

# BUILDING FAMILY UNITY: IS THERE A PLACE FOR EMOTIONS?

There is often a difficult dynamic between the shareholder's need for return and the emotional attachment of the family to the business. A governance structure is required, namely the family council. **Andrew Keyt** explains



**M**anaging shareholder relations is a daunting challenge to public and private businesses alike. Balancing the business' need for resources with the shareholders' need for return often creates a competing set of needs. In the family business this process is complicated by the emotions of family relations.

Instituting a family governance structure is a vital tool in the process of managing these dynamics. The challenge in instituting these family governance structures is keeping them active and vital in pursuing their purpose of building family unity.

When families don't take family process seriously the family council becomes a place where family members rid themselves of their emotional baggage. Instead of building unity, involvement in the family council becomes a frustrating expenditure of time. Instead of creating a unified vision for the future of family and business, it becomes a way to keep shareholders busy while management runs the business.

This concept comes from the work of James March. The essence of his theory is that in the face of emotionally charged or ambiguous situations, organisations sometimes make the 'irrational' choice of disconnecting problems, solutions and decision makers from each other. When this happens in a family business, the family council becomes a place of emotional distraction, and the business leaders take on the decision-making or disregard those decisions made by the council.

## WHY DOES THIS HAPPEN?

The emotional challenges of family business can seem overwhelming at times. The complexity of the issues faced by the family increase as the number of family members involved and business's success grow. Families need to manage this complexity and a family council is a logical tool.

In early stages the family council can become the emotional

dustbin because family would rather focus on the creation of a family council than addressing more challenging deeper family divisions. Work in this stage of the family council can seem productive and rewarding because family members feel like they are addressing the important issues of the family business. They immerse themselves in the process of creating bylaws and structures, and educating the family on a variety of issues. While this makes family members feel productive, it often doesn't address the underlying emotional conflict. The end result is that the family council is relegated to the role of social planner for the family business.

Family councils can also be ineffective. Family councils that don't have clear missions and goals often tread water, never accomplishing anything. This creates both a sense of frustration for the council members and for management. It communicates to family that the council is a waste of time and its opinions, process and decisions shouldn't be trusted or taken seriously.

One of the most difficult dynamics for almost any family business to address is the dynamics of those working for the business versus those working outside the family business. Business leaders want the trust of family members, and the freedom to make the business decisions they feel are necessary to keep the family business successful for the long term. Those working outside the business want to know what is going on in the business, and to understand the emotional and financial returns the business is providing.

These divisions are often exaggerated due to the attitudes and behaviours of the family members involved. Active family members often have problems respecting inactive shareholders or understanding the role of shareholders, and use this to discount the actions and decisions of the family council. Additionally, active family members sometimes feel a lack of competency in dealing with the emotional issues of the family and seek to abdicate dealing with these issues by pushing them to the family council.

Your family council might be experiencing this phenomena if decisions by the family council aren't communicated to the board.



*Unity: a clear mission and a clear sense of purpose drives a family council.*

Inactive family members also behave inappropriately because they don't adequately understand their role as a shareholder, don't have the personal capacity to separate the emotional from the business issues, or try to use the family council to settle personal vendettas. All of these behaviours decrease the effectiveness of the council and provide justification for the view that the voice of the family council isn't important.

### HOW DO WE KNOW IF THIS IS HAPPENING?

The awareness of this problem can come from a growing sense of frustration from all family members about the family council. You can see this happening when:

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#### THE FAMILY COUNCIL NEEDS TO BE SUPPORTED AND VALUED BY THE BUSINESS FROM A FINANCIAL CONTEXT

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- the family council isn't given any real decision-making authority nor does it take any real authority;
- the board doesn't seek the opinion of the council;
- the council doesn't have a sense of mission;
- the family questions the monetary or time commitment to the council;
- the council becomes the social planning arm of the family business and little more;
- trust is declining, not increasing.

### HOW DO WE PREVENT THIS?

If you suspect that your family council isn't working, families need to do four things;

#### *Assess the structure of the family council*

Does the council have a strong leader to keep the council process moving? Does the council have clear mission, a clear sense of pur-

pose, and a clear set of goals. Does the council have clear by-laws, a clear agenda when they meet? Are clear decisions made? If the answers to these questions is no, then a structure needs to be put in place.

#### *Assess the family situation*

Is the family council merely a distraction from a larger issue? This is most likely the case if those active in the business don't show respect for the decisions and input of the family council. This is also a likely cause when the inactive family members use the family council for personal purposes or to address personal conflicts without an understanding of the role of the council and the role of shareholders. If you suspect that there are underlying family conflicts inhibiting the effectiveness of the council, you should seek the assistance of a family business consultant.

#### *Regularly evaluate the performance of your family council*

The FBN Corporate Governance Survey (2004) found that 53% of family councils did not evaluate the performance of council members. In order to prevent the council becoming irrelevant, a clear sense of mission and a clear set of objectives for the council to achieve are needed. It is also important to then evaluate the performance of family council members and the council as a whole in pursuing the mission and goals of the council.

#### *Value the work of the council*

The work of the family council is often the least appreciated work in the family business because measures of their success aren't as clear or easily measured as the work of business management. Families need to realise that building family unity frees the management of the business to focus on business growth, strengthens family relationships and, in a financial sense, lowers your cost of capital.

The council members need to be acknowledged publicly for their accomplishments, thanked for the investment of their time, talents and energies. Their work also needs to be supported and valued by the business from a financial perspective. The budget to support the operations and objectives of the council is a clear indicator of the level of importance placed on the work of the council. Compensating family members for their work, talents and time is an important expression that the family council serves a crucial role in the life of the family business.

The work of family councils is important and valuable work. When family councils are working well, they help to create a unified voice of the family to direct the board and management. The positive feelings generated by the council in these situations can lead to increased productivity, and a reduction in the expectations of short term financial gain from the family members. But, a family can only reap these benefits if they understand the importance and role of the family council and are vigilant in ensuring the family council builds family unity. ■

**ANDREW KEYT** is president of the US chapter of the FBN and executive director of the Chicago Family Business Center.