

How a Family Business Council Can Help Drive the Family Business

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A family business is often at the very core of a family's existence. The business provides employment for family members. It feeds and clothes them. It gives them a place to work together where the family values are often integrated with the activities of the enterprise.

Not all family businesses are small businesses. Some family businesses are in fact large companies. These large companies may have formal boards of directors, multi-tiered management structures and offices around the country and the world.

Other family businesses are of the "Mom and Pop" variety, with just one location and two directors. It's not their size or scope that links them all together; rather that members of a family own them.

Having expertise on the board

As a family business grows, the owners often consider including people from outside the family on their boards of directors. Key advisors such as the company's accountant or solicitor may be part of the board of a family business; marketing specialists and those with financial expertise are often invited to join the board. Outside advisors and business leaders can help guide the direction and future growth of the family business.

Many family firms face a key challenge of identifying and creating a balance between the needs for family accord and the responsibilities of running a successful business. This proves true especially when disagreement exists amongst family members in dealing with long-term strategies. Sometimes conflict will arise in a family-owned firm and have a negative impact on the success of the business. The family's effectiveness in identifying and managing the conflict-resolution process is vital to the continued success of the business.

Often in times of crisis, decisions are difficult to make when "all votes are equal." Or when the head of the family wants to take the business where younger members don't want it to go. One option to help manage these situations is to set up a family business council (FBC), responsible for determining the family's policies in regard to the business. As well, the FBC will foster agreement on the family's relationship to the business enterprise.

A valuable source of guidance

Unlike a traditional board of directors for a company, the purpose of a family business council is to include all family members, even those not directly involved in the business, in the ranks of advisors to the family enterprise. FBC meetings provide a forum to update family members on the performance and status of the business. The meetings allow discussion of broad issues, such as who should be the next head of the





enterprise or whether the business should be sold.

The FBC will share many of the concerns of the company's board of directors. However, its perspective is strictly focused on the family's objectives. The FBC can provide feedback to the board on how the board's decisions may affect the family.

Just like the board of directors of the business, the FBC will meet regularly – perhaps two to four times a year – and keep minutes of every meeting. But the family council is a democracy where the majority vote prevails. Its function is advisory only. Although it makes recommendations to the board of directors, its purpose is not to guide or drive the business itself.

The FBC is a forum where the family can establish or clarify its values and policies and determine how extensively these should be applied to the business. For example, a senior family member may be planning to retire from the organization. It could be that someone other than the person's next of kin would be the best replacement in that position. The council can make a recommendation to the board of directors as an expression of the priority the family gives to having a successful business.

The FBC transcends multiple generations

Generally, members of a family business council would include all the members of a family who have reached a certain age; 18 or 21 years can be used as a guideline. The extended family that makes up the FBC may also include the spouses of family members. (How extensively this is carried is up to the family to decide, but it can also include partners if marriage isn't an issue.)

One of the FBC's key functions is to ensure that younger generations have an opportunity to provide input into the direction of the business before they take over control of the organization. This will help members of the older generation as they move forward with the future succession of the family business. It also gives the younger members of the family a greater feeling of ownership throughout the succession process.

How do you get a family business council started and then to hold its initial meetings? You're likely best to engage a facilitator from outside the family with relevant experience in this advisory field. This person will need to be a good organizer with knowledge of meeting procedures and an understanding of the dynamics of a family business. A business advisor or consultant is often the person most helpful in this role.

Decisions will need to be made

The first responsibility of any new FBC will be to agree on its structure, its responsibilities and how it should be governed. Why is the FBC being formed? Who is eligible for membership? Who will act as the chairperson? How often will the FBC meet? It's important to work out these kinds of details to ensure that the family business council will have a successful framework for its operation.

Once the initial foundations have been taken care of, the FBC can hold its first full meeting to progress to





the next level. At this stage, discussion should focus on establishing a vision for the FBC and writing a constitution or set of guidelines.

The challenges facing any business are wide-ranging. They often create significant challenges to the organization. Pressures within a family can exacerbate the effects of these challenges, especially as the business grows and reaches the point of generational transition.

The family business council will help preserve the integrity of the family and the business. All generations – present and future – will then continue to enjoy the rewards of the hard work and dedication that grew the family enterprise to its current state, and for the many years ahead.

If you are thinking about or currently working on your business succession plan and are in need of assistance, please contact Rick Gendemann, one of our business succession leaders. We look forward to the opportunity to connect with you to discuss your transition planning issues and address how we may be able to work with you and your family on developing and implementing your successful business transition plan.

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