensus.**

## Building family governance: Key objectives

- Articulating family values and vision
- Setting family policy on potentially contentious issues
- Establishing forums for communication
- Ensuring fair process, inclusiveness, transparency and collective buy-in
- Drawing boundaries between ownership and management
- Fostering family education and training
- Providing mechanisms for resolving differences
- Engaging and preparing the next generation

In the early days, setting up regular family meetings or a forum for working family members may well suffice, but as the business approaches the third generation (the 'cousin consortium' stage), specialised governance architecture – interlinked assemblies, councils and committees – may be needed to manage the growing complexity of family involvement. Organising large families is challenging, requiring ongoing evolution and adaptation of governance over long periods of time.

### Fair process

It's not enough for a family's decisions to be logical, just and sensible – they must also be arrived at by a process that's fair. In fact, 'applied fair process' is a good working definition of effective family governance. The system may not always achieve the ideal outcomes for individuals, but it will at least ensure that family members feel they've participated in a fair and equitable procedure, eliminating much of the potential for interpersonal conflict.

When it comes to building family governance, many families find it useful to draw up a written family constitution. This sets out the family's guiding principles, their values and vision for the business, and it defines their policies on family employment, ownership and succession. Supporting family governance structures range from regular family meetings to a more formal family council or other governing group. In larger families, sub-committees might need to be established to focus on areas such as

family education, communications, career planning and next-generation involvement. No one model fits all. Families must design and develop governance architecture that works for them and addresses their own unique circumstances.

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It often sounds complex, but the rationale couldn't be simpler – formal family governance makes it less likely that personality issues will divide the family and interfere in the business. It strengthens collaboration between family members, clarifies the relationship between the family and the business, and helps the family to build trust and manage expectations.

And fair process is just as important when building family governance as it is in operating the system. Indeed, the end-product of family governance is often less significant than the process that brought it about. A constitution may be tucked away in a drawer and rarely looked at, but what will not be forgotten is the consensus-building and trust-building process under which the document was put together and the clarity that exists to allow the family to move forward aligned and united.

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# 7 habits of highly successful family businesses

Long-term, sustainable success is defined as achieving a happy family and a strong business. But how do you do both? Jon Kenfield explores seven habits that, to a degree, all successful business families, have implemented.

This holy grail of family business delivers peace and lasting prosperity. The families that genuinely achieve both have truly been blessed with the fruits of their labours – they didn't get there through luck or neglect.

The truth is that all successful families address and implement the 7 habits of highly successful business families, in some way or another.