



# WIFU\_compact\_02: Family Governance

The only way to encourage the stable co-evolution of both “family” and “business” social systems over the course of generations is to actively shape interactions between them. In family businesses, complex challenges require immediate solutions as part of the everyday business, leading to ad hoc decisions in intra-family matters. Thus, there is an urgent need for a family strategy, which is essential for any multi-generational family with a business. However, such habitual modes of operation are not (yet) regularly recognised as a family-strategic act. The acknowledgement of this need and the development of an articulate family strategy (family governance) are decisive in supporting the cohesion of the family and, most importantly, the handling of almost inevitable conflict.

## How does a business family evolve its family governance?

Despite the unique features of each family, typical problems and questions occur routinely and should be given careful consideration as a matter of priority. The performance-oriented process of developing a family strategy demands that families allot an appropriate amount of time to elaborate specific issues. Equally important is the provision of a safe space to engage in discussion. Most families, therefore, find it beneficial to involve a skilled external moderator. Although the idea of “family governance” – similar to “corporate governance” – may appear unfamiliar and even technocratic to the family, an appropriate framework of rules and regulations is one means of ensuring that the family remains a *business family*.

## Which elements must form part of developing a family strategy?

The WIFU organises the process of developing a family strategy through a model. This established process model includes twelve subject fields, as shown below.

## Is the order of the twelve steps fixed?

It is not mandatory to work through the twelve subject fields in the given order. However, experience shows that it is essential to consider elementary topics before continuing the process. For instance, it is crucial to determine who precisely counts as part of the business family before turning to the question of a dividend policy.





### When is a family strategy completed?

The family strategy is complete once the family is convinced that all aspects that they deem important have been settled and when all family members involved feel their views have been heard. More formally, completion occurs when everyone agrees to the written family constitution. Subsequently, existing contracts such as the shareholder agreement or inheritance regulations will need to be reviewed in light of the family strategy. At this point, a competent legal advisor should be consulted to ensure that the family constitution and legally binding agreements do not conflict.

### How is a family strategy documented?

The results of this process are documented in a written family constitution (also referred to as family codex or charter). This document will either be signed by the family members or declared to be "effective" or "active".

### Are there any samples or templates for a family constitution?

From experience, it is neither sufficient nor appropriate to simply copy the family constitution of another business family or modify a standard template over a weekend seminar. Likewise, no single person or closed circle should work on the framework and simply present it to the other family members to sign. Rather, if the family constitution is to have significance and efficacy, it is important that it is created collectively by the business family.

### How binding is a family strategy?

The family strategy as defined and recorded within a formal document is not a legally binding contract. Nevertheless, in the event of any dispute, a judge may be able to refer to the family constitution and interpret disputed contractual provisions accordingly. However, a family constitution tends to have a strong *morally* binding effect on individual family members. Since the violation of commonly agreed rules can never be precluded, it is important to anticipate such cases and define procedures to address them.

### Can the process of developing a family strategy fail?

Yes, a business family can reach the conclusion that common ground and cooperation between members are no longer sufficient to plan a shared future. In this case, the failure to form a family strategy represents a sincere acknowledgement which may lead either to individual family members selling their shares or to the disposal of the firm. In most cases, this terminates the shared project of the business family community.

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