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Helping a family business grow and flourish

In my last article, I talked about how important it is to have the right elements in place to run a successful family business. This article focuses on the details of how to make this happen – namely, adopting the best corporate structure and focus needed to help a family business grow and flourish.

The key to ensuring this revolves around three key structures: a board of directors, a family council and a family constitution. All three structures serve to tie the family business and family members together, alongside their biological, emotional and legal connections and shared values.

The board of directors deals with the 'business of the business' and sets its strategic direction. The family council deals with the 'business of the family', develops and manages the family constitution and liaises with the board via a family-council representative. Neither the board nor the family council is involved in the day-to-day activities of the business. It is the role of the chief executive officer, general manager and management to ensure this is implemented.

The right board

The board of directors deals with the strategy and longer term planning and decision-making of the family business. It should be made up of a majority of 'outside' non-executive directors, ideally with no more than, say, two family members as directors.

Like a normal business board, directors should be elected for defined terms (three to five years ideally), with the 'outsiders' responsible for nominating replacements. Its decision-making should be by consensus, so that even if individual directors disagree with a motion, they are able to agree if it benefits the broader family interests. Alternatively, some boards choose to make decisions by majority vote.

The board should have procedures to evaluate its own effectiveness and there should be mechanisms in place to exclude people with conflicts, or those claiming directorship purely through inheritance. A director should be nominated and elected on the basis of his or her contribution to the board, and ratified by the family shareholders at an annual family council meeting.

The board should also elect its own chairman, who should be separate from the CEO or GM of the business. This is a critical role, responsible for ensuring the board operates effectively in conjunction with the other structures around the family and its business. The chairman therefore needs to have sat on the board for at least a year before nomination and should have at least twelve months in the role before rotating to the next candidate.

Role of the family council

The family council should include all adult family members, to give them a voice and assist them in their personal development, while at the same time keeping family issues separate from business issues.

Ideally, the council's leadership rotates between its members, with a different leader appointed at each meeting to ensure each member takes ownership of the council. The council's role is three-fold: managing the family's relationship to the business, making sure the family is represented on the board by electing a council representative as director, and developing a family constitution to underpin the family's interests and workings.

Typical council meetings will see the family board member reporting on the business and its activities; discussion around the family and its activities (family office, charities and trusts, etc), and discussion on matters involving individuals, such as educational matters or family loans to members.

The family constitution

An effective family constitution ensures long-term business success and family harmony, while avoiding battles for control, feuds and litigation.

It's best to think of this like a game: participation is a free choice, there are clear rules and the results are not known in advance. The constitution defines the rules of the game, covering family values, family proposals, expectations of management and the board, and the mechanisms of control for managing the family business.

These can include: how we work together; how we make decisions; how we deal with ownership issues such as share ownership and transfer, buy-sell agreements and financing arrangements; how we as family members join and work in the family business. The latter issue can be a tricky one, and needs some decisions made around how family members enter the business, what competence they need to show, how they get paid (and how much), how they are promoted, and how and why they should exit the business (on retirement or for other reasons).

A family constitution should be prepared for future generations, not existing ones – think at least two generations in advance. Families should also consider using a professional facilitator to help them work through the process. This might involve establishing the family council, having it meet on a few occasions to bed down immediate processes, and then using the facilitator to help it develop the constitution over a six- or even nine-month timeframe.

Governance, accountability

As a general rule, these mechanisms will only succeed if they are underpinned by good governance structures and clear decision-making and accountability – family council members and the board must focus on these as critical to success.

Both the board and the council should also meet regularly to ensure business and family issues are debated, decided on and the results examined to determine success – or the necessary adjustments made if required.

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