

gunnercookeOP



# FAMILY BUSINESS GUIDE



PREPARED BY TONY LOCKWOOD

## HOW DID YOU DO?

The output from your Family Business Review provides you with an insight into your assessment of the state of your family business. It brings to your attention areas of potential concern as well as highlight elements where your structure and approach are in a good place.

This guide is intended to shed more light on the core areas assessed, highlighting why these are important and what 'good' looks like so that you can plan how you can move your family business forward.

Within the Family Business Review and throughout this guide, we assess the **5 essential elements that will determine the long-term success** of your family business. These are;

- The need for a purposeful Vision & Strategy for the business that aligns to your family needs and values
- The need for a structured governance process that complies with all regulations and aligns with the agreed family vision
- The need for clarity around succession planning to ensure delivery of the long term Vision and Strategy
- The need for ongoing growth and profitability to meet the needs of the growing family unit
- The need for a consistent method to overcome conflict between family members to ensure longevity and success of the family business

Being clear about where you are today provides you with a benchmark to measure your progress against. It provides you with a baseline on which to develop specific plans that will deliver sustainable improvements over the coming months/ years, and it provides you with a core set of discussion points to engage the wider family within the process.

Where you are  
**TODAY**

Within a family business, the need for clarity and consensus is more important than ever and although the process of creating such a position can be painful, the benefits are clear for all to see.

Often, the best place to start is to undertake an assessment of what the family's vision is for the business;

- What do you hope to achieve as a family together?
- What is the purpose of your wealth and what will you use it to accomplish?
- Are there particular needs or expectations you have of the business?
- What values do you expect to see reflected in the business culture?
- Is your philosophy to put the needs of the business before the family, the family before the business, or balance the two?
- What role do you, as family members, intend to play in the management and ownership of the enterprise?
- Do you hope to stay together as a business owning family for generations to come?
- What will your family's legacy be – to your employees, your community, future generations of family members?

In the majority of cases, your family values and family vision will drive your business strategy. Rational analysis – examination of strengths, weaknesses, opportunities and threats – is a valuable planning tool, but it does not provide a complete answer in the choice of strategy. Ultimately, the best strategy is the one consistent with your family's collective values and vision.

Although, no pre-planned strategy is fool-proof, unexpected issues and changes will inevitably shake the implementation of any chosen strategy and as such, the key to success is your family's devotion to the business, its resilience in coping with disappointment, and the intensity of its long-term commitment to the business.

If these are strengths, strategic adaptation will take place. New competitive solutions will be found and embraced. If these are deemed to be weaknesses, conflict amongst family members and challenges within your business performance are inevitable.



## Purposeful Vision & STRATEGY

All successful businesses have a clear strategy and empowering vision for the future.

Three core beliefs tend to shape family influence on strategy.

The first, and perhaps most powerful, is the belief about the ***purpose of the family and the purpose of the business.***

Does the family believe that the business is a sacred institution, to be protected at all costs from any potential meddling by the business-owning family?

If so, the family has a "Business First" belief.

The second core belief relates to whether the family feels that ***owning the business is a source of cohesion or conflict.***

Does the business provide "glue" for the family or is it more likely to be a "threat" to family cohesion?

This belief is often translated into one of two outlooks: "If it weren't for the business, we'd probably all drift apart" or "Family businesses usually tear families apart."

Finally, the third core belief regards ***the nature of leadership.***

Does the family believe that a single "boss" or controlling decision-maker is the best way for any organisation (business or family) to work?

Or does the family feel that teams are more effective solution for the business?

If the former, then there is a deep assumption that a single leader must be selected. If the latter, then a group (ie, siblings or a family council) can be equally empowered to sort things out.

The family's comfort level with a strong, independent board is also a key indicator. These issues tend to come into play in the second generation or whenever the family involved in the business is more than one person.

### Conclusion

The owning family's values and vision drive business strategy. To consider how this works in your family business, discuss your family's core beliefs and compare them to the business leaders proposed vision.

Do they match?

Then, consider your business's strategy and see if it fits the proposed profile.

Furthermore, during your family business's strategic planning process, reflect on the core beliefs of your family. If they do not lead you to the strategy you or your management team would like to pursue, explore the historical foundations of those beliefs.

Perhaps, on conscious re-examination, those beliefs are no longer relevant.

Purposeful Vision &  
**STRATEGY**

All successful businesses have a clear strategy and empowering vision for the future.

The purpose of corporate governance is to facilitate effective, entrepreneurial and prudent management that can deliver the long-term success of the company.

Corporate governance provides a structure by which companies are directed and controlled. Boards of directors are responsible for the governance of their companies. The shareholders' role in governance is to appoint the directors and the auditors and to satisfy themselves that an appropriate governance structure is in place.

The responsibilities of the board include setting the company's strategic aims, providing the leadership to put them into effect, supervising the management of the business and reporting to shareholders on their stewardship.

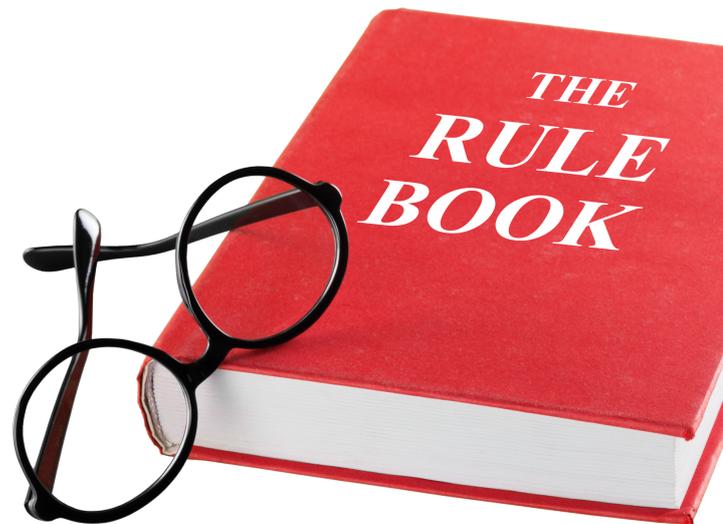
Corporate governance is therefore about what the board of a company does and how it sets the values of the company, and it is to be distinguished from the day to day operational management of the company by full-time executives.

Although this is relatively simple to understand and apply, overlay a family ownership structure with family members holding leadership positions and the world has just got much more complex.

It is therefore essential that within the governance framework that your business adopts, there is absolute clarity around the rules that define family members' roles and responsibilities, and how the family interacts with the business.

Just like the previous section, a proven approach is to establish a family governance process, based around a number of values and practices:

- A culture and structure of open family communication.
- Valuing overall family above individual or family branch needs.
- The importance of demonstrated competence in assigning responsibilities.
- An effective generational succession plan for the continuity of the family firm.
- The creation of family conflict management processes.
- The creation and maintenance of an effective family governance plan.



---

# Establishing Clear GOVERNANCE



Separating family and business decision-making is the goal. But this is complicated because in most family firms, individuals often have dual roles. It's not possible – or indeed desirable – to eliminate all personal interests or conflicts of interest, but family governance procedures make it easier to identify and address them with reasonable objectivity.

As businesses grow, family ownership governance issues potentially increase as questions arise around;

- Composition of the Board of directors.
- Ownership concentration.
- Leadership – the role of Chair/ CEO.
- Trusts and other wealth transfer mechanisms.

One option some family businesses adopt is to establish a family constitution to document;

- the family's long-term vision and values for the business;
- key policies – e.g. relating to family members' employment, management succession, and the ownership and transfer of shares;
- a code of conduct governing how family members should treat each other;
- the role of family governance bodies and their relationship with the business, including the board of directors.

A family constitution should be considered a living document, open to change and updated from time to time.

Key questions to consider when reviewing your approach to Governance include;

- Have you explored whether there's a consensus across the family about the importance of the family business and how to maximise its success?
- What's the purpose of the business, including the family's view on sustainability?
- Have you looked at ways to set up separate governance processes for the business and the family?
- Do you have regular meetings to discuss the family's relationship with the business?
- Do you have rules about who can work in the business, who will be on the board, who can own shares?
- How should you as owners organise constructive communications with the board of directors?
- Does the family have a code of conduct to strengthen interpersonal relationships and communication skills?
- How should you educate the next generation about the business, ownership and governance?



Establishing Clear  
**GOVERNANCE**

Within a non-family business, the issue of succession is focused upon ensuring that individuals with the right skills and experience are identified to step into the shoes of 'key' personnel when they leave.

Although this is still very relevant within family businesses, it is often complicated by handover of assets, and conversations centred around money, power and love are often fraught with emotion, triggered by complex family dynamics that need to be navigated.

The succession process is one of the biggest challenges facing family firms, as most fail to remain a family business past the second generation.

Among those that do succeed, a key concern is how non-family personnel will receive a successor.

Perceptions of nepotism in succession can undermine non-family employee commitment to the business and their continued participation in the firm.

Addressing this common issue can be difficult because the ability to choose a family successor and provide employment opportunities for family members is often a primary aim of family business owners.

Thus, a key challenge for family businesses is gaining buy-in from non-family employees for the next generation of family leadership.

Interestingly, contrary to conventional wisdom, the solution is not to discard family succession altogether – non-family employees often prefer family successors to non-family outsiders because of the family-like cultures that accompany family succession.

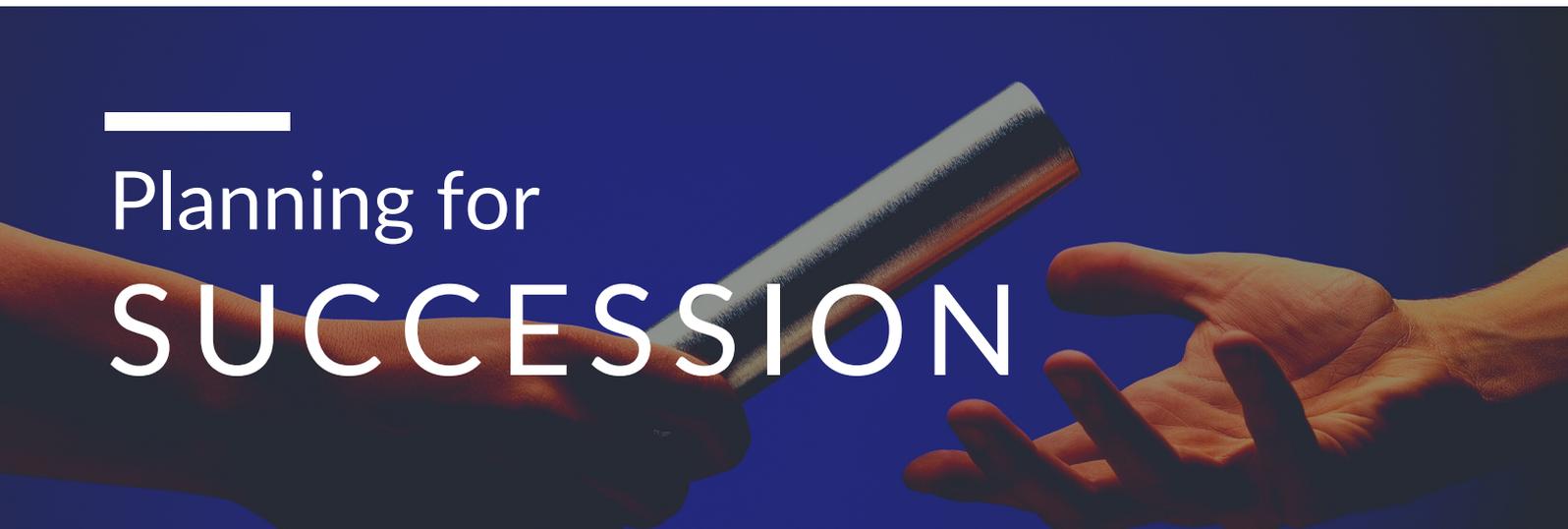
Yet, you must reassure employees that the next generation is well-suited for the leadership challenges they will face.

Clear communication, strong relational bonds, and proven successor fitness are key to an effective succession process.

- The best succession handoffs are often years in the making, giving employees time to prepare for this transition. Letting your prospective employees know the firm's motivations and intentions can prevent discontent down the road.
- Familiarity breeds trust and cooperation as employees need time to become comfortable with a successor. The ability to forge relationships ahead of time can be pivotal in fostering acceptance for family succession well before the handoff occurs.

---

# Planning for SUCCESSION

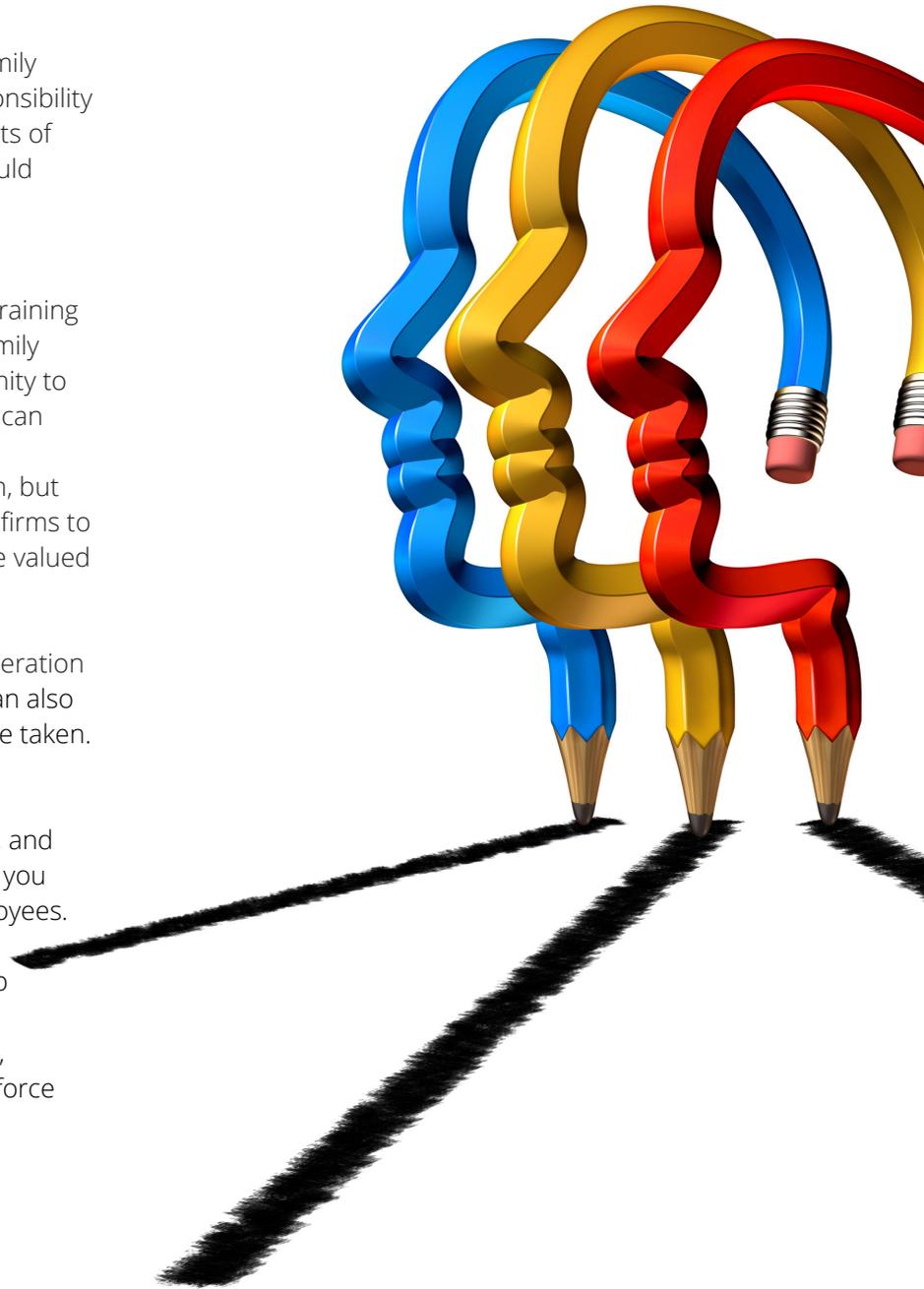


- Non-family employees often sense that family members have less accountability or responsibility than they do. To counter the adverse effects of such perceptions, aspiring successors should demonstrate competence and strive for accountability.
- For many family firms, responsibilities for training the next generation fall squarely on the family leader. This practice misses a key opportunity to gain non-family employee buy-in. Not only can skilled non-family employees be a valuable resource for preparing the next generation, but including non-family in this process allows firms to signal to non-family members that they are valued contributors to the firm's success.

Successfully passing the baton to the next generation is a goal for many family business leaders. It can also be a sound business move if the right steps are taken.

By clearly communicating family succession intentions, developing strong relational bonds, and proving the fitness of next generation leaders, you can achieve buy-in from your non-family employees.

Not only will this make for a smooth leadership transition, but it can also increase non-family identification with both the family and the firm, creating a more productive and satisfied workforce that propels the firm for years to come.



---

Planning for  
**SUCCESSION**



The bottom line is that we have to earn a profit to stay in business!

Family business owners fully understand the gravity of this truth.

But what is profit?

At its roots, profit is simply what's left from the revenue produced when all expenses have been paid.

In a family business, profit is much more. It is the fuel for growth and the necessary ingredient for liquidity.

It is also intensely personal, as profit may be the source of a year-end bonus for an executive, a new machine for the production team, or payment for a daughter's education when distributed to a shareholder.

In fact, profit is so personal that our very relationship to money impacts how we view profit.

For those who deeply value the prestige and power gained from wealth, there may be an intense drive to maximize profit so that large distributions can be made to support growing lifestyle demands and interests.

For those who value work-life balance, there may be a desire to provide flexible schedules and support resources to company employees, even if it means less profit at the end of the year.

Even the work culture can impact how various stakeholders view profit. For example, when open book management is successfully implemented, every employee from top to bottom asks prior to a spending decision: "How much will this increase or reduce profitability?"

In a family business, profit is not a black-and-white concept. It is seen as a dynamic mix of business performance, stakeholder personality, and family business culture.

Above all else, family members want predictability from the business: to know what they can expect in terms of profit to use for dividends or distributions.



---

Future Growth &  
**PROFITABILITY**

A Formula 1 race car, primarily orange and blue, is shown on a track. The car has various sponsor logos, including 'Shell Technologies' and 'Schubert'. The driver's helmet is visible in the cockpit. The background is a blurred racetrack.

Measuring profit in a family business has a few nuances that must be addressed in order for it to be considered by stakeholders as a reliable measuring stick useful to ownership and management decision making.

The nuances of profitability measurement relate to three fundamental expenses:

1. Family employee compensation and benefits;
2. Related party transactions with other family owned entities and with family members; and
3. Philanthropic expenditures that may be made by the business.

When there is a lack of alignment on which expenses to measure, it can negatively impact the way that profit is measured.

To navigate these nuances, it is helpful to have policies that manage expectations of profitability within the family. However, it is critical that these policies are applied consistently.

Such policies may include a family member compensation policy for salary, variable pay, benefits, and perks; a related party transaction policy; and a philanthropic expenditure policy.

Making profitability a normal part of discussions among family members is an important aspect of creating healthy decision making around this matter.

Some important steps to help you foster a frank and open discussion around profitability within the family business include:

Complete a family values exercise to highlight each person's relationship to money and to move the topic of money/ profitability from one that is not discussed to becoming an active part of your family meetings.

Develop a family vision and values statement to help set an overall direction and profitability goals for the company.

Implement a learning plan that builds the knowledge and skill of all family members to understand the financial elements that are material to being a responsible owner of a family enterprise

Establish quarterly meetings to review and discuss the financial picture of the business to build real understanding and synergy amongst family owners regarding profitability.

Create key policies that relate to profitability and money for your family enterprise, such as:

- *Employment compensation including salary, variable pay, benefits and perks*
- *Project compensation (for special projects completed by owners or family)*
- *Non-family employee compensation*
- *Dividends/ Distributions to owners*
- *Related party transactions (including vendors and suppliers and actual or guaranteed loans)*
- *Charitable donations*



Future Growth &  
PROFITABILITY

Conflict is a natural part of running a business but when colleagues and employees are also family members, ordinary conflict can take on new dimensions.

Organisations and non-family businesses tend to have formal barriers to conflict between colleagues; HR departments and the natural separation between work and family make it unlikely that a workplace conflict will have serious repercussions on a firm's future.

On the other hand, the interconnected nature of family businesses means that family drama, workplace issues and conflicts about the business can more easily become serious problems without special handling.

Most family firms lack formal processes and strategies to mediate disputes, making it difficult to prevent inevitable quarrels from developing into ongoing issues.

Here are five rules to help you manage conflict in your family business:

- Leverage formal governance structures to mitigate conflict - One issue that often arises is that family members lack a forum for discussing issues in the business. Formal structures like family councils, boards and family forums can offer family members a safe, organised way to bring up issues and negotiate conflict. Formal governance can also help mitigate family and financial issues by separating ownership of the business from its management functions.
- Give family members space (and permission) to air grievances - One problem that we frequently see in businesses with a first-generation matriarch or patriarch is that family members may lack a safe way to express their needs and concerns. When people don't feel listened to or appreciated, seemingly small problems can mushroom into major business and family drama. To help prevent conflicts, family leaders should actively encourage family members to air concerns constructively and give them the space they need to disagree. Senior leaders should come prepared to listen without judgment and be willing to fairly consider what is being brought up.
- Don't let business bleed into family time (too much) - It's very challenging to keep from bringing business home, but one way that conflicts turn into family drama is by failing to keep them separate. Family business leaders must set the example by separating business and family time as much as possible. One way to make this separation possible is by having formal spaces and structured times to discuss business issues. Explicitly making other times no-business zones can help family members relax into their personal roles and get away from work.



Managing  
**CONFLICT**

- Communicate early and often about issues - Many large complications start as small problems that could have been resolved with early intervention. Sometimes, spotting issues early and addressing them through clear communication can be enough to prevent a conflict from developing. Even when family members see each other regularly in the business, formal family meetings can be a better place to hash out complex issues. Whether it's at a family retreat or simply at a separate meeting, making a break from daily routine to tackle the big issues can help open lines of communication. A formal setting can also help ensure that issues are not ignored and that members of your family have the opportunity to make their opinions heard.
- Bring in experts to mediate major conflicts - Some issues simply cannot be resolved internally. When family members become entrenched and constructive dialogue isn't possible, an objective expert who is trained to help resolve conflict can help cut through the emotions and focus on issues. A mediator can also help guide a family through initial conversations all the way to a final resolution. We have found that many family groups can achieve more in a few hours with an outside expert than they have in years by themselves.

Many conflicts boil down to age-old family disputes. It's common to see businesses that mirror family hierarchies. For example, parents might run the company together or a favoured eldest child might serve in an executive role while other children and spouses fill in other management positions.

However, these parent-child and family dynamics can make the separation of family and business even more difficult.

Leaders must be able to treat children like employees and managers during business time to help reduce the risk that family dynamics will damage the business culture.

Ultimately, managing family conflicts often comes down to creating better communication skills as a family. While conflict can never be completely avoided, treating it as a normal part of business and developing the skills to handle it can go a long way toward building healthier business and family ties.



Managing  
**CONFLICT**

As we have seen, many interests are represented within a family business and they are often far more complex than a non-family business. In addition to the views of the board of directors, the CEO, and/or other senior executives, external investors such as venture capitalists, banking partners, the majority of the ownership is often spread across the wider family unit (often getting more diverged with each generation).

Ideally, each stakeholder should look out for the company above all other interests, but this may not always happen and conflict often arises as a result.

This is where an Independent Director/ Adviser can be really valuable.

An independent director by definition represents no one cohort of stakeholders and as such, they can bring balance to a board. Below are five reasons why every board needs an independent director.

- **Independents are impartial** - An independent director is not as closely tied to the company as an executive or family board member; this can allow the independent director to be more impartial and objective. Although they are “ beholden to shareholders”, they will be more objective as far as moving the company in a beneficial direction. An independent board member’s job is to look out for the well-being of the company and the shareholders’ interests first.
- **Independents want to be there** – and as a result they bring focus and depth of perspective about your industry, company and plans for the future.

## Introducing NEDplus

- **Independents bring expertise to bolster where you have room to grow** - With an independent, you get the chance to select an expert in a specific area where your company wants to grow (e.g., going public or scaling/growth), or an area that has become more urgent due to market changes, new opportunity or an adverse situation.
- **Independents are the key to conflict resolution** - An independent board member is able to play a pivotal role in neutralising any conflicts that arise among the board and within the family unit if that is impacting on the performance of the company. Sometimes there are deep, fundamental disagreements between the management team and family members or the company’s investors and the Independent Director is in a unique position to cut through to the core issues and find agreement much faster.
- **Independents can mentor and share their network** - While all board members can help to mentor the CEO and executive team of the company, an independent can be specifically recruited for skills or perspective needed by executive team.

Through casual or more formal conversations, an independent director can be the key to a more sane management team.

Even with an Independent Director, family businesses, like most other organisations will need to bring in specialist advisers — strategy consultants, lawyers, accountancy firms, investment bankers, tax specialists, remuneration consultants, head hunters — to help.

This is where the NEDplus solution from gunnercooke provides a unique approach.

Our NEDplus approach enables you to replace your existing NED(s) and multiple legal/ professional advisors, by providing you and your Board with access to a dedicated team of advisors and lawyers on a fixed monthly subscription basis, often for no more than the cost of a single NED!

# gunnercookeOP

A photograph of a grand classical building with a red double-decker bus and a statue on a city street. The building has many columns and arches. The bus is red and is driving on the street. The statue is on a pedestal and is of a man on a horse. The scene is set in a city street with a sidewalk and a road.

To find out how our NEDplus approach can support you and your family to achieve your short and longer term goals, contact us today, arrange for a complimentary review of the findings from your Family Business Review and one of our senior team will work with you to understand your needs and offer advice as to whether NEDplus can help you

Prepared by  
**TONY LOCKWOOD**, Partner  
gunnercooke LLP

e: [tony.lockwood@gunnercooke.com](mailto:tony.lockwood@gunnercooke.com)  
o: +44 (0) 3330 143 401  
m: +44 (0) 7885 957 274  
w: [www.gunnercookeop.com](http://www.gunnercookeop.com)

To discuss your family business in more detail, schedule a complimentary discussion with Tony -  
[www.calendly.com/tonylockwood](http://www.calendly.com/tonylockwood)