Family Business

THE GUIDE FOR BUILDING AND MANAGING FAMILY COMPANIES

The best investment a family will ever make

The creation of a family council is one way to restore the balance between business and family life.

By Ivan Lansberg

A successful entrepreneur once told me, "No amount of business success ever makes up for a family failure. If the family is not working right, sooner or later it will bring down your business."

Ten years ago this entrepreneur did something to ensure that his partnership with an older brother would not be undermined by envy and resentment. He arranged to split the voting stock in the company equally with his brother, even though their late father had willed him a controlling share. By so doing, he redressed what he saw as a fundamental injustice done by the father and strengthened his relationship with his brother. Today this company is an outstanding example of a successful sibling partnership.

For all the lip service paid to family values, we live in an era when material success is valued more than building a family, when "having," as psychoanalyst Erich Fromm once wrote, has become more important than "being." The bonds of our family relationships have been further weakened by entrancing new technologies. Our children are growing up in an environment of Pentium-paced virtual connections in which they invest more time in video games and Internet "chat rooms" than in developing the mutuality and trust necessary for establishing face-to-face relationships with other human beings.

Unfortunately in family businesses, family relationships often take second place. The work of the business is viewed as being real and concrete, requiring careful planning and the investment of effort and material resources, while the work of the family is assumed to somehow take care of itself. The devaluing of family work is further aggravated by the fact that it is often still women who do much of what anthropologists refer to as "kinwork," while the men focus their attention and energies on the work of the business. The persistence of this kind of gender-splitting ultimately erodes family collaboration and is hurtful to the business. Business owners often complain about spouses who are disengaged from, and ignorant of, the business. Ironically, what they seldom recognize is how alienated they are from their families.

The very existence of a family council is a signal that family matters have a top priority and will be attended to in an organized way.

To achieve a better balance between family and business requires elevating the family to the status it deserves. It means paying attention to, and investing effort and resources in, the organization of the family. Just as a business needs an effective board to govern it, a family that owns a business of any size, with numbers of relatives involved in it, needs its own forum with formal rules and procedures for successful governance.

A family council educates family members in their rights, responsibilities, and privileges vis-à-vis the business. It provides a forum for discussing issues of continuity and succession. It plays a vital role in elaborating policies for the family and resolving conflicts over such matters as hiring and firing relatives, distribution of business perks, and use of the family vacation home. It is responsible for preserving and carrying on the family legacy as well as instilling in the young a sense of stewardship for seeing that a better, stronger business is passed to future generations.

One of the council's most important functions is to articulate the family's core values and communicate those values to the managers and board of directors of the business. Some families want their businesses to abide by and foster ethical or religious principles. Others feel strongly about the social and environmental impact of the company's activities. Are wastewater streams from its plants polluting local water supplies? Is the company doing enough to recruit women and members of minority groups as employees? Is it proper for its managers to offer bribes to foreign officials, even if that is customary in the country?

These issues arise in day-to-day business operations more often than people realize, and without some guidance from the family owners, the board and management will lack an ethical compass in reaching decisions on them. In owner-managed companies, a single person has unquestioned authority to make all the decisions. The lines between family and business governance, and between governance and management, are totally blurred, even nonexistent. The critical day-to-day choices are closely guided by one individual's values, even when he or she is unaware of it.

Once the universe of stakeholders widens, however, that is no longer possible. An urgent question then arises: Who should participate in decisions on value-laden issues, and whose values will prevail? Traditional concepts of business governance put responsibility on the board of directors. However, the board of a family company cannot make these decisions responsibly—in a way that represents the interests of shareholders—without consulting the family. Business issues and family issues must be pulled apart; otherwise neither will be addressed adequately. The family issues need to be discussed in a separate forum—a family council.

The idea of a formal organization for accomplishing the goals of the family has a number of precedents. In 18th century France, family councils organized during the Revolution provided a voice to family members long disenfranchised by the dominant patriarchal authority. A number of religious groups such as the Mormons have had a long tradition of family meetings to guide the members in their religious observances, provide moral guidance to the young, and support one another in their relationships and career development.

Many families are not comfortable with formal meetings and procedures, feeling that family relationships ought to be relaxed and spontaneous. This very common objection to councils is understandable, but unrealistic. When a family is deeply involved in a business with very high stakes, complex issues, and multiple stakeholders, matters usually cannot be resolved in a fair and orderly manner if left to discussions at informal family gatherings.

At the time of succession, the family council can be a stabilizing force that makes a substantial contribution to shaping the future of the system. As a leadership transfer approaches, competitive pressures are often at work that challenge previously held assumptions and call for a strategic repositioning of the business. Market realities at this juncture are frequently rubbing up against family values and traditions, and may spark generational clashes, which, depending on how they are handled, can either facilitate or hinder the system's ability to adjust to the demands of the transition. It is the fundamental responsibility of the family council to create conditions that will allow the system to sort through these complex decisions. The council is responsible for defining the family's involvement with the business and preparing family members to operate within the governance system in a constructive manner.

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First and foremost, the council must send clear signals to the board about the mix of family and nonfamily leadership it wishes to see in the next generation. If the council decides it wants management to remain in family hands, it must direct the board to develop a pool of younger family members who are qualified for the top positions. If there are no outstanding family candidates for the CEO's job, or if the family wishes to avoid a potentially destructive competition for the job, the council may ask the board to develop a list of nonfamily professional managers who could succeed the incumbent leaders. Or the family may wish to have the board develop a team of family and nonfamily leaders to manage the company. Designing the structure that will regulate the family's involvement with the governance of the enterprise, and training family members to operate within that structure, are two of the most important duties that the family council has.

While strengthening family bonds is desirable for its own sake, the benefits to the business cannot be underestimated. When shareholders are satisfied and committed, the business is much more likely to capitalize on the advantages of being a family business, including: a long-term investment perspective; a willingness to stick together; a commitment to quality; and a corporate culture that fosters loyalty and great employee commitment. The reverse is also true. When family relationships break down and shareholders cannot work together, sooner or later resources are drained from the company to buy out some of the parties or settle expensive lawsuits.

The very existence of a family council is a signal that family matters have a top priority and will be attended to in an organized way. It is an important step in recognizing that without a supportive and nurturing family, there can be no family business.

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