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Peter Leach LLP
The Family Business Management Series
Principles for owner-directors

PETER LEACH LLP
ADVISING FAMILY BUSINESSES

Getting the family to work together

in partnership with

Institute for Family Business

Getting the family to work together

The Family Business Management Series

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- **The role of 'outsiders' in family companies**
- **Family business leadership inquiry**

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('The business school view' section © Professor Nigel Nicholson).

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Foreword

The Family Business Management Series provides a valuable tool for family business owners, directors and other stakeholders who are seeking information regarding key issues they face daily.

The family business sector in the United Kingdom is estimated to account for approximately three-quarters of all companies and around half of private economic activity and employment. Family firms are a key part of the backbone of the private economy helping drive national socio-economic and entrepreneurial development. However, estimates suggest that the majority of inter-generational business transfers fail, particularly in earlier-stage family companies. Problems in the succession process often result in the company either being sold or not surviving.

Notwithstanding the serious challenges that family firms face, there are numerous examples of companies that have found the keys to longevity and prospered over the generations, creating wealth and sustaining employment in their communities. The **Family Business Management Series** brings to families a source of information that will enable them to take better decisions, keeping the family and its business aligned. These guides will help by contributing knowledge that can lead to the application of best practice in many family firms.

These guides also reflect the mission of the Institute for Family Business to help support the on-going development of a dynamic family-owned business sector making a powerful contribution to the UK economy.

Grant Gordon
Director General
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Preface

Family businesses have many things going for them – they tend to be flexible, reliable, proud, they can think long-term, have a strong culture and their people are committed. But they can also carry a daunting set of disadvantages – they can be rigid, inward-looking, unresponsive to change and sometimes swamped by emotional issues. It's a fascinating and complex mixture of advantages and disadvantages, costs and benefits, strengths and weaknesses.

Peter Leach LLP serves the needs of family business people, helping them to find a path through this complexity and to balance the ambitions and needs of their business with those of their family. All family firms are different – and there are no easy answers – which is why this **Family Business Management Series** of jargon-free guides concentrates on principles, processes and procedures designed to help families recognise and address the most important issues and conflicts that tend to arise.

This first guide in the series – **Getting the family to work together** – focuses on communication. Constructive and productive communication is often in short supply in family businesses, because family members tend to shy away from potentially sensitive issues that they feel might generate unpleasant conflict. But the reality is that such issues can only truly be resolved if they are recognised, acknowledged and discussed at an early stage.

Family members, therefore, need to devise strategies that help them to approach the business in a unified way, and they need to learn to communicate and share their thinking about the critical issues the family must face up to.

The **Family Business Management Series** is an important initiative. It has been designed as a source of practical advice and guidance – pulling together some of the key research findings on family business management and the lessons of the our experience over 25 years of helping family businesses. We hope it will contribute to the efforts of these firms to achieve continuity, growth and prosperity in the years ahead.

Peter Leach

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Firms that succeed are those that have struck the right balance between the needs of the business and those of the family.

Chapter 1

Why family businesses are so special

Firms that succeed are those that have struck the right balance between the needs of the business and those of the family. They usually have a family 'strategic plan' to help guide their efforts towards shared objectives and goals, as well as formal family meetings and a formal constitution or set of rules.

Families running successful family companies have almost always managed to find a solution to one central, overriding family business issue – they have been able to formulate and adopt policies that strike an appropriate balance between the best interests of the business on the one hand, and the well-being of the family on the other.

As well as making the right decisions on the strategic and operational issues that are faced by all enterprises, those people who are good at running family businesses have come to understand the key ways in which family companies are different from other firms. They have learned to recognise and analyse the special dynamics that surround:

- the founder/controlling owner
- the family
- the firm.

They also develop special skills that help them identify and resolve the unique challenges that these dynamics introduce. They learn to adopt constructive strategies to foster growth of the business and the transfer of power and control within it.

Three steps to survival

Despite many well-publicised success stories, it's a sobering fact that fewer than 24 per cent of established family companies survive through to the second generation. So much depends on the ability of family members to communicate with each other about their worries and aspirations, and on their ability to work together to develop a cohesive approach to the business. Three key conclusions are that:

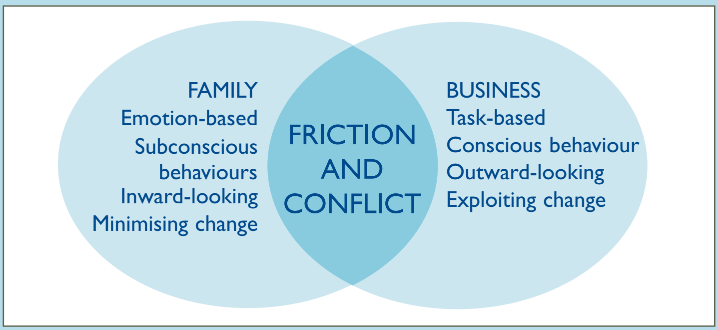
1. Family business members can significantly improve their business's chances of survival by drawing up a family strategic plan that establishes clear ground rules governing the family's relationship with the business and defining the responsibilities of family members.
2. Establishing a family council provides an organised forum for family communication, policy making, planning and conflict resolution.
3. The family's strategic plan should be drafted and set out in a written constitution that records the family's vision, its agreed values and its policies in relation to the business.

Family systems and business systems

In one key respect, the family firm differs from all other businesses: its directors, managers and employees are involved in a family relationship, the ethics and behaviour patterns of which are, to some extent, carried over into the workplace.

A helpful way of looking at the relationship between the family and the business is to think of the family as a system and the business as a system. The emphasis of the defining characteristics of the two types of system tends to be distinctly different (see Exhibit 1.1).

Exhibit 1.1 - Overlapping systems



The family system is emotion-based with its members bound together by deep emotional ties that can be both positive and negative. These ties, and indeed, a great deal of behaviour in family relationships, are influenced by the subconscious – for example:

- the need for parents to treat children equally
- the need for brothers to dominate brothers
- the need for fathers to be stronger than their sons; and so on.

The family system also tends to be inward-looking, placing high values on long-term loyalty, care and the nurturing of family members. In addition, it's a conservative structure operating to minimise change – keeping the equilibrium of the family intact.

The business system, on the other hand, is based on the accomplishment of tasks. It is built around contractual relationships in which people do agreed jobs in return for agreed remuneration and, for the most part, behaviour is consciously determined. It is also oriented outwards towards producing goods or services for its market-place, while emphasising performance and results – ie the competency and productivity of its members. To help ensure its survival, the business system operates to make the most of change, not to minimise it.

Family first or business first?

Concentrating on family involvement as a source of weakness in firms should not be allowed to obscure the many advantages attaching to the family relationship, including:

- a unique corporate atmosphere
- speedy decision making
- a willingness to think long term
- a stable culture
- flexibility
- reliability and pride.

Why family businesses are so special

Nevertheless, the answers to questions such as how to evaluate the business performance of family members, how to transfer power, and whether and how to share ownership of the business can be very different depending on whether you are looking at things from a family perspective or a business perspective – in short, from a standpoint of family first or business first.

Family first - no matter what

Here are some common examples of family first solutions:

1. Adult children are encouraged (sometimes expected) to join the family business and commit their working lives to it regardless of their aptitude, abilities or inclination.
2. Family members are favoured at the expense of non-family members. This nepotistic approach may put the company at a competitive disadvantage by burdening it (right up to board level) with incompetent family members and by demotivating able non-family managers.
3. Some families dictate that all family members must be paid equally, regardless of their abilities and how much they contribute. Others pay family members more than they are worth or, alternatively, less than they are worth on the basis that they have an obligation to contribute to the family enterprise and money should be the least of their concerns.

The opposite situation – the incursion of the business system into family life – can be just as damaging. Building a business often becomes an obsessive preoccupation for the owner, and his or her single-mindedness can undermine the quality of family life.

Similarly (although at a later development stage when other family members have joined), families can find that they are never free from the business because its influence has come to invade all aspects of their lives. Serious family unhappiness and conflict arise where children and other family not involved in the family firm have come to feel marginalised and isolated as every evening meal turns into a sort of board meeting at which that day's family business successes and setbacks are top of the agenda. To avoid this situation many families adopt the rule: 'No business talk at the dinner table.'

If there are business conflicts, the problems become many times more serious. With some families, differences over business policies become so intense, and there is so much proximity both inside and outside business hours, that normal family life simply becomes impossible.

Questions that lead to conflict

Among a bewildering variety of potential sources of conflict are questions like:

- Who (now and in the future) should lead the business?
- Who should own shares in the business?
- How are the roles of family members to be defined and evaluated?
- How are family members to be remunerated?
- When should family members retire?

Because business life and family life represent distinct cultural domains with different behaviour patterns, these questions are often the cause of emotionally agonising predicaments for those who have to resolve them. It's hardly surprising then that only a minority of families establish policies on these critical issues.

To make matters worse, failure to resolve these questions often serves to reinforce damaging behaviour patterns among family members. Some of these negative 'family business syndromes' are listed in Exhibit 1.2.

Exhibit 1.2 - Family business syndromes

Syndrome	Symptoms
Procrastination	Always putting off discussion of potentially difficult family matters 'until tomorrow'.
Selective amnesia	Certain subjects are not talked about, in the interests (supposedly) of 'family unity'.
Paranoia	As evidenced, for example, by an excessively secretive management style of some owners.
Fear	Often unfounded, that raising certain issues will provoke unpleasant confrontations.
Conflicts of interest	Personal agendas get in the way of taking decisions that are 'best for the business'.

In short, people in family businesses generally dislike the idea of working through family issues and difficulties, and avoid such discussions. They find it very hard to talk about such issues, let alone to analyse what may be going wrong and what needs to be done to ensure the problems do not interfere with the efficient functioning of the business. Problems are ignored and allowed to generate uncertainty, weakening the family firm overall.

Chapter 2

Navigating the minefield

There are approaches that can be adopted in order to anticipate and prevent problems from arising. They entail asking some basic questions about the family and the business.

Difficulties arising from the overlap of family and business systems cannot be avoided entirely. On the other hand, successful families devise strategies that help them to keep the overlap under control, and to minimise the possibility of the sort of major problems that arise when one set of behaviour patterns engulfs the other.

Attempting to separate family and business life completely is the first response of many people when they begin to see the danger signals. But as well as denying the reality of family and human behaviour, this strategy means not capitalising fully on the advantages that flow from the family's relationship with the business – loyalty, passion, commitment, sharing common goals, flexibility and so on.

A balanced approach

A much more effective technique lies in developing strategies that help recognise and analyse family and business issues, and then address them directly to ensure the correct degree of balance between the two systems. The 'correct degree of balance' is one that allows the business to be run properly while not disrupting family harmony, and a key ingredient of this is 'preventive maintenance' – ie doing something about the wide range of problems that can afflict family businesses before they take hold.

As we have seen, difficult areas include family friction, personal dilemmas, management issues and succession, and within these broad categories the number and scope of individual problems is often bewilderingly large. Adopting family governance mechanisms/tools can be particularly useful in helping families to anticipate and avoid these problems. Two of the most widely used tools are:

- Holding regular family retreats and communication sessions (see Exhibit 2.1), perhaps involving the establishment of a 'family council'.
- Developing a written constitution for the family business (sometimes called a family charter), reflecting both family and business values.

Exhibit 2.1 - Ten reasons to hold family meetings

1. Unite the family.
2. Strengthen commitment to a shared vision for the business.
3. Educate successors in understanding and managing wealth creation.
4. Discuss succession and make choices regarding leadership.
5. Develop and enhance shared family values.
6. Decide rules for working in the business.
7. Decide policy on future ownership of the business.
8. Increase the capabilities of the family.
9. Ensure smooth communication between the family and the board.
10. Understand and resolve conflict.

Defining and articulating the family's relationship with the business is invaluable, and it's best to record conclusions in a formal, unambiguous family constitution. Points to be covered include:

- What is our shared vision for the family enterprise?
- What are our family values and how do they relate to the operation of our family business?
- What qualifications should be set for family members who want to join the business?
- How is the performance of family members to be measured?
- What stance should the family take on leadership and ownership by future generations?

Drawing up a constitution also helps family members reflect on and come to terms with some truly basic questions, such as: 'Do I want to work for the business, or do I want the business to work for me?' This concerns, for example, the extent to which family members are involved in the business by choice, or because they have been strongly encouraged to join by parents, or because they are worried that if they do not participate they will lose out in some way.

Core questions like this should be asked when drafting and agreeing the constitution, which forms an integral part of long-term family strategic planning. Such planning provides a structured opportunity for the family to assess and organise its relationship to the business, as well as to bring definition and clarity to that relationship. It also exerts needed pressure on individual family members to face up to the difficult emotional issues that, uncontrolled, can be damaging not only to personal relationships but also to the business.

Attempting to separate family and business life completely is the first response of many people when they begin to see the danger signals.

Chapter 3

Forging communication links

Members of family businesses often think they are communicating in a full and frank manner. On many occasions they are not. A strategic plan for the family is essential if misunderstandings are to be avoided.

So the importance of open, direct and frequent communication between family members in limiting conflict in the business is vital, but worthwhile communication is often in very short supply in family firms.

Exhibit 3.1 - Quality communication skills

Improving personal communications means:

- organising thoughts before speaking
- listening
- practising give-and-take
- using paraphrasing to confirm understanding
- asking for and providing feedback.

Avoiding miscommunications such as:

- hidden messages (skirting around the issue)
- mis-attributions (hearing hidden messages)
- projecting ideas and values on to other people
- forecasting conversations rather than actually taking part.

Tailoring communications to be appropriate to the message, the receiver and the occasion means:

- different approaches are needed depending on the subject matter and your assessment of who you are dealing with
- thinking about appropriate times and places for communication
- planning and setting up opportunities for communication.

Flawed communication

Company advisers often believe that full and frank communication is taking place within a family business – until, that is, they decide to probe a little and to talk privately to the individuals involved; at this point, it becomes clear that family members are not communicating at all about the things that really matter. In fact, family business people will often shy away not just from talking about family issues and difficulties and how they may be affecting the business, but also from thinking about them.

There is often a sort of forbidden agenda covering a whole variety of potentially sensitive family issues that might generate unpleasant conflict. Despite the fact that many family conflicts can only be truly resolved if they are tackled early enough, the unspoken understanding is 'to let sleeping dogs lie'.

Secrecy

The secretive management style of many owners often further inhibits communication. The desire for secrecy can arise from feelings of guilt about accumulating a disproportionate amount of wealth compared to their employees; or an excessive need for control, which, at least in part, can be maintained by severely rationing information.

Yet it is owners themselves that usually suffer most as a result of this secrecy. Rather than sharing family-related business problems with their family and gaining their support in resolving them, the owner bears the burden alone, while an atmosphere is created that fosters rumour and speculation, allowing frustrations and tensions to build.

The blend of family and business is demanding and complicated in the best of circumstances, and impossible in the worst. However, if owners, their spouses and their children can learn to communicate and share their thinking with each other about the important issues the family must face up to, and if they have a forum in which they can express their opinions openly and take part in policy making, it is possible for the family to develop a cohesive approach to the business.

Family strategic plan

A family can significantly improve its chances of success by planning its future together, establishing clear policies governing its relationship with the business, and defining the responsibilities of family members. The process of developing a family strategic plan helps families to approach their businesses in a unified way, rather than as a group of individuals that just happen to be related. The chances of misunderstanding are greatly reduced when the objectives and the rules are clear, and the rules are much more likely to be adhered to if they are arrived at through consensus rather than edict (see Exhibit 3.2).

Exhibit 3.2 - The way ahead: concensus rather than edict

Dictionary definitions of 'consensus' tend not to go much further than 'agreement', but the notion is so central to developing effective communication and implementing a successful family plan that it is important to try and pin down what 'consensus' really adds up to in practice.

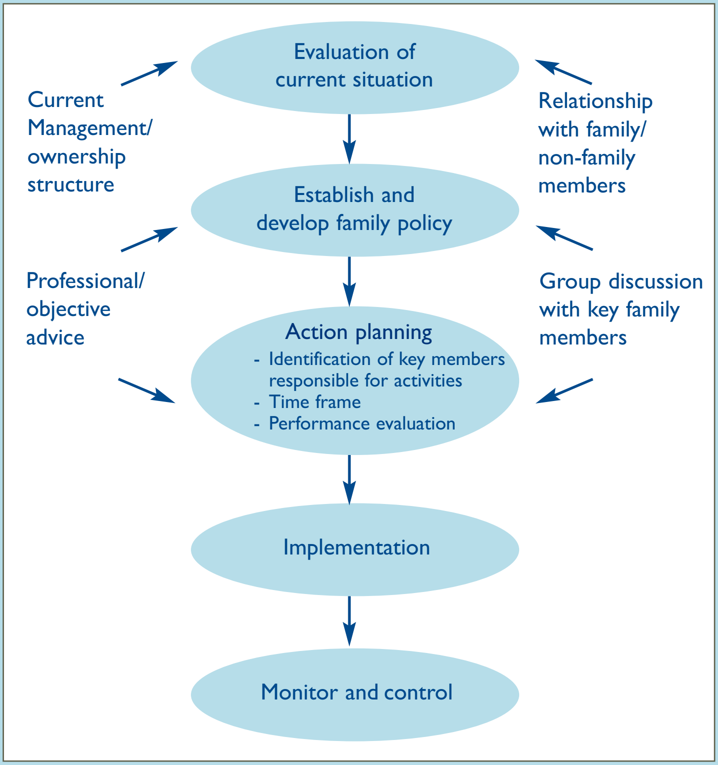
Family business research by Dr. Peter Davis of Wharton Business School asked leaders of the Quaker religious community in America what consensus – a key tenet for this peace-loving movement – meant to them. Several helpful points emerged from these conversations about the true nature of consensus:

- an understanding of, and unity with, the ideals of the organisation that make consensus rather than majority rule preferable
- an understanding of the individuals that constitute the group, and their idiosyncrasies
- a deep commitment to listening
- a clear sense of trust in the validity of each member's contribution
- an openness to learn from those who may be better informed in an area of particular concern
- an acceptance of the fact that individual knowledge untempered by group wisdom is very often shallow
- a willingness to undertake deep self-examination, particularly when a compromise between one's own point of view and that of the group could lead to consensus.

Strategic planning in a family context consists of:

1. Addressing the critical issues relating to family involvement with the business.
2. Establishing a family council (assuming there are sufficient family members involved to make this worthwhile). The council provides a forum in which family members can discuss their views and concerns, and that allows them to participate in policy making.
3. Developing, in writing, a statement of the family's values and policies – ie a family constitution or charter.
4. Maintaining communication – for example through regular one-day family 'retreats'.

Exhibit 3.3 - Develop a family stategic plan



The planning process

The stages involved in developing a family strategic plan are illustrated in Exhibit 3.3. As with any strategic planning exercise, the first step is to evaluate the current situation. This will involve looking at the state of both the business and the family, including factors such as the current management and ownership structures, the family's relationship with the company, and the role of non-family employees.

In stage two, the family develops its policies and objectives, starting with its long-term goals for the business – for example, how far do the family wish to grow the business, is it to remain a family company, or is the family looking to exit in the near future? In the light of this, policies should be defined covering the critical area of family-business relationships, such as the involvement of family members in the business, share ownership and management succession. A list of the factors that are likely to merit consideration at this staging process are set out in Exhibit 3.4.

Exhibit 3.4 - Checklist for a successful family strategic plan	
Factor	**Considerations**
Long-term goals	• What are the growth aspirations for the business? • What are the family's objectives for the business? • Keep it in the family? • Sell it eventually?
Management philosophy	• Are the best interests of the family or the best interests of the business paramount? • A combination of the two – and if so what is that combination?
Family members in the business	• Do family members want to work for the business, or do they want the business to work for them? • What should be the criteria for entry? • Should in-laws be allowed to join?

	• How will the roles of family members be determined? • How should family members be remunerated? • How should their performance be evaluated? • What if family members do not perform up to appropriate standards? • At what point should family members retire?
Share ownership	• Do shareholders regard themselves as owners of an asset that they seek to maximise, or as stewards and custodians of the shares (which are perhaps placed in trust) for the next generation? • If the shares are viewed as a realisable capital investment, is everyone aware of this and are exit procedures in place for owners who want to cash in? • Are the shares seen as a non transferable trust for future generations. If so, is everyone aware of this and is the company geared up to provide income and pension rights in place of capital asset status for the shares? • Who will be allowed to own shares in the company? • Who should have voting control? • What should the dividend policy be? • What will happen as regards share ownership in the next generation? • Should family members who are working in the business be treated differently from those who are not?
Management succession	• What should be the criteria for selecting the next leader (or leaders)? • When will the transition take place? • What should be done if the choice is wrong?

	• What are the owner's aspirations in retirement? • How can the family help the owner to achieve them?
Relationships within the family	• What responsibilities do family members have towards each other? • What is the best way to ensure an atmosphere that enhances mutual respect and support? • How should intra-family differences be dealt with?
Other matters	• Should the business have directors? Independent directors? • If so, how should the family relate to them? • How can the family protect the security of loyal employees? • What role should the business have in the community?

An experienced family business consultant can often help families to decide on their goals and policies by bringing an objective perspective to this critical stage of the planning process. The involvement of a professional outsider may also be valuable when the family meets to discuss the issues raised by its strategic plan, and the role such a facilitator can play at family meetings or retreats is examined in the next chapter.

Defining policies is followed by action planning. This will include identification of family members responsible for implementing particular aspects of the plan (who is to organise family council meetings, who will mediate in cases of conflict between family members, and so on), setting a timetable for implementing the plan, and deciding how its implementation is to be monitored, controlled and evaluated.

Chapter 4

Communication channels

Holding a family council provides an ideal opportunity for open communication and to agree a focus for the future. The success rate depends on careful planning, ensuring the appropriate people attend and good use of outside facilitators.

Family council goals

The establishment of a family council provides an organised forum for family members to participate in the development of their strategic plan and in future policy making. They have a chance (perhaps for the first time) to start tackling the 'forbidden agenda' and to lay down some clear, sensible ground rules governing their ownership of, and involvement in, the family business.

Even if all family members do not agree on every question, they at least have a voice in the process, and in many ways it is the setting up of this process that is the key step: as well as providing a structured opportunity for the family to assess and organise its relationship to the business, it puts needed pressure on individual family members to face up to the difficult emotional issues that, uncontrolled, can be so damaging to the business.

The aim here is to highlight the main benefits of establishing a council, along with a range of practical considerations such as how to set one up, who should be included and the role of outside facilitators.

Exhibit 4.1 - Five key benefits of establishing a family council

1. Unity and consensus

Opening the channels of communication and separating the discussions from day-to-day family and business affairs allows family members to focus on positive aspects of family relationships, abilities and successes. There is a tendency in all relationships to allow problem areas to loom large, obscuring what's right and what works. The family council is a chance for the family to reaffirm their commitment to each other, and to the business.

2. Planning the family's relationship with the business
Family councils are the ideal forum for discussion of core questions, the answers to which may affect the long-term future of the business, such as:

- What are the family plans for ownership of the business?
- What are the family plans for ownership of the business?
- Can family members sell their shares in the business?
- Who will lead the business in the future?
- To what degree will family members continue to be involved in the business?
- What rights have future family members (offspring, in-laws) to participation in the business?
- What rights will such members have to income from the business?
- How is the revenue generated by the business to be shared?
- Who has responsibility for sensitive financial or personnel decisions – particularly those with a direct family impact?
- Is the aim of the business to generate family revenue, to provide the foundation for future growth, to maintain the income of family members actively involved in the business, or some combination of these goals?

3. Planning the family's relationship with the business
Sometimes the best decisions for a business are wrong for the family which owns and runs it. As owners, they may set goals for the business that on first examination run quite contrary to the best of established business practice. Family councils are the most appropriate forum for setting goals for the family, even if they represent 'intangible' and possibly idealistic targets. These may include such diverse aims as:

- Providing a stable income for individual family members.
- Preventing break-up of the family due.
- Providing job satisfaction and an attractive work environment for family members and loyal employees.
- Creating a corporate culture reflecting family values.

- Providing an opportunity to involve other family members – offspring, spouses, etc – in common family interests and goals.
- Maintaining family tradition, status or craftsmanship.

4. Managing growth

Once a business reaches a certain size, it's unlikely that the family will be able to provide all the requisite professional expertise and advice. At this point the family will have to open itself to outside influence and interference, allowing non-family members to take key roles in advising or even managing the business. This can be painful, and many family businesses flounder when conflict is allowed to develop between highly skilled and experienced 'outsiders' and the 'inner circle' who may be feeling defensive and protective about their rights and abilities. The family council meeting allows the family to structure it's approach to such non-family members and to work out how far they are to be integrated into the organisation of the business, and what their relationship with the family is to be.

5. Opportunity to identify and resolve conflicts

A family council that is functioning effectively must bring into the open and tackle the trickiest personality and relationship-based conflicts. It cannot work if such difficult considerations are not dealt with thoroughly, before they are allowed to sour both family and business life.

The establishment of a family council helps families develop a cohesive approach to the business, and an excellent starting point for a family council is a two or three-day residential retreat, with relatives gathering in a quiet environment away from the everyday surroundings of job and home. A non-confrontational atmosphere will help them to discuss their future in a constructive way, and all the key issues should be on the agenda, ideally with the aim of setting out the conclusions of the discussion in a first draft of the family's constitution.

Membership

The general rule is that the council is most effective when both 'passive' and 'active' family members are included, so that all the owners are represented.

All family members, whether directly or indirectly, have a stake in the business and it is best if everyone is fully involved from the start, in order to establish a unified and cohesive family approach to the business. An exception to the general rule sometimes arises where a family council comprises representatives from a number of different families, as can happen where ownership is divided between a number of siblings or cousins and their various offspring. In these cases the chances of achieving consensus can often be improved by restricting family council membership to just the key players or by electing representatives.

The role of facilitator

The chances of a successful retreat are greatly improved by asking an impartial person from outside the business and the family to act as a facilitator. Ideally, this should be a professional consultant with broadly based commercial and financial experience, who is skilled in managing group dynamics and in helping family-owned businesses. He or she can assist in setting the agenda, moderating or facilitating the meeting, and ensuring an atmosphere in which everyone feels free to express their concerns.

The facilitator will usually interview all family members in advance of the meeting in order to identify the sensitive issues – the emotional ‘hot spots’ – that must be faced up to. If possible, interviews should also take place with ‘outsiders’ like the company’s accountant, banker or lawyer – ideally people who have had dealings with the family and the business over a number of years and who are able to express well-founded, impartial opinions about both.

An important aim of preliminary meetings with family members (held on a one-to-one basis) is to begin to establish an atmosphere in which people feel they can talk honestly and openly about the key issues. They also help to ensure that discussion at the retreat itself is tailored to the particular difficulties and needs of the family and their company. The facilitator is not there to solve the family’s problems – indeed, it should not be assumed that he or she knows all the answers.

The role of an impartial facilitator is to help the family to discuss the issues in an informed and logical way, to guide family members as they seek out a consensus, and to help them draw together their decisions and set policies that can be codified in a written family constitution. The process can be painful: indeed it can often be said about such retreats that 'if there's no pain, there's no gain'. But the discomfort usually goes away quite quickly, especially when those involved discover the liberating effects of discussing and resolving previously taboo issues.

Lastly, and on a practical note, it is good practice to insist that accurate notes are taken of everything discussed and decided at the retreat – as has already been mentioned, 'selective amnesia' is quite common among family business people! Appointing a secretary for the meeting is a useful move.

Exhibit 4.2 - Key agenda items for family councils

- Establishing a shared family vision.
- Family beliefs and values.
- Reflection of these values in the day-to-day running of the business and setting of its goals and targets.
- Family members identification with, and pride in, the success of the business.
- Ownership of the business – now and in the future.
- Desire to maintain ownership by family members.
- The right of family members to employment within the business.
- Recruitment of family members into the business.
- Ensuring adequate training and experience for family members before they join the business.
- Generating skills required for the business from within the family.
- Attracting, motivating, remunerating and retaining key non-family personnel.
- Leadership and planning succession.
- Retirement of family members active in the business.
- Rights to own, buy, sell and transfer shareholdings – within and outside the family.

- The degree of control to be exercised by family shareholders not active in the business.
- Balancing the need to run the business so as to support the family, and to take family decisions that strengthen the business.

Chapter 5

Recording decisions: the family constitution
Writing a family constitution takes time but the benefits from having one can't be underestimated. It records the family's agreed stance in relation to the business and other issues.

A family constitution (or charter) is a written statement (gained by consensus) of the family's shared values and policies in relation to ownership and operation of the business. It represents a powerful tool in establishing and maintaining the crucial balance between the best interests of the business on the one hand, and the well-being of the family on the other.

What should be in a constitution
As a minimum, a family constitution should include:

- the family's agreed long-term goals for the business
- the core elements of its management philosophy
- the conditions under which family members enter and exit the business
- equity ownership policies
- and the agreed criteria for management succession.

The main headings are likely to include the family's conclusions on the issues set out in the 'Checklist for a successful family strategic plan' in Chapter 3.

It will be clear from this listing that formulating a family constitution is a significant undertaking. It is time-consuming (usually a matter of months) and, if the process is to be successful, a major commitment is necessary from everyone involved. Also, it's an 'all or nothing' process – to a significant extent the points in the checklist are interlinked and interdependent, and it is not generally possible to formulate policies on some of them while ignoring the others. In the end, of course, it is possible that not all family members agree with every single provision of the constitution, but at least the rules have been thought about, discussed, written down and are clear.

As well as these core subjects, some families use the opportunity to go further, making their constitution into a much more substantial document – a sort of mission statement that records the family's agreed stance, not just in relation to the business, but also on a whole range of moral and behavioural issues. This extension of the family's original purpose is often the product of a detailed process of examination. Initially, discussion centres on seeking out common ground in relation to business issues but, once this level of consensus has been achieved, an appreciation often develops among family members that their ability to agree on business questions reflects the fact that, at a deeper level, they share a common set of ethical, moral and spiritual beliefs. This realisation strengthens feelings of family bonding, and helps the family arrive at an agreed constitution that they see as symbolising their commitment and their pride.

Legal status

When drafting first starts, family members generally expect that the finished document will be a confidential family statement of intent rather than an enforceable legal agreement. But, as detailed provisions start to come under the microscope, the view often develops that legal enforceability may be both desirable and necessary.

Typically, this is brought home by clauses that are intended to protect the business but that may, in addition, place potentially onerous burdens on individual family members. A common example concerns exit procedures for shareholders who want to leave the business: the family constitution makes clear their freedom to leave but states that the consideration for their shares is payable over, say, a five-year period. The delay is designed to protect the company against a large-scale and unexpected withdrawal of cash, but may well represent a serious burden as far as the departing shareholder is concerned.

Clearly, it's usually preferable that such important matters are not left to chance and, therefore, family constitutions often form legally enforceable agreements.

Review and amendment

The constitution should include a timetable and procedures for two sorts of regular family meetings:

1. An annual meeting or assembly of all family members, set to coincide with the availability of the company's trading and financial results.
2. A meeting, say once every five years, at which the constitution itself comes up for review and, if necessary, amendment.

There should also be terms under which family members who wish to raise constitutional matters prior to the next formal review can call special meetings for this purpose, provided they give the prescribed notice to the family council.

By way of illustration, an example of a constitution adopted by one established family business is set out in Exhibit 5.1.

Exhibit 5.1 - A family constitution

Set out below are certain binding principles and practices which we have discussed openly and in detail and which we agree are in the best interests of harmony in the family and the future success of the business. This constitution has been drawn up in the light of the challenging fact that fewer than 14 per cent of family businesses in the United Kingdom survive beyond the third generation, and it is adopted with effect from the date hereof.

Management philosophy and objectives

- Our major priority will be the best interests of our customers. Our company management will combine the highest ethical and business standards.
- Sound business principles will take precedence over family issues. Each family member understands and accepts this and undertakes never for any reason to place pressure on the board of directors for dividends, jobs or benefits in excess of what the board feels is consistent with business objectives.

By following this philosophy we believe the business will continue to grow profitably, to provide an economic return for family members and to provide a heritage for our children.

Family jobs and remuneration

- No member of the family will be offered full-time employment by the company unless he or she has gained a minimum of two year's relevant experience in another unconnected commercial organisation.
- Entry into the business will be an opportunity, not a birthright, and higher levels of commitment and performance will be expected from family members than from other employees.
- Family members will only be employed in positions for which they have the appropriate attitude and experience, and if their performance consistently fails to meet expectations, they will be requested to leave.
- In order to limit the potential for future conflict, it is hereby agreed that no in-laws will be permitted to hold positions in the company.
- Family members employed in the business will be remunerated on the same basis as non-family members and will participate in performance appraisal in the same way as non-family members.

Leadership

The next managing director will be selected on the basis of professional competence, and will not necessarily be a family member.

We pledge our support for the chosen individual even if not our personal choice.

We have established that our next managing director should satisfy the following criteria:

- must have a proven track record of performance
- must have leadership qualities, the ability to command respect among employees and family members, and vision for the company's future
- must have solid experience in our area of business operations and be an appropriate ambassador to our customers, the community and the business world.

Voting control and share ownership

Only bloodline family members and their direct bloodline descendants may own shares in the company or vote. Voting control will be vested only in family members who are personally active as employees in the business, or in a voting trust.

No shares in the company may be sold or transferred by any family member, other than to direct bloodline descendants, without first being offered for sale back to the company at an independently appraised value.

Board of directors

- Our major priority will be the best
- In order to provide objectivity, expertise, experience and guidance, a non-executive director will be retained by the board. Family membership will not be a requirement for board membership. All board members, other than non-executive directors, will be required to hold a management position in the company.
- Outside professionals regularly retained to provide services to the company shall not be board members.
- Bloodline family members not on the board will be permitted to ask questions or make suggestions for board action to the board, and the board will endeavour to respond to such requests promptly.
- The board will have responsibility for resolving any conflict among the family on business issues and the board's decision will be final and binding on all.

Communication

- We acknowledge the importance of open communication within the family. At least once a year we will have a meeting of the family council that all family members will be entitled to attend.
- We will respect the opinions of other family members, even if we do not agree with them. In the event of disagreements, we

commit to constructive resolution that places the best interests of the company and the family over our own preferences.

Our employees

- The success of our business would not have been possible without our devoted, loyal and hard-working employees. We are committed to the continuance of an environment that values their contribution, treats them with respect, and provides them with appropriate rewards and benefits.

Amendment of the family constitution

- The family constitution will be formally reviewed every five years and may be amended or modified at any time by a majority vote of family bloodline members aged 18 years or over.
- While we acknowledge that this document is not legally binding, we will support the constitution and encourage our children to do so.

Chapter 6

Conclusions

In order to avoid splits and tensions, families must ensure clear communication and develop a cohesive approach to the business. But there are no rights and wrongs or hard and fast rules. It is commitment that matters.

Families that are in business together share a set of values, ideals and experiences that potentially represent a valuable competitive advantage for the family business.

Sometimes the business itself is a unifying force that brings the family even closer together. All too often, however, an apparently flourishing family business, far from adding to the quality of family life, serves as a catalyst in its destruction. Emotional tensions surface between family members that split the family and destroy the business.

What is happening in this scenario is that divisions in the family interfere with the effective functioning of the business. The divisions:

- impede communication
- frustrate adequate planning
- prevent rational decision making.

The aim of this guide, therefore, has been:

1. To recommend a process whereby families can begin to develop an understanding of the nature of the factors underlying common causes of conflict in family firms – a vital first step in being able to limit their destructive consequences.
2. To establish communication channels and procedures that enable them to develop, via a family strategic plan, a cohesive approach to the business and the wealth invested in it.

Cultivating a light touch

That the discussion has centred on a process is important. Every family business is different and, for individual firms, there are really no right or wrong answers or hard and fast rules. Instead there are certain guiding principles, approaches and problem-solving techniques that need to be applied flexibly. Sensitivity and cultivating 'a light touch' are important for everyone involved in the process because, underlying virtually all the issues, are the goals, values and emotional susceptibilities of the individual people involved.

But a light touch must not translate into an absence of commitment. Indeed family strategic planning generally requires a family member at the company to take the lead, to champion the process and to galvanise fellow family members. Without broad-based commitment and enthusiasm the process will not work. So a straightforward, routine series of meetings will not be enough. What is required is nothing short of a comprehensive plan that allows the family to achieve large-scale objectives (see Exhibit 6.1).

Exhibit 6.1 - Objectives of strategic planning for families

1. To establish open, direct and frequent communication between family members.
2. To begin to unravel unresolved, or unacknowledged conflicts.
3. To assess and organise the family's relationship to the business.
4. To clarify and define the conclusions of the planning process with sufficient precision for them to be written down in a family constitution.

Families entering into this process need high levels of commitment, a willingness to talk to one another frankly and grapple with taboo issues like old rivalries and conflicts, and to be prepared for a fair amount of discomfort, and sometimes pain.

The rewards too are substantial, however. Families that successfully 'negotiate the minefield' talk of feelings of personal liberation and a fresh start for the family. More to the point from a business standpoint, such families have taken a major step to ensuring the success of their family firm and its survival for future generations.

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The business school view by Professor Nigel Nicholson, London Business School*

Happy families and the succesful firm

In my book, **Managing the Human Animal**, I evoke what I call the Tolstoy Principle in relation to business, so-called from the opening sentence of his great novel, **Anna Karenina**: "All happy families are alike, but each unhappy family is unhappy after its own fashion."

This is hardly a scientific proposition but it has a grain of truth. The family therapy literature contains numerous volumes about disorders and dysfunctions, and much less about the well-adjusted family. One can summarise the latter as a combination of features that don't make the family problem-free – no Utopia exists in the realm of human relationships – but which make the family able to face and overcome challenges as they arise. They involve parenting that has clarity and purpose, accompanied by nurture and love, but neither to excess. Too much purpose becomes oppressive, and too much nurturing becomes stifling. Too little purpose and there is aimless drift. Too little love and the family fails to hang together. Family dysfunctions usually result in one of three major causes of breakdown in the family business.

The first is where the family is 'enmeshed'. Individuals in this case struggle to assert their interests, rights and identity in a climate of over-control. The result is that when a member does break free they cut themselves off to protect themselves. The family loses its way because it is unable to incorporate the kinds of challenge that a fresh or contradictory perspective may bring. These are the family businesses that fail because they are stuck in their own family model, increasingly out of step with external realities.

The second cause is where the family is 'centrifugal'. There is nothing to hold these families together. There is no alignment of values or interests to form a preventive barrier against people taking their share and doing with it what they will. Many family businesses find it is easier just to sell up and share out than to carry on. They cannot find a way of pooling resources and achieving a common purpose.

The third is where the family is 'schismatic'. In this case the family is fractured along fault lines: one generation against another; one sibling at war with another; one branch pulling away from another. Breaches and differences in families are inevitable, but the question is, what happens when a crack appears – can it be bridged or does the fissure turn into a canyon? The most spectacular family failures come from this kind of falling apart.

What's the answer? This guide – **Getting the family to work together** – details numerous techniques and tips to help the family to find its unique and coherent voice. Underlying them all is communication. Open exchange is essential but certain rules need to be obeyed to make this work, otherwise more talk can just mean more cacophony and conflict. There are four key rules:

- To develop good communication habits. That means listening as well as talking. It means not rushing to judgement but considering alternatives before making a decision.
- To appreciate difference. This means to understand profoundly that other people hold quite contrasting perspectives for legitimate reasons. It means cultivating the emotional intelligence to imagine what it must be like to be in another family member's position, and why their personal drivers are different to one's own. Then one can truly problem-solve on the basis of honestly held and expressed points of view.
- To engage in creative conflict. This means to have real open debate about substantive issues and matters of process – ie how one approaches the issues – in a search for solutions and methods that optimise everyone's interests. The key here is to realise that you can't have everything, and the best outcomes will only be possible if people are prepared to change their minds and compromise, or to find creative new solutions.
- To avoid destructive conflict. These are disputes about identity and relationships, where people criticise each other for being who they are. It is reasonable to acknowledge that people have very different character traits, styles, wants and interests, and that one has no right or capacity to change.

In fact the greatest strength of family firms – what gives them their unique advantage – is their capacity to incorporate a natural diversity in a culture that is integrated, adaptive and feels good to the people who work within them.

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Institute of Family Business

The UK's network for family firms

About IFB

IFB helps families meet each other and exchange best practice to:

- secure long-term success and sustainability
- prepare the next generation to become tomorrow's leaders
- be effective stewards building wealth for future generations.

IFB's mission is to help sustain a successful family business community in the UK making a powerful contribution to the national economy. These aims are achieved by:

- offering members regular networking opportunities and educational programmes
- fostering the development of knowledge and best practice in the field of family business.

IFB is an independent not-for-profit organisation, governed by a Trustees board elected by the members.

Who is IFB for?

The network is designed for family business owners, either actively involved in management or just shareholders, board directors and senior executives. All generations are encouraged to participate and the association emphasises the importance of the young generation through the **IFB Next Generation Forum.**

By families for families. For information contact:

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Peter Leach LLP

The continued success of the family business sector is critical to the UK economy. Yet, surprisingly, little guidance is available on these unique and complex issues that family businesses face. One organisation, however, makes available the guidance and help family businesses need.

Peter Leach LLP specialises in advising family-owned businesses and the people behind them. With over 25 years of experience in the field, Peter Leach is one of the world's leading family business consultants and facilitators. He has a successful track record of working with and transforming numerous family businesses across the world. Peter Leach LLP's specially trained and licensed consultants are widely recognised authorities on this complex sector. As respected professionals, they combine many years of practical experience with a continuing commitment to family businesses. Their objective expertise makes Peter Leach LLP a valuable resource for any family business.

From our experience, built up over many years of working with family businesses we know that no two are the same – nor are the commercial or competitive pressures that affect them. For that reason, we tailor our approach to the specific needs of the family and the business involved in each assignment we undertake.

The core services that Peter Leach LLP offers its family business clients are:

- managing succession
- formalising a Family Constitution
- improving communication.

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