THE ART OF BUSINESS SUCCESSION

Part six: Family dynamics and governance

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INFORMATION, COMMUNICATION AND GOVERNANCE

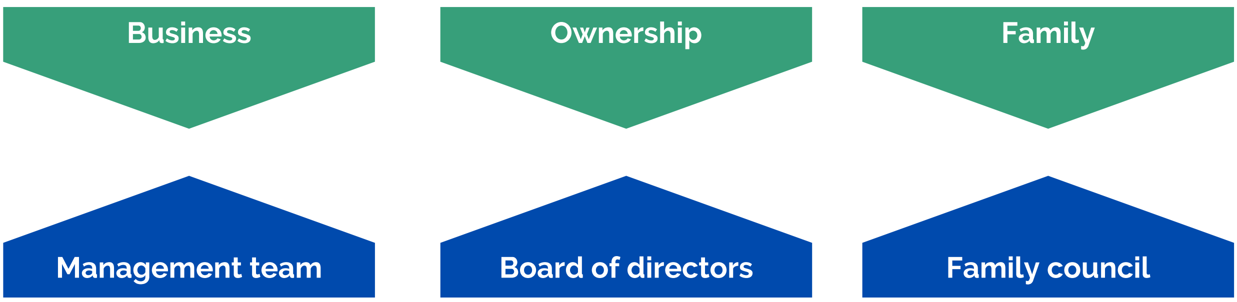
Difficulties associated with succession planning can often be traced to inadequate communication between key stakeholders in the business. Many of these issues can be addressed through the use of formalised governance structures to open appropriate lines of communication between individuals. This is especially the case for family businesses, where family business governance structures that are designed to separate the 'business of the family' from the 'business of the business' can help to optimise company profits while maintaining family harmony. See Figure 6.1.

OUTSIDE BOARD OF DIRECTORS / BOARD OF ADVISORS

Many owners of privately-held businesses do not take full advantage of benefits provided by formalised governance structures. Some treat the board of directors as a mere 'rubber stamp' for management. Others see it as nothing more than an administrative nuisance associated with being incorporated. Others use the board as a way to channel fees to the owners.

Businesses that do not have a functioning board of directors or outside board of advisors may be missing out on an opportunity to improve the management and profitability of their company, especially during a period of succession transition. An outside board can provide the business owner with valuable advice from individuals with years of business experience. These board members will make recommendations on what they believe represents the best interests of the shareholders and the company.

Figure 6.1



OUTSIDE BOARD OF DIRECTORS / BOARD OF ADVISORS

Outside directors/advisors can also play an important role in the implementation of a management- succession plan. They can assist the owners in selecting possible successors from the pool of candidates. They can help with the implementation and monitoring of the management talent assessment and the management grooming plan. Once the management-development plan is in place, the board may also oversee the plan, ensuring that the process remains untainted by family issues and bias. The directors can also serve as mentors for successor candidates, help them deal with their concerns, and make suggestions for their development. Finally, the board can lend credibility and authority to the management succession process through its ratification of the final choices for future executive positions.

In addition to serving as a sounding board and providing guidance during the implementation of a succession plan, the board can help to monitor and improve business management by:

- Reviewing the corporate mission and strategy
- Assessing organisational structure and policies
- Reviewing financial statements and audits
- Monitoring business performance
- Monitoring business goals
- Reviewing and approving budgets
- Making recommendations regarding major capital expenditures
- Approving acquisitions and mergers
- Approving major debt transactions.

While a functioning board of directors should have real powers, a first-generation entrepreneurial owner may not need an outside board. At this early stage, the business structure and management hierarchy are simple; the entrepreneurial owner does everything.

As the company grows, circumstances become more complex. Business success means more employees to manage, more processes to oversee, more relationships to cultivate and more financial information to track and evaluate. As the company begins to outgrow some of the old ways of doing things, the owner's roles begin to change with that growth. More and more of the owner's time is spent performing high-level managerial and relational tasks and less time is spent 'in the field'.

The success and growth of the company will lead to considering outside board members. Initially, there may be resistance from closely-held business owners to taking the first step and involving outsiders on the board. The owner may fear interference and having strangers involved in the 'family business'. Even if an outside board is created, the worried owner may not allow the board to function in a meaningful way. The owner may be more likely to select long-time friends, advisors, or subordinate employees to serve on the board. The board meetings will not occur at regular intervals and will serve merely to rubber stamp the owner's policies. When this is the case, the board of directors can rarely, if ever, provide anything of value and might as well not exist.

ORGANISING AND RECRUITING AND OUTSIDE BOARD OF DIRECTORS

Typically, the best candidate for a board member is an individual who is a knowledgeable, experienced and impartial outsider. Retired or active CEOs with experience owning and/or managing privately-held businesses are often ideal. Some companies seek outside board members with specific areas of expertise, (i.e. finance, law, or human resources) to add to the mix.

FAMILY GOVERNANCE

Often the biggest challenge in family-business succession planning is managing the interactions between family issues and business decisions. As discussed earlier, families in business must contend with two different worlds; the 'business of the family' and the 'business of the business'. Both are equally important, but they are sometimes at odds. This is because the principles of the business functioning are so different from the principles of the family functioning.

CONCEPT OF A FAMILY COUNCIL

A traditional board of directors governance structure does not generally account for the family dynamics described above. Through the creation of a unique family governance structure, called a 'family council', in conjunction with a traditional corporate board, families are able to improve communication, accountability and harmony. Through participation in a family council, all the stakeholders may consider themselves part of the family/business system. Family issues are addressed separately from business issues instead of being inappropriately exposed in front of nonfamily board members or managers. Lines of communication remain open and interpersonal relationships are improved.

WHAT IS A FAMILY COUNCIL?

A family council serves as a sort of board of directors for the family. Just as a corporate board protects the financial interests of the shareholders, a family council protects the growth, development and welfare of all the members of the family, including the next generation. Just as protocol in a corporate board meeting is determined by the corporation's articles of incorporation, by-laws and shareholder agreements, protocol in a family council is determined by the family charter, ground rules for meetings and a vision/mission statement. A family council provides family members with a regular, structured forum to make agreements, communicate with each other, and decide on the proper roles for the family members in dealing with the family business.

A family council operates separately from, but in conjunction with, the corporate board of directors. The family council is designed to deal with the business of the family, while the company board of directors is dealing with the business of the business. There should be at least one liaison between the corporate board and family council. This liaison is responsible for coordinating and managing the family goals and expectations with the company strategic plan.

WHAT IS A FAMILY COUNCIL?

The use of a family council keeps the family issues out of the boardroom, and certain corporate operational issues out of the family business. The overlapping issues are managed and communicated by the board of directors' liaison. With this structure, the family does not feel obliged to pack the corporate board with family members thus preventing the involvement of objective, experienced outside directors who can bring new perspectives to the business. The family council also provides a regular time and place for dialogue concerning the interests of the family in the business. By following the family council protocol, issues can be presented, information can be shared, misunderstandings can be cleared up and matters can be resolved without escalating them to involve the whole business.

Perhaps the most important benefit provided by the family council is improved family relations. The council provides family members with a support system for each other during difficult times. The council meetings may serve to help maintain the health regimen of family members, foster family involvement in giving back to the community, help educate family members on financial and other issues, teach the younger generation about family history and values and provide an excellent opportunity for people to get together and enjoy each other's company.

SETTING UP A FAMILY COUNCIL

A trusted advisor will usually help organise the family council. Sometimes the organisation of the family council is accomplished in conjunction with the establishment of an outside corporate board of directors. The process can be foreign to family-business owners, so seeking outside help to set up and to ensure it is running smoothly is a good idea. A mature family governance structure (outside board of directors and family council) operates with family members and business owners fully controlling the activities.

Although a detailed description of setting up a family council is outside the scope of this book, the following general steps will provide a framework for the process.

CALL A SPECIAL FAMILY MEETING TO EXPLAIN THE FAMILY COUNCIL CONCEPT

The family patriarch and matriarch should send written invitations to attend a family meeting. Some choose to conduct this initial meeting in a retreat setting, to help put family members at ease. The advisor is also present, to help facilitate the meeting, educate the group, gain family 'buy-in', and set the schedule.

DEVELOP A FAMILY CHARTER

The family council needs to develop structures and protocols for conducting business. The family charter fulfils this purpose. A family charter is the 'constitution' for the family. The charter contains the rules and formalities that must be followed by the council. The development of a family charter may take several family meetings and require the assistance of an outside advisor to facilitate the process. A provision for making amendments to the original charter should be included.

DEVELOP A FAMILY STATEMENT OF VISION AND MISSION

The first order of business should be the composition of the family's mission and vision statements. Under the leadership of the family elders, the entire group will participate in composing and ratifying the statements. The aim of a family vision statement is to develop a strong, cohesive message which sets the tone of the family culture. It is intended to help family members develop a common sense of purpose and motivation in their lives. The family mission statement defines the purpose of the family and describes the family's most important core values.

SET A SCHEDULE FOR GENERAL COUNCIL MEETINGS

All family members should have the dates reserved for family council meetings for the next twelve months.

ASSIGN RESPONSIBILITY FOR COUNCIL SUBCOMMITTEES

Each family council member is afforded the opportunity to serve on a council subcommittee designated to address a specific family issue of personal interest. Examples of subcommittees include: corporate liaison committee, charitable/philanthropic committee, family health and welfare committee, family information committee and community relations committee. In some cases, special task forces may be formed to tackle specific objectives such as the development of a family employment policy or dividend policy. The subcommittees report their activities in the general family council meetings.

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BEGIN TO CONDUCT THE MEETINGS

The family council meetings should be conducted with all the formalities and respect that is followed in formal business meetings. Meeting reminder notes and agendas should be distributed before the meeting date. Quorum requirements should be respected. Meeting ground rules should be established and posted at every meeting. Minutes should be kept, recorded, and reread. New business items should be introduced and old-business items revisited and resolved. Subcommittee reports should be prepared and recommendations approved or rejected by the main council. Motions for council action will be nominated and subjected to an oral vote by the family members.

EARNING THE PRIVILEGE TO PARTICIPATE IN THE FAMILY COUNCIL

Family members must earn the privilege to have a voice on the family council. This does not mean younger family members should be prohibited from attending general family council meetings, but they should be old enough to conduct themselves in a mature manner. It is highly advisable to permit young family members to attend family council meetings as soon as they are able to sit through them without being disruptive. This is a way to condition the next-generation family members to know, respect and work with each other. It also helps educate the younger family members about the family's history, traditions and role in the community. In this sense, the mere existence of a family council may help to develop the family's core values in the next generation from a very early age. Nevertheless, younger family members should be made to understand that they must meet certain criteria before participating on the family council with the family elders. The family will determine the qualifications when drafting the family charter. They may include excellence at one's chosen vocation, (e.g. working in the family business, working in another capacity or managing a household), financial responsibility, literacy in business language and the ability to interpret financial statements, trust and respect of family elders and ability to handle disputes in a mature manner.

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