

Business Family Governance 2.0: Leveraging Family Governance for Family Enterprise Continuity

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Key Findings

- Business owning families rely on both formal and informal family governance to support the coordination of the family system. An international survey of members of family businesses found that respondents' families choose formal and informal governance mechanisms for different reasons, at different rates, and at different points in time.
- Business families are more likely to rely on boards of directors, annual family shareholders meeting, and family constitutions for their formal governance.
- Informal family governance is primarily done through family gatherings or family groups such as WhatsApp, which provide opportunities to learn about the family.
- Our survey found that family maturity is strongly related to the choice of formal governance structures and documents, while the number of generations that have worked together in the business is strongly and negatively linked to informal governance.
- The case study research conducted alongside the survey, highlights the importance of having a strong foundation of shared values, an overarching purpose, a strong sense of connection, and a desire to remain together to facilitate the family governance process for the sustainability of family governance.

Key Recommendations Arising from our Research

- It can be beneficial to invest in developing effective and sustainable family governance systems (i.e., both corporate and family governance within family enterprises).
- Business families should consider what combination of informal and formal approaches will help them reflect the family's shared values and goals.
- An important first step in developing the family's governance is for the family to identify their shared values and goals, and to create spaces to enhance the glue that connects the family together. This provides an important foundation in developing a holistic family governance approach.
- Successful family governance should be guided by the characteristics of each family (i.e., their degree of maturity of the family and their family goals and values). This helps the sustainability of the family governance system.
- Shareholder education is crucial for the success and continuity of family governance, so business families can benefit from creating spaces to help family members learn the roles and responsibilities that come with being a business shareholder.

1. Introduction

For family enterprises wanting to ensure long-term continuity and prosperity, having an effective corporate governance system is not enough: family enterprises seeking to secure a multigenerational legacy are well-advised to invest time, money, and emotional energy in developing and maintaining an effective and sustainable family governance system.

Family business scholars have recognized this need, as evidenced by the growing body of research and guidance on family governance. Unfortunately, the prevailing orientation treats business families as one and the same, overemphasizing similarities, while failing to consider their differences. This can result in one-size-fits-all recommendations on family governance system design, which do not acknowledge the specific context of the enterprising family. Family governance systems that poorly reflect a family's unique values, its needs and objectives tend to cause family conflict, rather than preventing or mitigating disharmony.

This research briefing summarises key learning from new research on business family governance, commissioned by the IFB Research Foundation: the full report, *Business Family Governance 2.0: Leveraging Business Family Governance for Family Business Continuity*, can be downloaded [here](#). The report acknowledges the importance of exploring the heterogeneity between business families to develop actionable guidance for enterprising families seeking to navigate their family governance journey. The report summarizes findings based on a review of prior research on family governance, a survey of representatives of business families, and case studies with members of multigenerational business families. It seeks to provide readers with an understanding of what is known about family governance based on earlier studies, an overview of what family governance looks like in practice, and provides examples of enterprising families' unique governance journeys. These findings form the basis for the six principles of good family governance and the reflection questions presented at the end of the report.

2. Research Strategy

The need for actionable and sensitive advice about family governance is where this research project was born. The research sought to explore the following research questions:

- What is the purpose of family governance?
- How does family governance evolve as the family grows and changes?
- What influences the development and adoption of family governance?
- What constitutes good family governance?

Survey and case study data were collected to answer these research questions. The survey was completed by 114 members of business families. The companies that they represented were primarily located in the UK (64 per cent), ranged in age between 1 and 524 years (average age of 131 years), and reported as belonging to the fourth generation most often. These companies varied in size from one to more than 2,500 employees. However, just over half of respondents (51 per cent) said they belonged to family businesses with 500 or fewer employees. In terms of firm structure, 69 per cent reported having a holding structure, and 44 per cent reported that their family business was held in a trust. Most of the respondents indicated that their family businesses were non-listed firms (95 per cent).

To further contextualize the results from the survey, a series of in-depth interviews with multigenerational business families were conducted to better understand how differently these families designed and implemented family governance. The final sample of five families ranged from the second to the 12th generation, with shareholder groups ranging from four to 170 family shareholders. The companies vary in size of revenues from GBP 380mn to GBP 15bn. The following families were included; all gave their permission to be named and have their cases included in this report:

- Brown Family, Brown Forman, USA/UK
- Elsener Family, Victorinox, Switzerland
- Grimm Family, Estafeta, Mexico
- Merck Family, Merck Germany
- Scott Family, Applerigg Holding Company, UK

3. State of the Research on Family Governance

Even though there has been much focus on the corporate business governance, effective governance of privately-owned family firms goes beyond the business realm to include the governance of the family (Howorth and Kemp, 2019). Effective family business governance helps to ensure continuity and prosperity in the firm, and family alignment and functionality.

Prior research has identified factors that drive family governance adoption, such as the level of family complexity (e.g., age, size, and diversity of ownership) and business complexity (e.g., size, family representation, level of professionalization). While there is some agreement on the drivers and outcomes of family governance, the directionality of the relationships between these factors is not well understood. For example, some authors consider good family communication to be a driver to family governance, while others view it as an outcome. This lack of consensus among researchers points to a circular, mutually reinforcing relationship, where effective communication and effective family governance reinforce one another, rather than one causing the other. The mixed results also indicate there might be missing pieces in our understanding of the inner workings of family governance systems.

In the absence of a deep understanding of what makes businesses and families different from one another, researchers often rely on easily observable proxies (e.g., older family firms are more likely to have a family constitution) to classify businesses and families. This focus on what is observable prevents understanding the underlying causes at play. For example, knowing why and when families decide to develop a family constitution could shed light on the objectives they pursue through their governance. Understanding how the family's history of and approach to dealing with conflict affects their formal governance structures would deepen researchers' understanding of how these structures are designed, and their effects on the family.

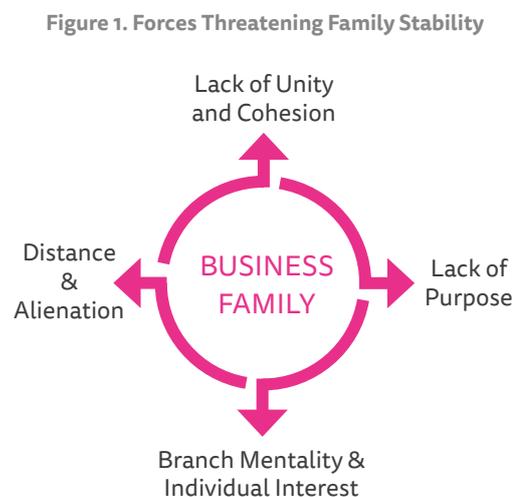
In summary, a deeper knowledge of the drivers and outcomes of family governance at the family level would help to both further researchers' understanding of the family behind the business and develop sensible recommendations for practice.

4. A Holistic View of Family Governance

Recommendations pertaining to the design of family governance systems have long centred around the idea that business families benefit from formalizing their relationships and interactions through contractual agreements and policies such as dividend policies or shareholder agreements. The idea behind this approach was rooted in the belief that families are prone to experiencing conflict, and that this conflict can potentially spill over onto the business (Eddleston and Kellermanns, 2007). Hence, formal family means of governance are expected to help keep the family peace and prevent or mitigate conflict.

These suggestions are problematic for two reasons:

First, multiple forces threaten the stability of a family (See Figure 1 below). When families lack an overarching purpose that would otherwise pull them in the same direction and give them strength in times of pressure, when individual interests are prioritized over collective interests,

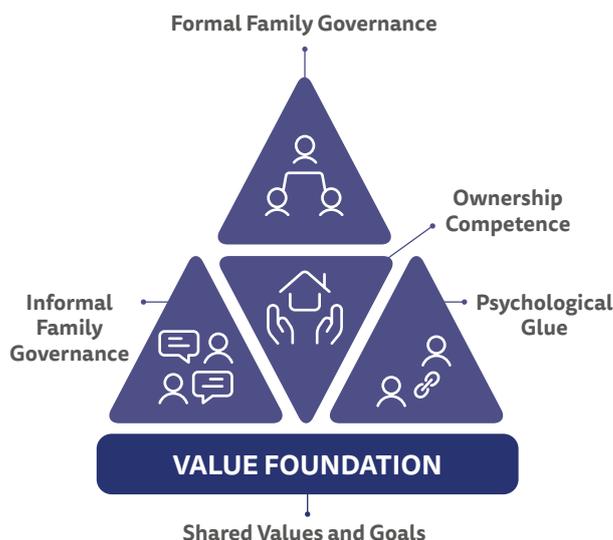


when branch mentality reigns and rivalry ensue, when geographical distance promotes emotional distance, and when family members become disconnected from a business that they know so little about, the fabric of the family is weakened. When families fail to instil a sense of unity, and when they fail to invest in fostering cohesion, they become vulnerable. These vulnerabilities cannot be solved by the implementation of structural solutions alone (i.e., formal family governance).

Second, families vary greatly from one another. Thus, governance instruments that may work for one family may not work for another. For example, an inclusive shareholder agreement that allows for a free flow of ownership across branches and generations is likely to be beneficial for a family characterized by high levels of cohesion and interpersonal trust. However, it could have fatal consequences for a family that lacks these qualities. As Astrachan *et al.* (2020) point out, the absence of mutual trust will lead family members to suspect each other of having hidden agendas for purchasing and selling stock. The little trust the family has would further deteriorates, harming the family and the business in the process.

Often, the documents, structures and processes put in place within family governance are generic in nature and typically reflect poorly the family's unique values and objectives. As a result, instead of preventing conflict, these formal governance mechanisms often exacerbated it (Binz Astrachan *et al.*, 2020). Because of this, it is important that

Figure 2. Holistic Family Governance Framework

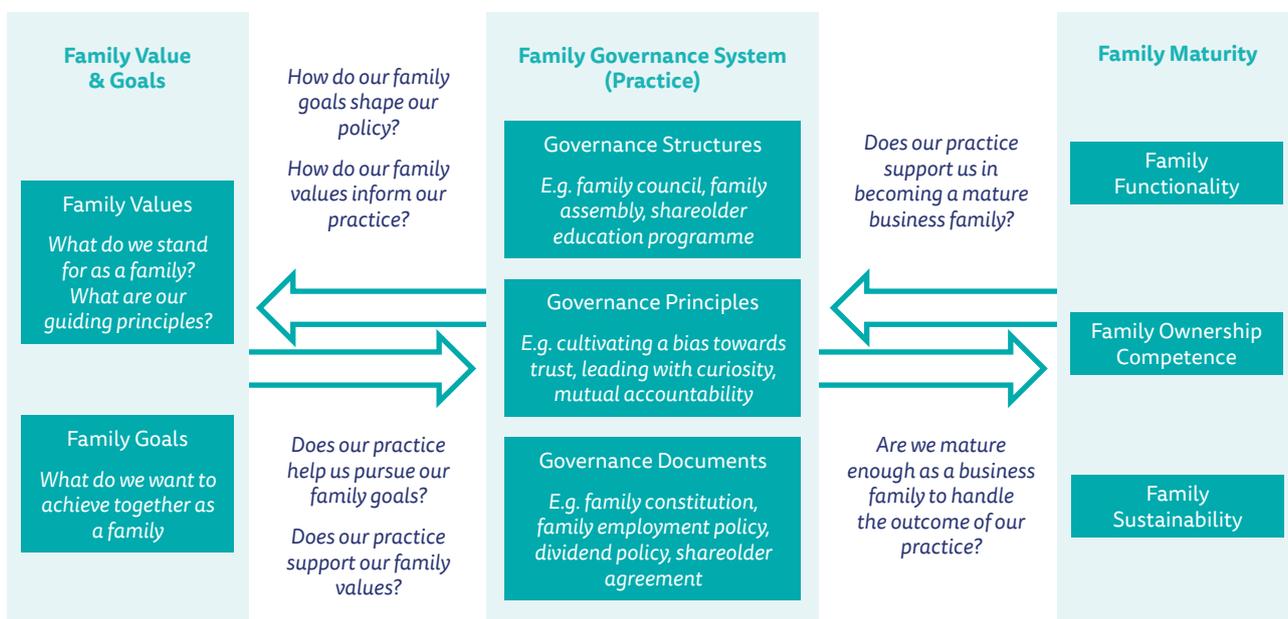


owning families consider a holistic approach to their family governance (see Figure 2).

A holistic family governance system goes beyond formal means of managing and coordinating the ownership group by incorporating the family's shared values and goals, their psychological glue or level of family cohesion, their ownership competence, and informal family governance to govern the family (Binz Astrachan *et al.*, 2020). It supports multigenerational business families in fostering cohesion and unity, facilitating alignment, and effectively managing the family-business-interface (Howorth and Kemp, 2019).

This approach also supports the importance of the fit of the governance system to the family's characteristics (see Figure 3). In other words, for

Figure 3. Family-Practice Fit Framework



any family governance system to be effective and sustainable, it must not only reflect, but continually reinforce the family's values and objectives, and correspond with its level of maturity or have a Family-Practice Fit (Binz Astrachan *et al.*, 2021). A lack of fit, where there are inconsistencies between the three areas, can cause and exacerbate conflict over time. A good fit between these areas can lead to mutual reinforcement. Thus, if a family wants to develop family governance structures that fit to who they are they need to continually ask:

1. How do our family values and goals shape our policy, inform our practice, and are reflected in our governance documents?
2. Do our practices help the family pursue its goals, and are they consistent with our values?
3. Do our practices support the family becoming and remaining mature?
4. Are we mature enough as a family to handle the outcome of a practice?

5. Findings from the Survey and Case Studies

To better understand the formal and informal family (business) governance mechanisms that multigenerational business families rely on, an online survey of members of business families was carried out. The survey was distributed in two languages (English and German) through networks of the [IFB Research Foundation](#), [IFB UK](#), and the researchers' networks. One hundred and fourteen members of business-owning families completed the survey between March 15 and April 28, 2021. The survey data were analysed using a variety of statistical methods, including hierarchical regression analysis and structural equation modelling.

The main findings from the survey include the following:

Formal family governance mechanisms are widely used: most respondents reported that their families have a family council (62 per cent) and a family constitution (65 per cent).

Family representation in the business is strong: almost all respondents in the sample said their

families allowed family members to work in the business (92 per cent) or serve on their board of directors (93 per cent).

Qualification matters: most respondents stated that strict qualifying criteria were in place for family employees (85 per cent) and family directors (61 per cent).

Engaging the rising generation: many reported that their families offered multiple opportunities for the rising generation to engage with the business, such as summer jobs (54 per cent) and internships (48 per cent).

In addition to the survey, five case studies with representatives of multigenerational business families at different stages of their governance journey were conducted. The interviews were analysed following a qualitative content analysis using specialist software for analysis of qualitative data. The key findings from the case study interviews include the following:

- Among the business families included, a strong foundation of shared values, a common purpose, and trust-based family relationships facilitate the design and implementation of effective and sustainable family governance systems. This foundation should be continually reinforced.
- The success and continuity of the family governance system hinges on the rising generation's knowledge of and involvement in the family governance journey. Ownership competence allows family owners and stewards to make informed decisions that align with family and business values and objectives. The family plays a key role in supporting family members in acquiring these competencies.
- While family governance journeys may look very different, they all have one thing in common: they take a long time. Ensuring that every family member's voice is heard in the process is crucial in securing buy-in for the family governance system, but this can be an emotionally challenging and lengthy process that may require outside help.

In summary, business families choose formal and informal family governance mechanisms for different reasons, at different rates, and at

different points in time. Understanding which mechanisms are more beneficial at which point in time is important when developing meaningful recommendations for practice. Hence, despite prior research focusing on business-related drivers of family governance (e.g., firm size, age), the findings from our research highlight the need to incorporate deeper level family variables – such as level of family cohesion – to understand what accounts for differences in family governance practices between business owning families.

6. Six Principles of Good Business Family Governance for Business Families

The combined results from the survey and the case studies were used to develop six principles of good governance for business families. These principles outline important considerations for business families as they start, continue to engage, or evaluate their governance journey.

Principle 1: Identify your Objective(s)

Achieving clarity and alignment around a family's goals is an important first step in designing a holistic, sustainable family governance system that fits the family's needs. Together family members should identify the primary purpose of their family governance. Is it accountability and transparency, continuity and sustainability, or actionability and strengthening the family's ability to make decisions, even under duress? Once the goal(s) are clear, then they might think about how this purpose is reflected in the governance mechanisms available.

Principle 2: Make it Holistic

An effective and sustainable family governance system goes far beyond managing and coordinating the family with formal and contractual agreements: it is holistic. A holistic family governance system is rooted in a solid foundation of shared values and goals; it dedicates attention and resources to ensuring family cohesion and alignment; it systematically equips family members with the competences necessary to make informed decisions that benefit business and family, and it continuously brings the family's core values to life. A holistic family governance

system relies on sensible means of formal family governance that align with and build on the overall family governance system.

Principle 3: Refrain from using Structural Solutions for Emotional Issues

Families sometimes try to calm their anxiety with structures by trying to prevent conflict from happening, or mitigating conflict that is already occurring through formal, contractual agreements. Putting in place formal, structural solutions to address emotional issues is not a sustainable strategy. Unless the family understands what truly drives individual actions, they risk rigidifying emotional issues through a structural solution that exacerbates underlying problems. Unless underlying issues are recognized, a structural solution is at best temporary.

Principle 4: Assure Fit

For any family governance system to be effective and sustainable, it needs to be in-line with the family's value and goal foundation as well as their level of family maturity. Inconsistencies, or a lack of fit between the three dimensions cause conflict over time, while fit leads to the three dimensions mutually reinforcing one another, thus strengthening family functionality.

Principle 5: Leverage the Process

Effective family governance processes hinge on the family's willingness and ability to include its key constituencies. Making sure everyone feels their voice is heard and understands what it is that we are doing, and why, is a prerequisite of a sustainable and effective family governance system. By involving the family in the process of designing or revising the family governance system, we manage to secure their buy-in up front, versus having to lobby for a solution that they were never involved in *ex post*.

Principle 6: Involve and Educate the Rising Generation

The sustainability of any family enterprise system depends on the willingness and ability of future generations to become and remain engaged, competent, and responsible stewards of family assets. Systematically educating current and future generations of owners and stewards is not a choice, but a requirement for families with a transgenerational vision.

7. Practice

Recommendations for Family Business Advisors and Researchers

Recommendations for Family Business Advisors

Many families gravitate towards structural solutions to calm their anxieties. They hire an experienced advisor to develop a family constitution, a code of conduct, a family employment policy, or a family shareholder agreement with them (and sometimes, for them). And while sensible formal and structural solutions can be powerful instruments to facilitate decision-making in growing groups, they also have the potential to rigidify, leading to more conflict down the road, instead of preventing or mitigating it. A deep understanding of the family dynamics and relationships, the communication style, the way in which the family deals with conflict, how the family relates to the business, and how its identity is tied to the family is the foundation upon which an effective and sustainable family governance system can be built.

Family business advisors can support families in their governance journey in the following ways:

- Redirecting impulses to resolve emotional issues with structural solution
- Normalizing conflict Help families understand that conflict is a natural in groups
- Balancing their view of conflict to understand that conflict can also be good
- Encouraging them to learn from others but make the lessons their own
- Encouraging transparency and consistency
- Discouraging them from taking shortcuts

Recommendations for Family Business Researchers

While not often front and centre of academic research in the family business field, practice-oriented research has the potential to bring a greater depth of insights to research and practice. For our work as family business researchers and educators, practice-oriented research can teach us about the challenges that family enterprises and enterprising families struggle with. These insights can help us in asking meaningful research questions, and designing research projects that practitioners are motivated to participate in, which facilitate data collection. Some ideas for the future include:

- A more nuanced understanding (beyond easily observable proxies, such as number of generations in business) and a reliable measure of business family heterogeneity might help explain inconsistent research findings (e.g., do family CEOs or family directors lead to superior or inferior performance? Do family members on the board lead to higher or lower employee turnover?).
- Based on a more robust classification of business families (based on deeper-level characteristics), how do family governance systems differ between different types of enterprising families? How do family characteristics affect the design and adoption of family governance mechanisms? What family characteristics can explain why certain family governance mechanisms succeed in some families, but fail in others?

The full report relating to this research can be accessed here:

<http://www.ifb.org.uk/ifb-research-foundation/news/business-family-governance-20/>

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