

What Do Family Councils Do?

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A Family Council serving adults in the first and second generation does different things than a second and third generation Family Council. The first/second generation Family Council will focus on the founder's succession and the readiness of the successor. Contrast that with second/third or third/fourth generation Family Councils, which are more likely to be organizing the next generation's development and education and establishing more formal processes to help everyone better understand the "rules" of how the family does things. The complete distinctions between types of family councils and illustrations of their different forms are covered in our book, *The Family Council Handbook*.^[1]

Most Family Councils seek to address the important matters impacting their business family, including:

- Alignment when the business needs a single voice from multiple family members;
- Philanthropic initiatives;
- Owners' needs relative to evolving company governance;
- Family member development and education related to owner or business family roles;
- Collective purpose, goals, vision, mission and values;
- Decisions about their relationship to the business;
- Communication and conflict resolution regarding challenges that could otherwise spill over into the business;
- Expectations which, once established, reduce the likelihood of destructive conflict in the family or business;
- Building leadership capabilities within the family; and

- Preparing for and facilitating generational transition, including family communication and education on legal matters and estate planning.

We've gone into more depth below on specific Family Council activities and as well as the ultimate contributions from successful Family Councils.

What do Family Councils do? Activities and Duties

Agreements

Family Councils address key matters impacting the family and its relationship to the business resulting in different types of family agreements. For example, consider a business family moving from 2nd generation to 3rd generation, with one brother currently serving as CEO and several of his siblings not working in the business. All have high school-aged and younger children. There needs to be a level playing field for family employment in the business to assure that each interested third generation cousin is treated in a similar manner, even though they will reach workforce age over a period of years.

The Family Council's job is to develop a recommended family employment policy. They may start by initiating a task force of a few of their members to explore the matter further and recommend to the full Family Council guidelines for the development and employment of future family employees, as well as the rules for application and advancement within the company. The Family Council communicates continuously with the family during this process so that a final policy can gain consensus approval and support.

Backing up a step, in order to agree on a family employment policy, the Family Council will first need

to be clear about several important matters, such as who gets to vote on the policy, when is a vote placed, what threshold must be met for a policy to be ratified by the Family Council, how can the policy be changed, etc. Since most families do not possess this type of formality in their functioning, many Family Councils start by creating an agreement called a Family Council Charter. A charter spells out the who, what, when, where and why's of the Family Council itself, including how the Family Council deliberates and decides on a matter.

Education and Development

The elders, the board and management of a 3rd generation multi-company business agreed on the need to inform the family about the use of leverage for business growth purposes. The Family Council took the lead and arranged for a board member from another family firm and two members of management to present at two consecutive family meetings. The risk associated with debt was compared to low-growth competitive risks. The family gained a better understanding of their company and a conversational-level education on debt-financed growth.

In this case, the duties of the Family Council included:

- Determining how best to teach the family;
- Deciding who would be involved (just shareholders or spouses too);
- Finding people who could do the job in the context of the family's learning styles;
- Coaching to assure that concepts are explained using language that family members will actually understand; and
- Identifying a method to address questions that family members may have during or after the education sessions.

Effective Family Councils take a proactive role in determining what types of education will benefit family members as a whole, segments of the family by age and sometimes individuals. Then they initiate education processes and programs. Family Councils often have education committees for this purpose.

Family Event Coordination

There are some family events that may need leadership to carry forward into a next generation. For example, a religious holiday together may be mandatory in the

first generation, and regretfully missed for its contribution to the fabric of the family when no one in the second generation takes up the responsibility of its organization. A Family Council will step in and do so, yet should not intrude on events that are being handled well enough informally.

A Family Council will also play a strong role in the planning and execution of family meetings in which business or estate matters are addressed. It may also take leadership in planning philanthropic trips to visit various charities that the family supports or even plan a winter ski trip for those family members who wish to participate.

What else do Family Councils do? They achieve very important outcomes.

A vibrant Family Council is able to work on and achieve longer-term, bigger picture goals and outcomes consistent with their core purpose.

Contribution to Business Competitive Advantages

A strong Family Council can directly contribute to the business' success, especially when families get large. Business management agility is easy for a first-generation entrepreneur, yet much more difficult with a shareholder group of 35. An effective Family Council facilitates education of the shareholders and their heirs, sponsors forums for direct discussion with management and thus can produce strong alignment among family, board and management that is needed to remain agile. This allows the business to respond more quickly to challenges and opportunities in an ever-changing competitive landscape.

Unity

Before a family can be aligned with management and the board, they must be aligned with each other. Family Councils can curb the natural desire to over-focus on separate, distinctive branches of the family. Instead, the Family Council reinforces that all are part of one family. They do this by adding skill requirements for membership in Family Council leadership positions (beyond just branch representation), and by building trust across the broader family — a necessary ingredient for unity. When done successfully, family members will see each other as part of a collective family and not merely members of one branch or generation.



Commitment to the Business

Family Councils focus on education and work with the business to create internship programs, special tours, and opportunities to foster interaction and develop relationships with management. By doing so, the Family Council helps its members to reinforce psychological bonds to their family's business. This is especially important with a 3rd or 4th (or later) generation family member whose parent did not work in the business.

One Family Council we know uses a subcommittee composed of business school graduates who teach their less business-oriented cousins how to understand the business' financial and operating reports. They learn to understand the value of owning operating companies, not just emotionally, but financially as well. Commitment to a business enterprise and the associated patience needed for long-term investment returns requires a connection that can fade over time if a Family Council is not helping to maintain it.

Continuity

A Family Council contributes to continuity in many ways, however perhaps never more than by helping family members articulate the family's mission and vision, then supporting the family to pursue their mission and vision with great energy. By engaging in this endeavor, the family frequently recognizes the critical role the business plays in their lives. Discussions facilitated by enlightened Family Councils have helped some families come to realize that the family's continuity rests on a common, deeply-held purpose which can be fortified by a business. This is very different than when a family's purpose is solely business continuity. Yet, business continuity is actually enhanced by realizing how the business contributes to achievement of a higher family purpose.

Strong, Lasting Relationships

Accomplished Family Councils contribute to family

relationship strength and durability by anticipating future needs and leading the family's adjustment to change. For example, a challenge for many is integrating spouses into the family and deciding how to appropriately involve them in family governance matters. Some Family Councils are skillful about making new spouses feel welcome to family meetings by providing comfortable opportunities to become gradually accustomed to what, for many, initially seems awkward and overly formal.

An astute Family Council can also anticipate major changes that threaten the status quo and family harmony. Examples include: when some family members are selling and exiting as owners while others would never sell; transitioning from a family CEO to a non-family leader of the business; or a transition of control from one generation to the next. Family Councils will proactively help the family understand and accept change, chart a course of action, and then assist the family with navigating through the change. This allows the family to remain strong while making substantial adjustments.

Conclusion

To add complexity to the scope of what a Family Council does, some agile Family Councils will represent the full family on important matters like a family vision, and then effortlessly narrow their constituency on another issue, such as revisions to a shareholder agreement, and facilitate a review process among only the owning members of the family. Both are important components of a family's life together when they have shared assets. And even with this level of complexity, they are doing what all Family Councils do: initiating activities and performing duties to achieve very important outcomes - helping families achieve their missions and visions with great purpose.

[1] Eckrich, C. J. & McClure, S. L. (2012). *The Family Council Handbook*. New York: Palgrave Macmillan.



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