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Family governance

The key to success

Family businesses are an important pillar of the economy but are frequently underestimated. In the difficult times after the stock market boom, however, they often found themselves more adaptable than other companies. The key to their success: a good family governance which constitutes the superior management of the family.

For quite some time, family businesses were considered somewhat old-fashioned in Europe. The owners had a reputation for inflexibility, stubbornness and greed. They were accused of only thinking of themselves while being unable to keep up with modern times. This hostile conception has now abated considerably. Through their responsibility and their personal capital investment, family business entrepreneurs are much more flexible and goal-oriented than external managers. The owners' obligations are manifold—towards the company, the other co-owners

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and, last but not least, the family.

Emotional perception

In a family business, leadership is perceived in a highly emotional way. Communication within the family-company-market triangle is vital for the progress of the company. Particularly in larger family conglomerates the interference of co-owners can very quickly lead to critical situations.

However, the emotional involvement of family business entrepreneurs gives them the edge over external top managers. The company may well represent their lifework. When it stops functioning, the responsible parties fight with much more vigour than in many other companies. The personal future of the family and its descendants is at stake. The heirs should also be able to be proud of their company and its employees.

Family quarrels paralyse the company

The emotionality of the family business contains risks which are often underestimated. The family quarrel escalating to a long-standing family dispute can quickly slow down or even block the decision-making ability of a family business. Some big private banks as well as certain industrial enterprises have experienced such rows. However, the biggest problem lies elsewhere. A German survey carried out by the Bonn Intes Academy for Family Business, JP Morgan Private Bank and the European Business School (Oestrich-Winkel) has shown that in half of the 185 family businesses surveyed the majority of the capital investment was held by family members who were not actively working in the company. Therein lies the greatest potential for conflict.

When family members cannot agree on strategies and decisions, this often leads to arguments. The passive co-owners show little interest in the development of the company, while at the same time they demand high payouts. It becomes dangerous when the personal interests of the passive co-owners start overriding those of the company. As a consequence, the executive board is put in the position of having a lot of explaining to do. Then the mistake happens: communication comes to an end, negotiation stops and as a result the flow of information runs dry, inside and outside.

A current example of an impending conflict situation is the Versace family clan. What happens when the heir doesn't agree? Since Allegra Versace Beck has reached maturity, her uncle Santos (with a share of 30%) and Donatella (with a share of 20%) are thinking about the future of the ailing company. The family quarrels will probably start when Allegra's personal plans turn out to be not feasible.

How good leadership and governance actually are becomes clear in moments of crisis as well as with a trouble-free succession. With companies listed on stock markets, changes in leadership are often met with an immediate fluctuation in the stock market price and a re-evaluation of the company. It is therefore advisable that a family business creates a governance structure which ensures the company's continuing attractiveness for the market, the clients, the investors (also from within the family) and the banks.

Clear rules in the company are essential

A well-functioning organization with a clear division of duties—both within the company and within the family—is especially important. We can learn from companies which have survived over several generations that not only their leadership but also their families are clearly structured (best practice).

A capable board of directors enhances the competence at the top of the company and therefore the company's potential. Smaller firms can take advantage of this system as the professional competence increases considerably when taking an expert on board. This leads to better decisions and diminishes the risks. And who belongs in this committee? Smart minds!

Besides professional competence, the good qualities of a board of directors are a healthy mix of vision, objectivity, loyalty, availability, wisdom and courage. Professor Neubauer of IMD Lausanne warns against well-meaning friends, pensioners and people who already belong to many other boards of directors.

A good balance between trust and bias is decisive. If the members of the board are too close to each other there is not much room for criticism. If their relationship is distant or even hostile it becomes difficult to build trust. An additional complication arises when the different needs of several family branches have to be taken into consideration. It is indispensable that clear rules and criteria about the composition of the board be defined beforehand, as well as the limitation of the term of office (about three years is usual) and the retirement clause. Furthermore it is advisable to introduce systems of evaluation at the end of a board member's term of office. This gives the respective members the chance to reassess themselves and to make sure that the given requirements are being fulfilled. Members of the board who don't fulfil the requirements have become less common, but regrettably there are still many who are reluctant to give up their seats.

Planning and communication

Many roads lead to Rome but only few are navigable. Family business entrepreneurs have to educate and prepare their successors well, so that the understanding for the processes within the company, the social responsibility and the drive for excellence can grow. Planning should therefore be prepared in the long term. At the same time it is important for an early handing over to take place, so that the senior can help his or her successor to take over the processes step by step. The "hunting instinct" of the successors should never be led by greed, as this doesn't pay off in the long run.

Every family business should have a person representing the company towards the outside. Often the owners shy away from the public even though they are the ones to determine the direction of the company. This is wrong since a company needs identification. The world-renowned brand Swatch is a good example: the figurehead of this successful company is still Mr Hayek senior. A certain conservatism keeps the successors from imprudently heading for tempting opportunities, because the risks need to stay controllable.

Clear rules are indispensable for any family business. For a well-functioning management of a family business there needs to be—besides corporate governance—a systematic management of the family, ie a family governance. This is the place where the company strategy as well as the values and goals of the family are defined. Well-advised family business entrepreneurs furthermore establish rules on how to deal with situations of conflict and crises in order to protect the company and its employees in every respect.

Advantages of family businesses

The structures within family businesses are quite simple. According to a survey by the Swiss Institute for Small and Medium-sized Businesses at the University of St Gallen, "Meaning and Structure of Family Businesses in Switzerland", three out of four family businesses own 100% of the shares.

Yet the advantages of family businesses are still being underestimated or misconceived:

Planning is based on long-term and strategic

considerations
- Owners finance extended dry spells
- Stable ownership safeguards against hostile takeovers
- Continuity in management creates trust with clients and employees
- Flat hierarchies lead to quicker decision-making processes and therefore to higher flexibility

Moreover, family businesses don't have to succumb to the pressure of quarter results as do listed companies. This means that they're not forced to follow every trend. Diversification is another factor which can give even more security. During hard times the successful departments balance out those who are struggling. The entrepreneur can decide at short notice and is able to anticipate negative trends.

The family

The family can exert a lot of influence on the company. This can happen both in a formal or an informal way. A family council is the ideal instrument to successfully implement a family governance.

The way a family council is shaped depends on the size and age of the family and the company, as well as on the volume of the jointly owned assets. The family council basically consists in introducing periodic meetings of the family. The formal setting is important, as opposed to informal meetings like family parties. Since discussions within the family council are held in a neutral setting and according to clear structures, all members get a chance to express themselves in an equal manner. The family council can therefore also serve as an ideal integration tool for new family members.

Key to a successful family and environment is good communication, both towards the inside and the outside. This means taking the time to deal with each other. A possible instrument for acquiring a common language could be "Nonviolent Communication" (after Marshall B Rosenberg). When dealing with altercations (conflict/violence) it often comes down to the desire for appreciation and respect. The solution lies in the recognition and acknowledgment of the needs of the interlocutor. To express oneself according to Rosenberg's formula (observation/emotion/need/desire) helps to accept and respect oneself as well as to fully comprehend the needs of other family members. The prerequisite for this is to listen attentively. In many families this conversation and listening culture is hardly ever happening. Sooner or later this will automatically lead to tensions. Also, in terms of prevention, internal communication is at the base of the long-term survival of a family and a family business.

When a family communicates well, solutions can be found more easily. The needs of all participants have to be heard in order for a win-win situation to develop. Good communication in a family starts with birth. Children should enjoy a good education and learn to deal with each other from the beginning.

The Family Council

The goal of the family council is to establish a platform where information can be exchanged, opinions formed and strategies elaborated, and where professional development can take place. The family council supports and complements the board of directors. The emotions of the family members are vented and dealt with in a closed family circle instead of taking place in a board meeting. A clear stance of the family in front of the board of directors is very valuable, efficient and cost-saving.

The preferred procedure when implementing a family council is as follows:

1st phase: Introduction of periodic formal meetings, two to three times per year (keeping minutes).

2nd phase: The family formulates goals, defines common values and undertakes professional development together (eg communication and finance workshops).

3rd phase: The family creates a family council, the main tasks of which include elaborating strategies, defining codes of behaviour, setting visions and drafting a family charter.

Families with good communication skills can be expected to deal with the first and maybe even with the second phase by themselves. However, in the second phase independent guidance is advisable, in the third phase it is essential.

Family coaching

The emotional factors involved in the management of a family business have proved to be very influential. The coaching of individual family members as well as group coaching has proven to be very valuable in this area. It is not only useful for bridging the generation gap and supporting the succession process, but also for large families who manage and invest in jointly owned assets and shares.

Lack of moral values in top managers

The problem of many companies is that the CEO doesn't feel immediately involved. Even though he feels the pressure of the public or the shareholders, he can rest easy as long as it's not his own money that is at stake.

Many top managers of listed companies have lost the virtues of the respectable businessman. The only thing that counts is their own income. As a consequence, the employees lose confidence when the managers amass fortunes in a way that has no relation to the income of the other employees.

The economy will sooner or later be divided into solidly managed and healthy companies, and those in which health and earning power are only simulated while they're using up their own substance. The blueprint for the manager-type is thus newly defined—a real leader will have to take on more personal responsibility in the future. «‹‹

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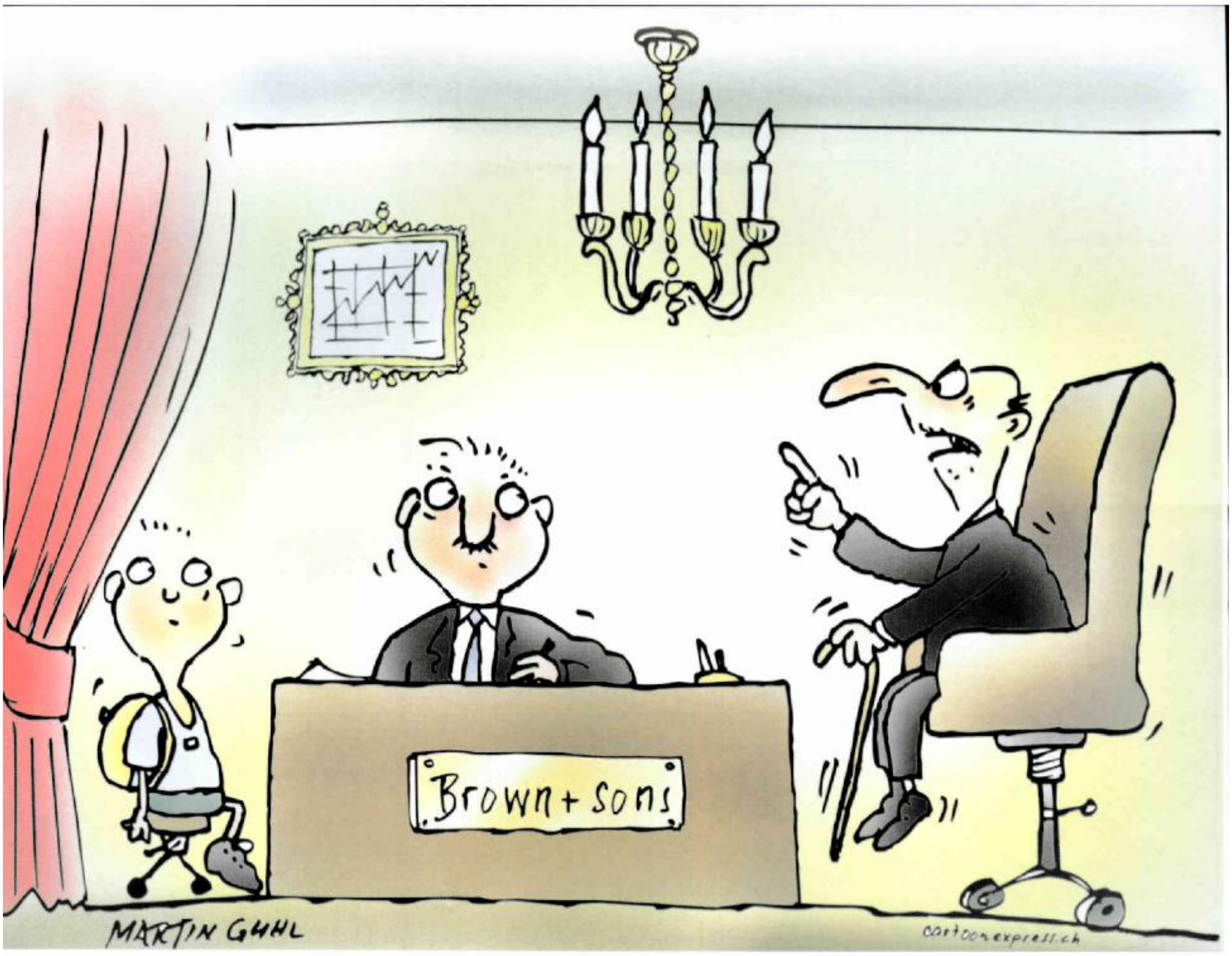

"For the last time...do what I say!!"