

HOW TO

Benefit from a Family Business Council

You've gone to great lengths to make sure your family business is successful. Yet, you still wonder what's going to happen in the future. Will the business stay in the family? How will future generations operate it? Will there be any lasting legacy? Is the business itself creating problems within the family?

These are not questions that most enterprises face, and they often are ignored until problems arise. But if left unaddressed, family relational pressures may ultimately impact a company's long-term viability. A family council likely can help answer these questions and many more.

"Success in both business and family is every owner's desire, but fear of sharing information often interferes with those goals. The problem multiplies in later generations," says Tom Pampush, co-chairman of Schottenstein Zox & Dunn's closely held and family business practice.

A family council is a vehicle that allows stakeholders in a family enterprise to engage in the business by improving communication, sharing family and business news, addressing sensitive issues and establishing expectations for future generations. A family council is rarely a formal entity and is not designed to supplant the board of directors. Instead, it functions as a way for stakeholders to inform the board of the family's desires. It also provides a means for active family members to operate in a manner consistent with a well-developed business philosophy.

Getting Started

The first step to forming a family council is to identify all of the stakeholders in the business. This usually includes family shareholders as well as their spouses and children over the age of 15 or 16. Often, dissension and distrust arise from inactive stakeholders because of a misperception that undeserved or inequitable benefits are being reaped by the active family members. By including all stakeholders in the family council, any notion of impropriety can be dispelled. When disputes arise among active shareholders regarding position or compensation, the council can help alleviate tension by developing guiding principles to be recommended to the board.

When holding an initial family council meeting, two or more facilitators should guide the discussions. By sharing the

planning and leadership responsibilities, communication will evolve more naturally. It is critical to have an agenda and seek input from all stakeholders well in advance of the meetings.

Family council meetings should be held in a neutral location, such as at a retreat or following a family reunion. Some families opt for local conference centers or hotels. "You need to get people in a setting where they will feel free to communicate any issue on their minds," says Pampush. The key is to create a comfortable environment that allows everyone to express themselves and to listen to others' views.

Considerations

At the first family council meeting, topics should include broad subjects such as the reason for forming the council, understanding the perceptions of the stakeholders in relation to the business and identifying some fundamental values of the family and business. Keep the initial meetings to just a few hours. The unique characteristics of each family will ultimately dictate the setting and duration of subsequent meetings. Meetings should be held at least annually and may be supplemented with newsletters.

At an early meeting, a family charter should be drafted to set forth the guiding principles of the family and procedures for the council itself. Eventually, the family council can address the entire spectrum of issues that might impact the

family and business, such as the values they want to guide them, the future leaders of the company and the role of the family and the business in the community.

In the absence of a family council, too often the owner's notion of succession doesn't match the expectations of the next generation. "Family councils allow owners to make informed decisions regarding the business in relation to the next generations," Pampush says. "If an owner learns that the 'legacy' for the children isn't actually wanted by them, there is time to efficiently exit the business and retire, while granting the kids the financial freedom to pursue their own goals."

A family council can greatly benefit both the business and the family. The most difficult part is getting started. If properly established, a council can liberate the owners by alleviating worries about how the business will impact the family in the future. It also can give the other stakeholders a sense of belonging, significance and understanding regarding a key aspect of their lives.

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