Institute for
Family Business

Family Business Challenges

Family Councils

A Practical Guide

Peter Leach

PETER LEACH & PARTNERS

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Research
Foundation

About IFB Research Foundation

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Our vision is to be the UK's authority on family business.
The IFB Research Foundation is dedicated to developing a deeper understanding of family business, which makes a significant contribution to our economy and society. The knowledge fostered through the Foundation helps to ensure the continued success and sustainability of the UK family business sector.

Our sister organisation, the **Institute for Family Business (UK)**, is an independent, not-for-profit, politically neutral, membership association supporting family enterprise.

- **IFB Representation:** promoting policies that enable family businesses to grow
- **IFB Forum:** helping members to share knowledge
- **IFB Direct:** access to resources that help owners address key challenges

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- William Jackson Food Group

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About the author

Peter Leach is Chairman and Founding Partner of Peter Leach & Partners LLP, a boutique advisory firm set up to support and advise entrepreneurial families.

With over 30 years of experience as a business adviser, teacher and facilitator working with family business owners internationally, he is seen as the "founding father" of family business thinking in the UK.

PETER LEACH & PARTNERS

Foreword

All of us who are involved in a family business – whether as owners, employees or as members of the next generation – face similar issues, no matter how large or small our family business is. The only thing that differentiates us is the timing of these issues and their complexity.

This practical guide to family councils should help us navigate a course through a difficult area where family ends and business begins. It should also enable us as families to speak to the board of our family business with a clear and single voice – rather than create confusion by different family members saying different things to the board at different times.

Setting up a governance system that formalises and professionalises the interface between family and business is never going to be an easy task. As the guide says, the task is never complete either, because the governance will need to adapt and evolve in the same way as the family and the business does. However, this guide provides practical and honest advice about a key component of governance – the family council. It puts this area into perspective and covers all the questions that usually arise.

As the former chair of our fifth generation family business, William Jackson – now in the process of passing to the sixth – I am certain that without a strong family council and the associated governance structures, our business and family would not be the strong and unified entity that it is today, 161 years after my great great grandfather founded it..

Christopher Oughtred
Chair, IFB Governance Forum

Introduction: Family businesses need distinctive governance

Managing ambiguity

Family businesses represent an intriguing collection of paradoxes. One of the clearest examples, and the one that interests us most here, is the way the family connection in these businesses can be a source of both strength and weakness.

On the plus side, potent founding values can foster a unique internal atmosphere at the company, creating a sense of belonging and enhanced common purpose. This helps the business to project a strong external identity and generate significant competitive advantage. Family firms can also adopt a long-term perspective because, mindful of the idea of stewardship, they see themselves building a business for future generations.

But there are also risks associated with this type of company. Family emotions can interfere with commercial decision making, and everyone has to work hard to counter dangerous tendencies towards introversion and secrecy. Conflicts can arise in the family, particularly between family members who are working in the business and those who are solely shareholders, while ownership and management succession to the next generation often present major difficulties.

As with all such paradoxes, the contradictions they embody cannot be eliminated or "solved". All that can be done is to try to balance the forces at work and to manage the tensions they create. To add to the complications, family businesses never stand still – they are constantly in a state of flux as the balance of interests, and the needs of individuals and the enterprise, change and grow.

Growth and governance

Ownership of family businesses tends to progress through a sequence reflecting ageing and expansion of the owning family. In this guide we will refer to the basic three-stage model,[1] which divides the family business life-cycle into:

1 **Owner-managed business.** How most family businesses start life, with one individual – the founder – typically having voting control and making all the

key decisions. Governance is seldom high up the agenda at this simple stage (boards of directors, for example, rather than carrying out a serious advisory role, generally "rubber stamp" the founder's decisions), although succession planning presents a problem for many owners.

2 **Sibling partnership.** With ownership and management transferred to the founder's children, governance complexity increases. Developing processes for sharing power and control among siblings and avoiding sibling rivalry are important challenges for family firms at this second stage of development. A workable relationship based on good communication and effective governance structures needs to be established between owners who work in the business and those who do not.

3 **Cousin consortium.** With succession to the third generation, governance complexity arrives with a vengeance. There's a well-established business and there may be several dozen family members directly or indirectly involved, including children of the siblings, cousins and in-laws. Ownership is generally in the hands of many cousins from different sibling branches of the family (each with its own perspective and outlook), often with no single branch having a controlling shareholding. Difficult governance issues at this stage include agreeing a unified family vision and mission, and setting family employment policies, shareholding rights and dividend policy.

In order to promote the long-term health and continuity of family firms as they grow through these predictable stages, it becomes necessary to establish a progressively more formal and systematic approach to family governance. Institutions, systems and mechanisms must be introduced that help manage the increasing diversity of interests and demands, letting everyone have their say in a controlled environment. Developing such a structure builds trust among family members, helping them to unite behind a common agenda to promote the sustainability of the business. Successful families:

- Define their roles and responsibilities as family members.
- Adopt written policies and rules covering critical areas, like involvement of family members in the business, management succession and share ownership.
- Establish organised procedures and a formal framework for transparent dialogue, policy making, planning and the management of differences.

Controlling complexity

It is important to be flexible, but the major constituents of effective family governance are usually a written constitution that records the family's values, vision and agreed policies towards the business, along with family institutions whose operations, rules and policies bring discipline and accountability to family deliberations.

As we will see, these governance institutions can take many forms but they share a common overriding objective – by allowing family members to get together they increase the communication links between the family and its business, building understanding and consensus. Key among these forums, helping families stay involved and informed, is the family council (also sometimes called a "family executive committee" or "family supervisory board"), by which we mean quite simply a group of relatives who periodically come together to discuss issues arising from their family's involvement in the business. The family council is the strategic and organisational planning arm of the family, meeting to articulate values, to formulate direction and policy, and to oil the wheels of family communication.

This stress on constructive communication is important because lack of formal communication is arguably the single biggest problem in family businesses. Family members often shy away from potentially sensitive issues affecting the business that they feel might generate conflict, but such concerns can only truly be resolved if they are addressed promptly, openly and explicitly. Family councils can provide formal channels of communication through which everyone hears the same information at the same time, and they represent an acknowledgement by the family that awkward issues usually don't get resolved by ignoring them.

The family council as a "transitioning tool"

We noted earlier that as business families grow in size and complexity, an ever-changing set of issues to do with the family's interface with the business needs to be addressed. The idea of family councils as "transitioning tools" reflects this need, and it comes up at various points in this guide.

Broadly there are three kinds of family business – autocracies, meritocracies and "ad hocracies" – and family councils play an essential role helping families transition from their generally ad hoc, informal and introverted early stages, by establishing rules and governance structures designed to promote family and business welfare, and resolve issues surrounding how family members relate to their business. Using the family council as a transitioning tool enables families to manage this progressive conversion of their enterprise from often improvised, underplanned and undergoverned beginnings through to well-structured, well-balanced businesses driven by family values and vision.

Transitioning is also facilitated by family councils in more directly practical ways. For example, succession in a family business can seem a distant prospect where the next generation (say in their late 20s) are working in the company but the senior generation are not ready to pass down shares. Appointing next generation members to the family council contributes to long-term transitioning by providing juniors with recognition and a significant voice in family affairs. Belonging to the family council is another way of belonging in the family business.

William Jackson Food Group

A culture of communication and continuity

The fifth generation diversified food business, William Jackson Food Group, best known for its Aunt Bessie's brand, set up their equivalent of a family council – the Family Steering Group (FSG) – with the goals of improving communications among family members and increasing their understanding and appreciation of the business. Family members who do not work in the company have particularly benefited through their improved understanding of what is happening in the business and what is relevant. A challenging area for the FSG has been to encourage the next generation to take a more active involvement. As part of a proactive and imaginative approach, next generation members have been included in family governance from their early 20s (and sometimes earlier), so that by the time they reached their 30s, steeped in the traditions and history of the business, they have become productive members of an exemplary family governance system. The FSG was first set up in the early 1990s and has grown from strength to strength in supporting long-term family continuity.

As well as guiding transitions, family councils also lead the process by which the business develops effective communication with its family shareholders. Often in family businesses people say, “We don’t have to worry about the shareholders because they’re family”, but the implied assumption that these people are already “onside” – i.e. informed, cooperative and supportive – can prove to be dangerous conjecture. Public companies spend large sums of money on shareholder relations for a reason, and in family businesses disconnected shareholders are potentially *much* more troublesome.

The need to discuss family councils in a coherent way means that the structure of this guide reflects the development and life-cycles of family businesses themselves – from simplicity to complexity. As we will see, a family council in a small-scale, owner-managed or second generation business bears only passing similarity to that same body at work within a sixth generation, multi-family business with hundreds of shareholding cousins, so our discussion must cover both extremes, and also track the trend in between towards extra complexity.

Finally, because this guide focuses on a single aspect of family governance – the establishment and workings of family councils – there is a danger of seeming to overemphasise these forums, creating the impression that they are the be-all and end-all of effective family governance in family-owned businesses. While all families in business certainly need an effective governance system, and while a family council is almost always a required component of such a system, it is not the only component. Indeed, the effectiveness of a family council is largely judged on how successfully it interacts with other governance entities in what should be a carefully designed, holistic and well-balanced system.

Family councils: Strategic goals and initial tasks

Establishing effective family governance is vital if a family business is to remain viable across the generations, and family councils play a central role in this process, helping families find consensus on issues where the owners' wishes matter most. Not everyone's goals will be the same. In some businesses the strategic aims for the family council will centre on developing responsible family stewardship of the business; others will concentrate on ensuring effective shareholder governance; yet others may focus on promoting education in preparation for shares passing down to the next generation.

Strategic intent

Whatever the agreed core objectives, the family council provides an organised way for family members to achieve them, and the council's long-term work of building cohesion and unity involves four major ingredients:

- **Maintaining shared values and a strong vision.** A family business is an external manifestation of a family's value system, reinforcing what the family stands for and why they are in business together. Family governance institutions – especially the family council – provide a forum for debating and articulating these core values, and communicating them for the guidance of the board and management. This shared vision underpins communication among family members and helps build strong relationships, giving a voice to family members who are not directly involved in the business (or maybe even in ownership). Family commitment in turn boosts business stability and performance. A family united behind clear values and goals provides a signal to managers, employees and other stakeholders that family involvement is solid and for the long run.
- **Setting policies that balance family and business.** Among a range of advantages, family businesses can foster a unique atmosphere that creates a sense of belonging, enhanced common purpose and improved commercial performance. The aim here is to maximise these benefits and to reduce the likelihood that family matters and emotions interfere inappropriately with business decisions. The family council therefore strives to resolve conflicts and formulate clear ground rules on issues surrounding the family's ownership of,

and involvement in the business. So it may develop policies on, for instance, family members working in the company, how management succession procedures will work and how the family relates to the board of directors. The family council can also work to promote responsible ownership, including rules governing shareholder relationships, dividend policy, liquidity strategies and attitudes to investment risk. These rules clarifying the boundaries between the family and the company are vitally important and should be written down in a formal document like a family constitution.

- **Guiding the firm's important business decisions.** Especially in more mature family businesses there is a need for the family council to provide clear guidelines to the board of directors and senior management concerning strategic direction. For example, how the family's core values determine the type of business ventures to be pursued (perhaps on ethical or religious grounds) and the criteria that will govern the succession process ("big-ticket" items like these are discussed later in the section headed "Family councils in multi-generational businesses"). Family councils are not involved in day-to-day business decision making, but they should act as a bridge between shareholders and the board.
- **Educating family members.** The family council keeps family members (especially those not involved in the business) informed about major business achievements and strategic challenges. It can organise formal and informal ways to learn about the family business, and in particular to educate and prepare the younger generation on the rights, responsibilities and privileges of business ownership, promoting continuity and serving to instil a sense of stewardship. Through education, the family council aims to build a knowledgeable and cohesive shareholder group that can make informed decisions and "speak with one voice" as the family extends and the business develops.

Groupe Comte-Serres
Next generation education and engagement

Faced with a looming generational transition, the owners of the Comte-Serres family business, whose main activity is in automobile dealerships in the French overseas territories, established a strengthened governance process that included the creation of a family council. The council brings together shareholders to consider a range of issues, including updates on business progress, developing a common vision and enterprise mission, and educating the next generation (who are still minors). The main benefits of the meetings, which are facilitated by an external adviser, have been to create opportunities for family members, whether working in the business or not, to have a dialogue on issues such as share ownership, dividend policy and other owner-related matters. The Comte-Serres "Youth University" is popular with the next generation and has helped foster greater all-round attachment to the family business.

Launching a family council

Some families find it awkward to talk about often delicate subjects in the formal setting of a family council meeting. Especially in the early days of their business, informal family meetings are the preferred option – often it's a birthday, or a Christmas or Sunday lunch – to discuss family governance issues, usually with incomplete and frustrating results. So setting up a family council is a turning point in the life of many families, marking their decision to adopt more structured, effective processes.

When to launch a family council usually boils down to a question of need and numbers. A first generation entrepreneur working alone does not really amount to a "family business", but as soon as the next generation are on the horizon (or if, say, three siblings start a first generation company) then the enterprise assumes family business characteristics that make establishing a family council a viable step. It's important, whenever possible, for family councils to be established while there is family harmony. This enables the family to focus on the future and – in a calm, unemotional atmosphere – to design and set up their council so that, in doubtless more stressful times ahead, it will work efficiently in the best interests of the family and the business.

The family constitution

More technical questions about timing arise when, as is often the case, families are working on establishing their family council at the same time as organising another important component of governance, their written family constitution (sometimes also called a protocol or creed). The constitution is a statement of intent that spells out the family's values, purpose and vision, plus the rules and procedures in relation to their ownership and operation of the business. Even for younger family businesses there are serious benefits to be had from a family constitution and the disciplines it imposes.

But what is the best order of events? Sometimes families set up a family council first, and then assign to it the task of agreeing a first draft of the family's constitution. But the drawback of this is that the family council is designing the governance structure that the council itself will be a part of. A different, and we believe better approach, is for the family first to establish an interim committee that it tasks to draft the constitution, and then, once the terms of the constitution are agreed and finalised, the family council is formed to take its place as part of the planned, coherent governance framework codified in the constitution. As emphasised in the Introduction, family councils must not be viewed as "standalone governance"; they are just one component of a family's systematic approach to managing its relationship with the business. In its ongoing work the family council will then use the constitution as a framework to help manage complex questions as they emerge.

We have argued that the main issues for consideration by the family council are strategic, and even if all family members do not agree on every question, they at least have a voice in the process. In many ways it's the setting up of this process that's the important step – thinking about what's needed and why – along with the pressure this places on individual family members to face up to emotional issues that, unacknowledged and uncontrolled, can damage the business.

Agree on how to agree

In these formative stages, when family councils are often dealing for the first time with important topics on which there will be strong feelings and differences, it may be appropriate to consider appointing an impartial person from outside the business and the family to act as skilled facilitator. A facilitator will help the family to discuss the issues in an informed and systematic way, and guide family members as they seek out a consensus. Skilled facilitators, experienced in dealing with the particular issues that arise in relation to business-owning families, also help such families to focus on the future and to benchmark their draft policies against those of other successful family-owned businesses. (On a practical note, the wise facilitator will ensure that accurate notes are taken of everything discussed and decided, because "selective amnesia" is quite common among family business people!)

A good starting point for a new family council is often a series of residential retreats, 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. Many family councils make the mistake of taking on too much too soon – often conscious of a backlog of issues awaiting the newly formed group. In due course all the serious governance topics (family jobs, remuneration, retirement, succession, share ownership, etc) will make it on to the agenda, but the first few meetings should be more of a "warming-up" exercise, with members reflecting on family and business history, agreeing on the values the family bring into their business, getting used to the new governance procedures and possibilities, and building trust ahead of tougher, often more emotional discussions to come. Important substantive issues to be considered early on will be defining the objectives of the council and drawing up it its written mandate that should be approved by the family.

Research shows that successful families are good at problem solving, and one of the first things a family council has to do is to agree on how to agree – in other words, how it will make decisions. A good illustration concerned a long-standing and profitable clothes retailer where ownership was divided between a mother and her six children. The mother owned 76 per cent and the children each owned 4 per cent. "Mum will decide things whatever we do or say" was the children's resigned attitude when they turned up for the first meeting of their newly established family council. The mother was prepared for this and announced that, while she hoped the council would never need to come to a vote, if they did it would be on the basis of “one arm, one vote”. Suddenly, the family council became a meaningful forum for all the children.

Deciding on membership of the family council is another area where it pays to be flexible. Some prefer to limit inclusion to family members who are active in the business. However, especially with a young business where the family are transitioning from informal family meetings to their newly established family council, the general rule is that the council is most effective when both active and “passive” family members are included. All family members, whether directly or indirectly, have a stake in the business and it’s best if everyone is fully involved from the start. The objective, after all, is to establish a unified and cohesive *family* approach to the business. (Exceptions to this general principle start to feature as family businesses mature, and we return to the issue of family council membership later on, along with a section – on page 38 – devoted to the thorny issue of whether or not in-laws should be eligible to join or be represented on the family council.)

To sum up, the benefits of a family council are two-fold – contributing to both family unity and consensus and to business performance and effectiveness. 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 correct this imbalance, to become comfortable talking and debating, and to reaffirm their commitment to each other, to family values and to the business. Secondly, family councils create a mechanism through which the family can interact positively with the business, optimising the benefits that flow from family ownership in ways that provide extra business focus and motivation and, ultimately, the scope for competitive advantage.

Governance evolving with the business

Securing good governance in a family-owned business is a never-ending task. Establishing and operating a family council should be viewed as a journey rather than a destination – it is always "work in progress". As we discussed in the Introduction, governance challenges only increase as the family and business grow more complex with each succeeding generation, escalating the need for an ever-more professional approach to addressing and resolving family issues.

Even when the family council feels it has effectively dealt with an issue, all it has done is come up with the best answer it can in current circumstances. But best answers change as the business and family environments change – particularly from generation to generation – and it is important for family councils to keep revisiting past decisions to make sure they are still appropriate.

Family council evolution

Similarly, it's unsafe to just hope the family council will adapt itself naturally to these changing circumstances. Foresight and planning are required in order to keep this crucial governance forum fit for purpose, involving regular review and adaptation of its structure, membership, procedures and focus. (Some of the main evolutionary issues discussed in the following paragraphs are summarised in table form in the Appendix to this guide.)

We have seen that at the owner-managed business stage, informal family meetings are usually the preferred discussion forum. But as the children grow older, business families often decide to set up a family council consisting of parents and children, providing a more formal setting for conversations with the next generation about the business. The next generation's career aspirations, skill-building and looking ahead to succession are often the focal points of these early discussions. Parents should cultivate an atmosphere of free and open discussion at family council meetings, talk about their pride and achievements, and lay the foundation for the development of the values-based, shared vision that should underpin family involvement.

Succession and leadership transition preparations will move up the agenda as the business approaches the sibling partnership stage, as will the multi-faceted issue of how best to organise and set parameters for family participation. Sibling rivalry can sometimes bring the family council's "managing differences" role to the fore, while, even if siblings get on, the expanding role of the second generation will certainly shift the council's focus towards setting common goals and team-building as vital ingredients in sustaining family harmony and a cohesive approach to the business. Through the owner-managed and sibling partnership stages, family council membership is often open to all family members (although whether spouses should be involved may already have become a contentious issue). Around this time the council might begin to organise social events. Typically, it is during the sibling partnership phase that the nature of the family business ownership group first changes, with the separation of ownership and management roles as some siblings become just owners.

The third generation of family ownership generally introduces the cousin consortium stage, in which large numbers of family members usually have weaker family relationships and reduced connections with the business. Family governance is likely to have been restructured, with the introduction of a family assembly (a broad-based institution open to all shareholders and all family members), which delegates executive functions to a newly constituted family council on which membership will have become more restrictive and specialised, with members sometimes elected at large or nominated by branches of the family. We discuss this in more detail in the "Family councils in multi-generational businesses" section, including the fact that larger families at this time usually further delegate family council functions to specialist committees (e.g. education, communications, etc), which report either to the family council itself or to the broader family assembly.

The emphasis of family council deliberations in a cousin consortium shifts to how best to manage the extra family complexity, and how to reinforce the family's emotional connection to the business (sometimes called "psychological ownership"), fostering a continuing sense of family identity and commitment. With the family becoming more remote from management of the business (indeed, by this phase outside professional managers may have been appointed, including highly trained executives and directors) family concerns often centre on shareholder issues like dividend policy and ensuring share trading liquidity that can provide an exit route if required.

William Grant & Sons
Maintaining long-term energy and focus

The initial role of the family council at William Grant & Sons, the fifth generation independent distillers and owners of Glenfiddich and other spirit brands, was to draft the family vision and values, and develop a constitution with policies covering key areas such as employment in the business, dividends and next generation education. Once the constitution was agreed, keeping the family council agenda alive became somewhat of a challenge, but the appointment of a new non-family chair of the family council helped restore impetus. The board of directors sees the council as a valuable tool for connecting with the wider shareholder body, while securing the engagement of young family members has also been an area of significant success. The Next Generation Group has two seats on the council and organises its own regular activities, including education and philanthropy.

WILLIAM GRANT & SONS

A dynamic agenda

So, depending on where they are in the evolutionary life-cycle and also on the family's unique history, structure and perspective, every family's concept of the family council will be different. For some, "softer" family concerns may predominate – socialisation, education and improving communications – while others will have their family council concentrate on "harder" issues, making sure they have processes for sharing information as a basis for effective planning and policy making in relation to the business. Indeed, some families draw this distinction much more clearly, deciding from the start that their family council should effectively comprise two separate bodies, one of which restricts its role to "softer" family concerns, while the other (often called a family or ownership "board") deals with business issues that affect shareholders.

It follows that we cannot generalise or be at all prescriptive about what family councils should or should not be doing at specific development stages. Typically they address particular issues at particular stages, but that's the most that can be said. Every family council is different, and every family has to follow its own path depending on the family's dynamics, branch structure, governance architecture, priorities and long-term goals. The practicalities in the following table of family council terms of reference should therefore be read with this caveat in mind (and remember also the broader strategic issues that set the context for family council deliberations, which we discussed in the "Strategic goals and initial tasks" section).

Family council functions

Purpose and meaning

- Considering the question, "Why are we in business together?"
- Working on transmitting family values, vision and culture through the business and the family
- Celebrating the family's achievements, traditions and history
- Fostering family inclusivity (especially through inducting the next generation)
- Refining and articulating the family's long-term plan
- Socialising, bonding and having fun together
- Organising family philanthropy

Education and development

- Learning about family business issues, business issues, and the rights, responsibilities and privileges of family ownership
- Facilitating the qualifications and experience required for employment
- Supporting young family members (e.g. scholarships / venture funds)
- Promoting personal and leadership development
- Encouraging improved family communication skills and habits
- Planning family activities for education and relationship-building
- Problem solving and managing differences – building mediation skills and policies

Relationship with the business

- Defining the nature and extent of family participation
- Managing the preparation and updating of the family constitution

- Ring-fencing issues that should not interfere with business functioning
- Building a unified voice for the family
- Promoting employment policies based on merit and company need
- Agreeing board service policies – criteria for selection of family and other members
- Planning and preparing for management succession

Decision making and leadership

- "Opening up" the business to outside professional influences
- Providing a bridge between family and management / the board
- Communicating the family's strategic imperatives to the board
- Reviewing and coordinating the work of family council committees
- Reviewing family council operations (its "Code of Conduct") and objectives
- Coordinating with other family governance bodies

Family ownership

- Defining share ownership policies
- Understanding estate and ownership transfer plans
- Reviewing the rights, responsibilities and roles of inactive family shareholders
- Clarifying the rights of shareholders to income from the business
- Providing a communications link to the wider shareholder base – disseminating information and answering their questions
- Defining the family's investment risk and borrowing / leverage policies
- Setting and reviewing targets for business growth and investment returns
- Drawing up transparent ownership succession and continuity plans
- Managing family assets
- Agreeing policies (and funding) for exit routes

Family councils in multi-generational businesses

Creating governance bodies becomes critical by the cousin company stage. When families reach the third and fourth generations there will often be limited family involvement in the business and the powerful family connection that worked for the business in earlier ownership stages may be significantly weakened. If no action is taken the founder's values and entrepreneurial vision often fade into distant memory, while family opinions on ownership and involvement can begin to fracture. At this stage it becomes essential to galvanise, and if necessary realign the family's vision, encouraging unity around articulated common goals and values.

The three pillars of governance

We have stressed throughout this guide that family councils are but one component (albeit a very important one) of a family's governance structure. In multi-generational businesses the distinction between family membership and family leadership needs to be formalised by establishing governance bodies for both constituencies. One of the best solutions is for family members to meet as an annual "family assembly". This forum is usually open to all adult family members (including in-laws) who wish to participate, and it agrees to delegate leadership responsibility to the family council. At assembly meetings, family members can learn and ask questions about the business, and also debate and ratify the actions of their family council and the board of directors.

Broadly, the family assembly tends to focus on educational and social issues, and it delegates to its "executive committee", the family council, the role of implementing its policies on these and other issues. But the two bodies form a crucial two-way linkage in the family governance process: first, the assembly provides an opportunity for accountability, with family leaders who work in the governance process able to report back to the wider family; secondly, the assembly communicates the family's philosophy and strategic goals to its family council for onward transmission to the board of directors (or to the trading or management board in companies with a two-tier holdings/operations structure).

These institutions – the family council, the family assembly and the board of directors – are sometimes called the "three pillars" of family business governance,[2] and it is important that everyone is clear about the way each is organised, the rights and responsibilities that go with their respective roles, and the boundaries between them.

Designing governance architecture

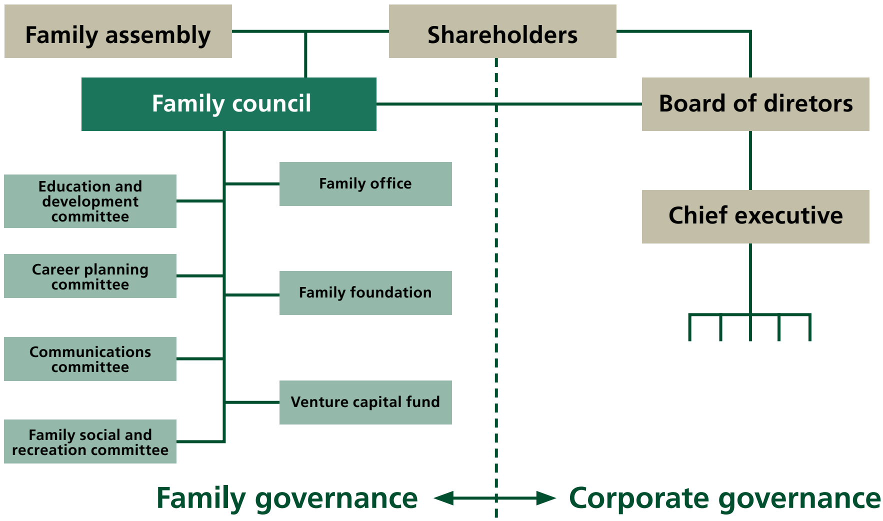
Flexibility is the watchword when it comes to building family governance bodies and processes. There are no templates, and families must custom-design a system to match their unique circumstances. The "Family business governance" diagram[3] provides an overview of a representative governance scheme for a multi-generational business, including the family council as the lynchpin entity, and illustrating how the structure works to keep family and business issues separate.

But possible variations in family governance schemes are endless. For example, some families with large ownership groups carve out of their family council an "ownership council" that focuses on ownership and strategic business matters. The original council then concentrates on social and educational agendas. Sometimes families worry that the title "family council" sounds a little obscure and they opt instead for "family supervisory board" or "family business board", but the names and design details of particular bodies do not matter. What is important is that family members feel comfortable with the governance process they have constructed, and that they understand the roles and responsibilities of the bodies concerned.

By the cousin consortium stage these large families are diverse, and the structural complexity (and leadership skills) required in order to manage their relationship to what may have become a very substantial business should not be underestimated. The governance architecture and interconnections in such cases can become very elaborate, but this is not a problem provided the family has arrived at an agreed solution that meets its objectives and that works.

Many multi-generational family companies are global enterprises, and family membership and ownership may also be spread across continents. Subtle and complicated cultural issues play a significant part in shaping the way these groups are governed, and geographical divides also raise practical difficulties,

Family Business Governance



with both factors contributing to yet more diversity. Sometimes regionalisation of such businesses helps rationalise governance, including establishing regional family councils that work to ensure family members who have grown up in different countries remain interested and connected. Cultural factors can also sometimes add an extra tier to family governance structures. In many Middle Eastern family businesses, for example, the family council is supervised by a council of elders, reflecting respect for the senior generation that underpins Middle Eastern life.

Similarly, family complexity can involve special adaptations to governance structures. So the four different branches of the Rockefeller family each have their own family council, the deliberations of which feed into the top-tier family council, which is one way of organising and securing branch representation in larger families. An alternative approach is to have just a single family council but with each branch entitled to appoint its own member. “Tribalism” in the form of demands for branch representation often decreases as family councils evolve; like the family business itself, with the onset of maturity the family council begins to be run as a meritocracy, where competence and experience rather than branch allegiances are the important factors.

Musgrave Group
Flexible governance architecture

In the early 2000s Ireland's Musgrave Group, the fifth generation food and grocery distributor, established a family council consisting of up to 14 family members from the 3 main branches of the family. The council's mission has been to encourage responsible family stewardship of the business, and to develop effective and healthy personal relationships among shareholders. The key idea has been to help the family speak with one voice, ensuring that company management are clear as to shareholder expectations and requirements. Flexibility has been the watchword in the design of governance, with the family aiming to build structures that work for them. The Musgrave Family Constitution lays down the agreed process for selecting members of the family council, including a specially designed selection methodology that is unique to each branch of the family. The council is supported by two sub-committees: the Education Committee promotes family shareholder education and training, focusing on ownership issues, while the Charity Committee coordinates the family's philanthropic initiatives.

Committees and relationships

The governance diagram on page 29 illustrates a group of family council committees, each of which must be formally constituted, with clear terms of reference and standard rules for reporting back to the family council. Committee membership is sometimes a way of involving family members who do not work in the business, and also spouses who may not be eligible to sit on the council itself, but who have talents or expertise that make them valuable contributors.

- **Education committee.** Nurtures the family's human capital by promoting business and financial education, skills-acquisition and leadership opportunities for family members. This committee might, for example, organise education courses for particular individuals, or set up an accounting seminar for all family members, to help them better understand the company's financial statements.

- **Career planning committee.** Establishes and monitors entry policies for family members interested in pursuing careers in the business, including offering career mentoring. (This is an example of a family council committee that could involve company people – e.g. the head of HR might play a role – with the committee becoming a collaborative opportunity to help secure the best outcome for both the family and the business.)
- **Communications committee.** By the cousin company stage most family shareholders may have become detached from traditional, often informal sources of news and information concerning the family business. Keeping these shareholders in touch requires thoughtful and well-planned communications management. As well as a committee, there's often a case for appointing a shareholder relationship manager – usually non-family and a member of the communications committee – whose role is to manage the company's communications and investor relationships, and to act as a central point of contact for all family shareholders.
- **Social and recreation committee.** Organises regular events designed to foster family relationships, such as annual reunions and other gatherings. The aim is to bring family members together (especially across the generations) around recreational activities, encouraging distantly related relatives to learn about each other's concerns and interests.

One of the things that often happens in mature family enterprises is that the family aims to accumulate wealth outside of the business as insurance against a commercial downturn or, at worst, business failure. By the cousin consortium stage, therefore, a "family office" has often been established with this objective in mind, acting as an investment and administrative centre (with its own governance rules and processes) overseen by the family council. In our diagram the family office is depicted as a family entity, but it is often debated whether it might more appropriately be positioned on the business side of the divide.

Other bodies with close links to the family council include:

- **Family foundation.** A charitable entity that serves governance functions by working with broader family to articulate shared values and provide a focus for family philanthropy. Family members play a significant role in managing the foundation throughout its life.

- **Venture capital fund.** Operating like a professionally managed VC fund, this manages resources that are set aside to stimulate and facilitate entrepreneurship among family members who start new business ventures.

Family councils and the board of directors

In non-family enterprises the responsibilities of the board of directors centre on maximising shareholder value, but in family businesses the directors have an extra area of responsibility – they must understand the family's relationship with the company, mediate its influence on the firm and help ensure that the family's reasonable long-term objectives for the business are met. In smaller family firms the board typically comprises family members only, but as the company expands it should begin recruiting experienced outside directors, and in the best multi-generational businesses the majority of directors will be non-family.

For its part the family council should send clear signals to the board of directors reflecting the family assembly's agreed stance on certain strategic, long-term issues on which the family rightly have the final say (see table).

"Big-ticket" policy items where the family have the final say

- Business risk and reward parameters acceptable to the family
- The return on investment sought by family shareholders
- The permissible extent of borrowings and gearing
- Limits on major acquisitions or disposals of assets
- Appointments to the board or any significant changes to board structure
- Any transaction or proposal that alters the number of shares in issue
- The family's attitude to ethical and moral issues that may arise in connection with business operations
- Any proposed changes to the name of the business or its articles of association.

Concerns often arise about how the family council should define its role and remit in a way that avoids interfering with the board's recognised functions, and how, and to what degree, non-family directors and family shareholders should interact? It is clear from the list above that in some cases the family council may determine strategy by saying that the family is not prepared for their business to follow a particular path or pursue a particular objective. But the board of directors also has a mainly strategic role, promoting business and management performance, with the board mandated to create and develop strategy, and the chief executive's job to deliver it. Differing opinions arise about the appropriate interplay between these two bodies, especially where one of the difficult challenges for mature family businesses is their need to attract high-calibre directors to help take the business forward. Talented candidates may well be put off joining a business where the family council lays down rules and sets limits on strategy development.

Miller Group

Managing the family council's relationship with the board

The decision to establish a family council at, Miller Group, one of the UK's largest privately owned housebuilding, property development and construction companies, was aimed at fostering a shared vision among the family owners, and a consensus around shared family values. A key factor in making the family council work effectively has been to clarify the respective roles of the council and the board of directors, and to establish regular meetings between representatives of the two bodies. To avoid any conflict of interest, the chair of the council is not a board member, while the family CEO does not sit on the council. Members of the council have the duty to inform the wider shareholders whom they represent regarding progress and key decisions. All shareholders, irrespective of whether they are family council members, are however encouraged to meet the board at least once per year, thus ensuring they are well informed about business matters.

The best answer is to view the relationship between the council and the board as a two-way street – sometimes the family council needs to dig its heels in and say, "That's the wrong strategy for us", while on other occasions the board should be taking a firm stand in favour of a change of direction. Once again there is no preferred model of how best to strike this balance, because the quality of the relationship varies in different businesses and over time. Rather, a solid set of principles and processes must be drawn up and applied in the unique circumstances of each company. The critical point is that everyone should understand what the council and board can and cannot do – i.e. there must be clarity on both sides about what rules apply and where boundaries are set. Ultimately in this area, family shareholders really only have one job – to back their board of directors – and if they cannot work with that board they have the right to remove them.

Communication channels

To achieve the necessary communication and coordination between the family council and the board it helps if the parameters of the relationship are set down on paper in the family constitution or in some form of memorandum of understanding (including a formal schedule of matters specifically reserved for the shareholders' decision and those that are delegated to the board). Also, there should be regular exchanges of views and updates of objectives pursued by both bodies (via a regular two-way flow of reports, position papers and perhaps through occasional joint meetings), promoted by there being at least one family member (often the family business chairperson) who is a member of both the family council and the board.

Although clear communication is critical to the relationship between a family council and the board of directors, family members need to be cognisant of the importance of confidential board information, especially on key strategic decisions like acquisitions. In addition, direct personal contact between family shareholders and external board executives outside the boardroom should be discouraged.

Practical, administrative and operational issues

Authority and funding of the family council

When a family council is first established or restructured, its mandate and terms of reference must be defined and approved by the family. In larger family businesses the family assembly will delegate responsibility for this task to a specially appointed committee.

In addition, it is often good practice for the family council to have its own "charter" setting out the governance principles and procedures that will guide its staffing, behaviour and operations, together with role descriptions for individual council members. Such a rulebook might also contain provisions and mechanisms by which the council holds itself formally accountable to the family at large, or, in the case of larger-scale multi-generational businesses, to the family assembly.

These stipulations concerning the terms of reference and procedures of the family council should be included in the family constitution and, as with other constitutional provisions, should be reviewed from time to time in order to make sure they remain relevant as the family and the business evolve.

While the council typically has no formal, legal mandate, it plays a critical role helping the family to speak with one voice to the board. It follows that, on establishment, family councils should take on as much responsibility as possible so that they start from a position of maximum authority. There's often a temptation to delegate some issues, such as succession or communication, to family members working in the business, but this risks leading to the family council declining in status and vitality.

As well as a terms of reference and a charter, the council should be provided with a budget and support staff appropriate to the significance of its role. This will serve to encourage interest, increase accountability and ensure the family council has its own independent means to help it produce tangible results. The family council and its committees should prepare formal agendas, minutes and records of their activities and decisions, and reports should be generated to be sent by the committees to the council, and by the council itself to the family assembly.

Securing the services of an independent secretariat to handle this helps to ensure a more efficient and successfully run system. The council secretariat is usually funded out of company profits, but where some family members do not own shares this can lead to questions of fairness. Per capita dues may be a way around this, or charges on the basis of services used, although both these options generate administrative complications.

Another funding question is whether family council members themselves should be paid for the work they do, or are the intrinsic rewards of their role (like status and networking opportunities) sufficient to secure their motivation? Their commitment can be significant, especially in larger families, depriving them of other income-earning opportunities, and paying family council members also sends out a signal about the importance of their work. Whatever decision is taken, there is a much stronger argument for paying the chair of the family council (see below), and for providing them with an office and travel budget.

Obtaining independent advice

Sometimes the family council may decide it needs to seek independent legal or financial advice, preferably on a confidential basis without the board of directors knowing, but this is a sensitive issue because it risks undermining executive management. It is clearly appropriate for the council (as stewards of the family's investment in the business) to seek confidential, independent advice on certain issues – like personal development and personal taxation – but in some cases it can be destabilising. In order to minimise the risk of not appearing supportive, the best solution is for the family council to be open and always to tell the board what it plans to do.

If the family council keeps its plans secret, there is a chance it will receive advice that conflicts with board policy. Also, the council may not fully understand some of the intricacies of the business and would therefore be taking advice in a partial vacuum, which can be dangerous. A transparent, collaborative approach is best, with the family and management encouraged to focus on common objectives, while the memorandum of understanding governing the family council's relationship with the board (see "Communication channels" on page 34) should identify the scenarios in which family owners may require independent advice. When such a scenario arises, the family should approach the chair of the company in advance of taking action, leading where possible to the family and the board seeking advice together.

Family council membership

For smaller families, especially at the owner-manager and sibling partnership stages, the council might well comprise all the family shareholders, but when family businesses mature into a cousin consortium they are forced – by numbers and diversity – to a representative system under which some family members are empowered to make decisions on behalf of others. Laying down rules and guidelines on how representatives are chosen to serve on the family council (and on other governance bodies) raises hard questions.

Managing the expectations of potential candidates is also important: often they do not anticipate the scale and significance of the role they will be taking on, or the substantial time commitment that may be involved.

Choosing a representative group

Options for staffing the family council in multi-generational companies include open election by secret ballot, volunteers only, outgoing seniors picking their replacements, family branches choosing personnel and nominating committees making selections. The problem is that each of these options comes with its own comprehensive set of advantages and disadvantages, and the efficacy of any particular method depends in part on the size and structure of the family, and how good they are at communicating with each other and arriving at consensus Practical questions to be addressed are set out in the table.

Council membership: Some key questions

- What age do you have to be to be eligible to join?
- Do you have to be a shareholder?
- Should there be representation from different branches of the family?
- What's the correct balance on the council between family members who work in the business and those who do not?
- What are the desired qualifications and skills of family council members?

- Should we favour candidates with a business background?
- What's the best approach to maintaining a balance based on family generations?
- Should we sweep away many of these questions and simply seek out the best candidates for the job?
- If we adopt an electoral process, what are the eligibility criteria for candidates? For example, should they each require the backing of a certain minimum percentage of the share capital?
- Is there a maximum term, or an upper age limit for serving on the family council?
- Should membership rotate, and if so what's the rotation period? (Shorter periods allowing more family members to take part can counter "governance fatigue" and contribute to a feeling of fairness.)
- Should we admit certain family members in a non-voting capacity? In particular, this can be an opportunity to engage next-generation family members who attend as observers – to listen and learn.

Flexibility is key and there are no hard and fast rules when deciding on appointment policies. The guiding principle is that family council members and the procedures by which they are appointed must be accepted by the great majority of the family; if the family council is seen by some as a body serving the interests of one or two family cliques, it will likely be divisive and ineffective.

Spouses

Another difficult question – often *the* most difficult – is whether or not in-laws should be eligible to join or be represented on the family council? Many family business people start from the perspective that spouses ought to be excluded from family council deliberations, or at least those deliberations involving business and financial issues. They usually say having spouses at the table would inhibit family discussion and reduce the effectiveness of the family council.

But we have argued earlier in this guide that a central feature of family councils is that they strive to help the family speak with one voice, and in order to do this it follows that they must be inclusive institutions. The aim is to foster a spirit of openness and unity in the family, and it makes sense to encourage in-laws to exert their influence directly rather than behind the scenes. Excluding spouses from participation in structures designed to involve or represent the wider family is likely to have a corrosive effect on long-term relationships.

Transitioning to a meritocracy

Membership issues highlight once again how the family council can be used as a transitioning tool. Where a multi-generational business sets up a family governance system, traditionally each branch of the family tends to nominate someone as their spokesperson on the family council, feeling they have to make sure their family branch and its shareholding are properly represented and their interests looked after. Even though it's accepted that there is no place for "tribalism" like this in the family business, where meritocratic principles must rule, sometimes it can be a politically sound compromise to accept a degree of tribalism in the early years of a new family council.

As time passes and as the family expands, the likelihood is that meritocracy will begin to take root in the family council too, with a progressive move towards appointments on the basis of the best person for the job regardless of family branch. We can draw the analogy of a business board where all the directors have fiduciary responsibility, and even when a non-executive director is appointed with the support of a particular branch of the family, that director is responsible to all shareholders. So, over time, the aim is to inculcate a similar spirit of fiduciary responsibility on the family council.

Good questions, therefore, when occasionally revisiting and reviewing the family council mandate, concern membership: "Do we have the right mix of people, or are some members there because of who they are rather than what they bring?"; and if the mix isn't right, "How do we set about fixing it?"

Conclusion

The composition and size of the family council will depend, among other things, on the size of the family and the life-cycle stage of both the family and the business. As described in this section, there are many questions and options to consider, and a flexible approach is essential. From experience, we believe that the most effective family councils in multi-generational businesses have between seven and ten members. They are elected by the family assembly (taking into account the individual's availability, qualifications, capacity for leadership and communication skills) and they represent the voices that need to be heard – all generations, branches, genders, direct descendants and in-laws, including individuals who are both inside and outside the enterprise.

Family council administration

The organisation of the family council parallels that of the board of directors in the sense of each member being responsible for one or more portfolios, with detailed work delegated to committees on topics such as communication and education (as discussed in the section on "Family councils in multi-generational businesses").

The family council chair

The family assembly or the family council itself should also elect a chairperson to lead the council's work, acting as an interface between owners, the wider family and the board. It is the chair who tends to be the driving force for keeping communication channels open.

The chair should be an individual whose leadership is respected and who has a talent for resolving differences, running meetings and building consensus. Indeed, the chair tends to act more as a diplomat and facilitator rather than decision maker because the family council, by its nature and membership, is a participatory body in which all members are required to play a meaningful role. Before a leader is elected it is a good idea to draw up a profile of characteristics needed in the role against which to evaluate candidates.

Duties and responsibilities of the family council chair

The chair's primary functions are facilitatory, but they do have a tangible leadership role to play in the following three areas:

Responsibility to shareholders

- Representing the interests of shareholders in discussions with the board of directors.
- Promoting the aims and values of the shareholders as responsible owners.

- Communicating shareholder views and strategic decisions to the board.

Responsibility to the family (including non-shareholders)

- Keeping the wider family happy and united, and representing their interests in discussions with the board of directors.
- Making the board aware of family issues that might have a significant impact on the board's business decisions, current or future.
- Engaging the board in ongoing discussions about family perspectives concerning their relationship with the business.

Responsibility to the board of directors

- Communicating the board's business strategy to shareholders and the wider family.
- Ensuring the board understands the family's relationship with the business.
- Presenting to the board any decisions or questions from the family council.

Because one of the roles of the family council chair is to challenge executive management on behalf of the family, he or she should not be the same person who leads the business (although a non-executive chair of the board of directors can sometimes be effective in the role). Following a succession event, however, it can be a sound idea for the former business leader (in younger companies this may well be the founder) to move from chief executive of the company to become chair of the family council. This once again highlights the transitioning qualities of the family council, in this case providing the exiting CEO with continuing involvement.

Age, however, should not necessarily be a decisive criterion, and sometimes it pays to appoint a younger person as chair of the family council. There are plenty of examples of families who have allowed their council to be run by a younger candidate, able to bring more energy and dynamism to the role, and often a clearer understanding and fresh thinking on the needs of the wider family.

Shepherd Group
A non-family chair of the family council

Shepherd Group, which own Portakabin and is active in manufacturing, construction and property development, was founded in York in 1890. The family has established a family council with a range of goals, including educating and engaging the next generation and enhancing communication within the family. On establishment it was decided to appoint a non-family chair of the council, able to offer a neutral and objective viewpoint.

Shepherd Group

Occasionally it may be appropriate to recruit an outsider as the family council chair. This may apply if there are no suitably skilled candidates from within the family, but more often the option can be useful when a family council is first being set up, at which time the family may well need a facilitator or adviser to chair proceedings during the important formative period, pending a permanent appointment. Sometimes it may be appropriate to appoint an outsider as chair on a more long-term basis if there are serious issues arising that family members are having difficulty addressing, or if there is a dispute and the family is unable to agree on who should be chair.

As well as a chairperson, some families also like to appoint a family council vice-chair so that succession is in place within the family council. However, it is important to be aware of the significance (actual and perceived) of this decision, especially where the chair of the family council is traditionally also head of the family.

Thoughts From a Family Council Chair

Nick Bailey, Family Council Chair at third generation NG Bailey, the UK's largest independent building services contractor, offers some personal insights on a subtle and complex job.

"Five and a half years ago I took on the role of Family Council Chair enthusiastically. I was confident about what our new Council could achieve, but knew little about the role except it seemed to offer great opportunity in an area where I and others had felt much frustration.

Motivators – and de-motivators!

I was spurred on in my new job by learning more about our own family business, but more especially by talking and sharing with others in the wider family business scene. I realised that most family companies faced the same sorts of challenges that confronted us – so we were not on our own, not the exception.

But as well as recognising positives, I had to overcome one or two de-motivators as well. In particular, the realisation that I couldn't rely on affirmation from family members – a far from ideal dynamic. So I learned to manage my expectations more realistically and to exercise my own judgement about the best way to achieve objectives, rather than doing what was expected.

What has helped me

- Having a network outside the family: I continue to be surprised at the willingness of friends, colleagues and fellow family business owners to help and give their time and views.
- Learning that living with a tension can be OK: Being willing to wait while a problem 'matures' – assessing it from all angles, patiently exploring for the best solution.
- Discovering that process is often more important than objective: There can be more learning and headway in the process than in implementing the outcome.
- Working for and acknowledging 'the now' – the present: I've found that resting my validity on some future 'success' is often a mistake. It's well worth celebrating today's achievements, even if there are problems ahead!
- Nevertheless, managing change is the main role of a Family Council: They work to adjust the present in exchange for future benefits, so it's all about change – thought-through, aligned, consensual change. Grappling with what is not working is rarely comfortable, and hence the final point here…
- As Family Council Chair you will upset people: Recognising this was a release; it helped me to stop taking everything personally. I came to understand that keeping everyone happy is not always a question of treading a fine line, and I could demonstrate empathy without taking responsibility for the feelings of others.

A family business is a pitch to play on, a place to contribute to the dynamic game of running a company, a place to develop skills, make a contribution and enjoy teamwork. I need to ensure I rest my worth in something more stable and unchangeable and affirming than a business, if openness and discussion is to be easy.

So perhaps, despite individual family characteristics and unique businesses, the evolution of a Family Council is fairly predictable. As you observe yours, you will find out."

Facilitators

Families sometimes engage a family business consultant to facilitate decision making at family council meetings. The facilitator takes charge of meetings, helping to focus and coordinate contributions, and making sure everyone has their say and that they are listened to. There has also been a recent trend to involve main board non-executive directors in some key family council meetings, often with the job of "oiling the wheels" of communication or resolving conflict.

Most family councils report that facilitation is useful, especially during the formative years, although a facilitator may also be engaged later, often to help guide the family council through a major transaction or particular event, like succession. Family business consultants can probe difficult issues and develop discussion of problem areas in a sensitive way that minimises the possibility of family friction or confrontation.

Consultants and other outside experts are also occasionally asked to address meetings of the family council, delivering presentations and educational sessions on topics of interest to members.

Secretariat

As discussed earlier in relation to funding issues, it is good practice to appoint and fund a permanent family council secretariat to organise day-to-day administration, keep a record of what is said at meetings, and to circulate the minutes, agreed action points and reports to the wider family. Companies with successful and effective family councils often emphasise the crucial importance of a good secretariat for coherence and continuity.

Meetings and decision making

Families who are establishing a family council for the first time can find the structured nature of council meetings strange because they've become used to the informal family gatherings that usually predominate at the owner-manager and early sibling partnership stages of the business. Creating (and sticking to) an agenda for each meeting helps family councils work effectively, and should become part of the family's routine as the concept takes root.

The frequency of meetings will depend on the life-cycle stage of the family business, and on the number and urgency of issues facing the family. Typically the council meets between two and six times a year, sometimes synchronised with the board of directors' meeting schedule in order to maximise communication opportunities. Even if there is no such synchronisation, the family council chair should agree the meeting schedule with the CEO and relevant family board members.

Meetings are semi-formal in style, reflecting seriousness of purpose tempered by operational flexibility. It is important that a supportive atmosphere is created in which family members feel comfortable expressing their views. Rather than forcing through arguments or "winning the day", the focus should be on understanding fellow members' feelings and perspectives, and seeking out consensus. Not every item on the agenda needs to be deadly serious, however, and enthusiasm and effectiveness often benefit from a balanced mix of important business items alongside more light-hearted family proposals and projects.

Family councils should draw up agreed ground rules specifying what should, and should not happen ahead of, at and after their meetings. Whatever rules are developed should be specific to the family rather than "off the shelf" as this will mean they are more likely to be adhered to. (It's a good idea to back up ground rules with sanctions. This can be organised in a fun way – like £50 in the charity pot from anyone who breaks the rules – but it has a serious point.)

Example ground rules for family council meetings

- To help minimise distractions, meetings should take place away from home and the business.

- Include a 15-minute session before each meeting for catching-up and reconnecting.
- Produce (and circulate in advance) a prioritised agenda and stick to it.
- Meetings always start on time – everyone should be there and no one should leave early.
- Everybody can call a "time out" for bad process, like excessive (or any) interrupting, personal attacks or bad body language.
- No mobiles or BlackBerrys during meetings.
- Have breaks at least every two hours.
- Stop the discussion if a council member leaves the room.
- Members should actively listen and ask questions to make sure they understand what colleagues are saying.
- Have a "parking lot" for issues that fall outside the agreed agenda or need more thought. (Having a written list can also provide a neutral way to raise issues that people might find difficult to elaborate on out loud.)
- Acknowledge and celebrate successes.
- Before the meeting ends, review whether the ground rules have been followed and discuss ways future meetings could be made more effective.

Family council voting

The family council charter will provide for decisions to be approved by a majority vote of the council's members – using one person one vote, or in accordance with shareholding – but this should be regarded as a last resort. The golden rule is to try to avoid arriving at a situation where the family council needs to vote because, ideally, it should always operate on a consensus basis.

The council is usually not called upon to make business decisions, but an exception arises in relation to "big-ticket" items – i.e. strategic, long-term issues on which the family legitimately has the final say (examples of which were discussed in the section on "Family councils in multi-generational businesses").

On these reserved issues, if there is no clear consensus among council members (who, ahead of the meeting, will have consulted with the wider family and shareholder base), it is appropriate for there to be a vote, preferably per head by show of hands. Before the vote, however, it is good practice to have a break to provide a chance for more informal discussion, and then to go back to the meeting. It may be that this will have helped a consensus emerge, but even if it hasn't there will at least have been a pause for reflection ahead of a very important decision.

Conclusions

It is clear from this guide that the processes of establishing and managing a family council are challenging, but that the roles and goals of the council are essential to the long-term continuity of family businesses. The family council is not a business decision-making body – it exists primarily as a forum to ensure effective communication between shareholders, the wider family and the board of directors.

Core objectives of the family council

- To improve communication between the board and the shareholders
- To develop the family's responsible stewardship of their business
- To foster strong, effective and healthy family relationships
- To provide robust and flexible governance as the family extends and the business develops
- To promote shareholder education that will underpin informed decisions
- To create a cohesive shareholder and wider family grouping able to speak with "one voice"

At their heart, these goals add up to a single overriding objective – building effective collaboration and communication between family members in order to help ensure that the needs and interests of the family are addressed while adding value to the business.

The most important thing to remember when it comes to family councils is that there is no "one size fits all" solution. Because every family is unique, so also is every family business, especially when that business reaches multi-generational maturity. By this cousin consortium stage, significant leadership skills are required to manage diversity and complexity, to forge a common agenda and to resolve differences among family members – and family councils play a crucial role in this difficult task.

At their best, family councils provide an open and safe space for planning and managing the family's relationship with the business. They foster among family members a sense of trust in managers and directors to oversee the family's strategic objectives, leaving the shareholders free to concentrate on building cohesiveness and a sense of shared resolve among the wider family. It is this strong sense of belonging and shared purpose that marks out the best family businesses, giving them extra energy and a competitive edge.

There is no doubt that successful family councils are indicators of a positive family culture and a well-managed family business – but, at the same time, they can never provide more than part of the answer. The other ingredients are clarity of vision and a shared passion for making governance bodies work, which means educated shareholders, strong leadership and a family-wide commitment to effective communication and collaboration.

Notes

[1] First proposed in the 1990s by Professor John Ward of Kellogg School of Management (Chicago, USA). Although the model provides a valuable analysis tool, it does not imply that all family companies will necessarily follow the same development path.

[2] Ivan Lansberg (1999) *Succeeding Generations: Realising the Dream of Families in Business.* Boston, MA: Harvard Business School Press.

[3] Adapted from Figure 8.3 in Randel S. Carlock and John L. Ward (2010) *When Family Businesses are Best: The Parallel Planning Process for Family Harmony and Business Success.* Basingstoke, UK: Palgrave Macmillan.

Appendix: Evolution of family councils

All families, family businesses and family governance processes are different, and the following table – focusing on family meetings and the family council – is intended to outline the characteristic development of these bodies through the family business life-cycle stages.

	Family meetings
Life-cycle stage	Owner-managed
Family governance priorities	■ Clarifying family values and developing a family mission ■ Supporting the founder(s), laying the foundations for a sustainable business ■ Discussing and generating new business ideas ■ Education and skills-building in the younger generation ■ Preparing the next generation for leadership and ownership ■ Succession and planning the details of the leadership transition ■ Retirement and estate planning
Proceedings	Informal
Membership	The nuclear family
Size	Small-scale with no fixed membership
Number and frequency of meetings	Frequent meetings are common as they tend to develop informally from regular family gatherings
A typical agenda	■ Getting the younger children interested without pressurising them ■ Drafting the step-by-step succession and continuity plan ■ How best to prepare the next business leader(s) ■ Estate planning – principles and practicalities ■ Developing family support for the new family leadership

Young family council	Mature family council
Sibling partnership	Cousin consortium
■ Clarifying and preserving the family's core values ■ Building teamwork and harmony ■ Developing policies governing the family's relationship with the business – e.g. policies on employment, share ownership, etc ■ Taking a more structured approach to governance issues ■ Professionalising management ■ Facilitating intergenerational communication ■ Sustaining family ownership	■ Clarifying and preserving the family's core values ■ Unifying the expanding family network and managing differences ■ Managing the roles and expectations of everyone involved in the business ■ Defining the rights and responsibilities of shareholders who do not work in the company ■ Ensuring efficient communication channels ■ Expanding family community and philanthropic programmes ■ Agreeing a long-term plan for family involvement
Formal	Formal and codified
Usually open to all, subject to restrictions (e.g. on spouses) as agreed by the family	A representative group of family members selected or elected by the family, with qualification criteria set by the family assembly
Depends on the size of the family and membership criteria: usually 5–10 members	Up to 10 members elected by the family assembly, representing all generations, branches, direct descendants and in-laws
Typically, the family council meets frequently for the first year or two (as often there is a backlog of substantive and procedural issues requiring a series of meetings in quick succession), after which two to four times a year is the norm	The council generally meets between two and six times a year, but may be more depending on the number and urgency of issues it faces
■ How do we express our values and pass them down to future generations? ■ Reviewing and updating the family constitution ■ What qualifications are needed by family members seeking to enter the business? ■ Policies on family perks ■ Career development plans for the next generation ■ Recruiting outsiders to the board ■ Organising a specialist presentation to the family council on "Managing sibling rivalry"	■ Reviewing our memorandum of understanding on family council relationships with the board of directors ■ Responding to family members who want to liquidate their shareholding ■ Setting up new venture support for family members ■ Approving committee strategies ■ Deciding if the board's borrowing plans threaten to breach the shareholders' gearing limits ■ Report by the philanthropy committee ■ Setting up education sessions on improving communication between the shareholders, the wider family and the board

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Institute for Family Business (UK)
32 Buckingham Palace Road
London SW1W ORE
Tel: 020 7630 6250
Fax: 020 7630 6251
www.ifb.org.uk

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“The family council is the forum which provides the interface between generations, where incumbent and future generations can benefit from a mutual education of the past, present and most importantly, the future.”

Robin Vestey, Vestey Foods Group

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London SW1W 0RE
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Fax **020 7630 6251**
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