

Policy-Making: The Process

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If you are like most family business owners, you probably have a basic will in place and, hopefully, a shareholder agreement. Perhaps you've thought it would be a good idea to put together some other documents and policies to guide the direction and management of your business, but you just haven't known how to go about doing it. Or it just seems too difficult to do, given how hard it is to get members of your family to agree on anything.

But policy development cannot be put off forever. Sooner or later, every business family needs to formalize and set down on paper the structure and guidelines under which the family will own and operate their business. Why? The simplest, quickest answer is that having agreed-upon policies in place and abiding by them reduce the chances that family conflicts will destroy your family business.

We list below some of the individual steps you and your family can expect to go through in developing a policy for your policy guide. We urge families to hold off discussion or debate of any policy until after step "e." When discussion begins too early in the process, family members start to "freeze up" in their opinions and get locked into positions, often based on some self-interest. This is natural — parents in a family business probably hope their children will join the company or become shareholders; each sibling or cousin in the next generation may aspire to be CEO. What's important in policy development is that family members set aside individual interests as best they can, and consider the

best interests of the business and the family. These steps are designed to help family members avoid getting frozen so that they can move forward toward adopting policies that best fit the needs of the family and the business:

a. Choose a policy to begin developing. Factors that go into this choice: (1) Policy guidelines you need now and in the next generation; (2) The stage of your family's business — first generation, second, third, and so on; (3) Your family's experience in developing policy--the less experienced you are, the more you need to start with a simpler policy; (4) The level of harmony in your family — again, the more conflicted family members are, the more they need to start with a simpler policy on which they can "practice" and gain experience in working together.

b. Assign roles and responsibilities. You'll need someone to shepherd the process and perhaps a separate person to lead discussion; someone to record the discussion; several people (or perhaps the entire committee or task force) to do research; someone to write the first draft and revisions; and, ultimately, someone to gather policies and background documents (data gathered, notes on discussion, etc.) in a master policy manual--a large notebook, perhaps.

c. Be sure the family has established meeting rules. Some key rules include: How will decisions be made? What happens if someone is not participating in the discussion? How will discussion be managed?

d. Begin to identify the dimensions of the policy. For example, some of the considerations related to an employment policy might be: Should in-laws be eligible to work in the business? If somebody leaves the business, can they come back? Can a mother with young children work part-time — indefinitely? If somebody has been fired, can he come back?

e. Seek advice and counsel outside the family. Read policies that other family businesses have adopted. Visit with other families and interview them, asking such questions as: What has your experience been? What lessons have you learned? What kinds of things have you thought about? What mistakes have you made? Get the advice of your family business advisors — your lawyer, your accountant, the independent directors on your board.

f. Draft and discuss a preliminary policy statement. The draft should begin with a short statement, or preamble, describing the philosophy behind each policy. For example, a dividend policy would not begin with the formula the family would use to determine dividends; it would begin with a statement of what the family hopes to accomplish and what values it wishes to express with its dividend policy.

Remember to have someone capture the discussion on paper — that will be invaluable to you in reviewing what you've done and avoiding misinterpretation. It will also be invaluable to future generations, helping them to understand why you've made the choices you've made and the struggle that went into your choices, including the differing and sometimes dissenting points of view of particular family members.

g. Ask your board or outside advisors to review the draft and give input. Have you covered all the issues? Is it fair?

h. Redraft and re-discuss the policy as needed. Date each draft so that you have a recorded history of the policy. Continue to have someone record the discussions.

i. Once the drafting committee has reached agreement, the document can be presented for a final decision to the appropriate body, be it the relevant members of a smaller family or medium-sized family, or the family council of a larger family.

j. Once the family or family council has reached agreement, the policy is ready to be ratified. But wait. We suggest you not ratify a policy at the same meeting at which you've come to agreement. Run it by the board of directors or outside advisors one more time, saying, "These are the family's final feelings on this policy. If you see anything glaringly wrong, please let us know. Otherwise, this is our opinion on the subject."

k. Assuming board members or outside advisors don't see a problem, go ahead and ratify the policy. A nice touch is to pass the final document around and have all relevant members of the family sign it.

l. Add the original policy, with its supporting documents, to your master policy manual.

Remember: Perceived justice results mostly from the process being perceived as just. Agreement on the decision-making process is more important than agreement on the policy itself.

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Eight Keys to Successful Policy Making

1. Create a decision-making environment — one where family members are willing and wanting to communicate openly with one another.
 2. Involve everyone who needs to be involved.
 3. Focus on the needs of the future; let go of the past.
 4. Get outside input — from advisors, independent board members, other successful family businesses.
 5. Don't get "frozen into position." Keep an open mind and hear all points of view.
 6. Look at the big picture of what's best for the whole family and for the business; avoid thinking only in terms of self-interest.
 7. Let policies grow out of the values, beliefs, philosophies, and principles of the family.
 8. Decide in advance how policies will be approved and enacted.
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