

Establishing a Family Council



The Jim Moran Institute for Global Entrepreneurship

As the family business grows there are necessarily more people involved and there is a requisite need for more formal governance structures. The family council is one such structure that can be effectively utilized to provide a forum for family communication and clarification of business decisions. Why is this so important? Communication in any organization is important to convey information and to promote understanding. In a family business there are just too many issues pertaining to both family and business to leave them to chance meetings. By establishing a family council, family business members recognize that openness and involvement, and sharing of ideas is critical.

This does not mean that family businesses do not communicate. The problem is that communication is often selective, with only a few family members involved. Consider the following situation where the daughter of an entrepreneur is given a management position in the family business upon graduation from college. However, when the son graduates from college, he has to take a sales position before being considered for management. He has two options: not say anything and build resentment or risk alienating his sister by speaking to another family member. Oftentimes members of a family business incorrectly assume that the only way to keep the peace is to avoid talking about issues that are upsetting to them. If a family council had been established, the family member would have had an effective forum to discuss the situation and family members could address the underlying issue which is the need to establish employment policies for family members who enter the business. A critical task for the family council is to develop and recommend policies to the BOD that deal with issues that concern both the family and the business. Another critical task of the family forum is to clarify business decisions. For example, family members may be concerned about the owner's decision to eliminate several positions in the company. Family members may not be aware that the company has lost a major account. The concerns of family members could be dispelled if the owner shared this information at the council meeting.

Now that we have established the purpose of the family council, it is necessary to examine how it functions. The family council should include all family members who are stakeholders in the business including spouses and children (children can be as young as 14, but most often somewhere between 14 and 21). It is advisable for the family council to meet regularly, usually each month for an evening or afternoon to provide a continuous forum for the exchange of ideas. Although some family councils are set up more formally than others, all should keep minutes of the meetings as this is a record for future decisions. Since the council is acting as a decision making group, it should operate on a consensus model. At the first meeting, take time to formulate a statement of purpose for the family council. If your family business historically has had a problem with communication, you can begin the first meeting with less controversial issues. Oftentimes an older family member will talk about the background of the business including how and why it was started and will also share his vision for the business. It is also important to set up ground rules as to how the council will function including how often the council will meet and who will lead the council (preferably someone other than a key corporate executive). It is necessary to delineate the responsibilities of the leader.

The business owner does not need to be threatened by the council as it is an advisory group whose main function is to help members communicate more clearly and to get processes that

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are done informally and behind the scenes out in the open and made clear to everyone. Actual decision making is the responsibility of those who are actively involved in the business. Remember the key functions of the family council are communication and clarification. It is an opportunity for family members to express and exchange their ideas including what they want from the family and the business.

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