

15 Lessons Family Councils Wish They Knew Before They Started

By: Chris Eckrich, Ph.D. and Stephen McClure, Ph.D.
The Family Business Consulting Group



Many families have experienced Family Councils as a form of governing the family. Almost always, the formation of the Family Council comes with very high expectations for a vibrant and productive governing entity. Some launch with great success and others struggle to gain enough momentum to get off the ground.

Whether you are just starting a Family Council or have had one for years, much can be gained by considering the lessons others have learned in making their Family Councils work. What follows are 15 guidelines Family Councils often wish they had known sooner.



1. Remain Clear on the Boundaries, Especially Family and Business Governance

A **Family Council** is a group that serves as an executive team or representative body of a broader enterprising family. This broader family group is often referred to as a **Family Association** comprised of all those eligible to vote on a family matter. The Family Association typically consists of family owners and non-owners, such as spouses and those who have not yet received shares. The Family Council's job is to prepare recommendations to the broader Family Association and to carry out the Family Association's wishes.

The Family Council is also a separate entity from the Board of Directors, which represents shareholders directly. While the Family Council may be asked to lead research on how a board might be structured, or educate the family on how the board works, the Council itself does not have power over the board. Similarly, the Family Council does not usurp shareholder rights and responsibilities. It is shareholders who ultimately control the direction of ownership positions.

Additionally, a Family Council is not empowered to tell management

what to do. While Family Council members may speak with management about preparing for an upcoming family meeting or giving a presentation to the Family Association, it is not in the job description of a Family Council to direct management behavior. That is the board's job to do.

Family Councils sometimes become confused about their rights and responsibilities. For example, they may unearth concerns about the firm's leadership or family employment in the business. The Family Council may unwittingly begin crafting policy with the expectation it will be directly implemented. Better that the Family Council develops a family consensus on critical issues and communicates with a single voice directly with the board Chair.



2. Be Clear that the Family Council Works for its Constituency: It is not the Boss of the Family

A Family Council can't get too far out in front of the family. Family members on the Family Council may think they are doing great deeds for the benefit of the family, right up to the time the family says: "You are making decisions on matters about which we want a voice." Family Councils should not be timid to the point where they feel they need to take everything to the family. Sometimes the family needs bold leadership on the part of its representative body. The wise Family Council Chair will remain in touch with the family's mood to know when to move forward and lead as a Council and when to stop and take the pulse of the family on an issue.

A leadership model that works well for the Chair with the Family Council is "servant leadership" and it is also a good model to follow by Family Councils leading their family constituencies. A useful metaphor is a Family Council that thinks of and treats the family group as if they were their sisters and brothers. Siblings respond

better when they are given choices and kept informed of progress by a sibling working on their behalf. They may react with resistance when one sibling adopts a superior or directive role.

A Family Council cannot afford too much resistance as time and effort are in limited supply. Deference and lots of communication are needed for the most important initiatives. However, a balance must be struck between allowing a voice from the broader family, yet not to the point where the Family Council allows themselves to be micro-managed.



3. Always: Job Description First then Candidates

When it comes to deciding on membership of the Family Council, who will be the Chair and who will lead the Education Committee, there is a previous step that is too often skipped: determining qualifications. The practice of defining the Family Council Chair's job description first, then identifying a list of possible qualified individuals has the advantage of getting the right person into the role.

When selecting members, Family Councils have done well by seeking capable members across the family (not just one from each branch) who meet the following qualifications:

- Communication skills: listening, persuading and informing
- Win-win compromise and group diplomacy skills
- Maturity
- Understanding and support of the family mission and vision
- Accessibility to the entire family
- Respect and trust from the entire family

In addition to member nomination and selection, the Family Council member qualifications can serve as a standard and reminder of

responsibilities after members have been appointed or elected to their roles. High-performing Family Councils use annual, anonymous feedback to provide individual members with information about how they are measuring up to standards.



4. Don't Make it "The Baking Committee"

Some families find out the hard way that involving family just for the sake of involving family often leads to further alienation from those who are feeling powerless. Family Councils work when they have real responsibility for real issues. Taking a bunch of individual family members who have little power and little voice and organizing them into a group does not make for an effective experience. The result is a group with little power and little voice.

Family Councils can certainly accommodate those who are less powerful than business leaders. However, a good Family Council has influence and value not only based upon membership, but also from effective leadership and respect earned from results.



5. Choose a Chair Wisely

An effective Chair is energetic, takes an all-family perspective when influencing the Council, and is able to lead with a vision and through obstacles that might stand in the way. A critical skill is the ability to act in the best interest of the overall family without showing bias towards any one particular branch. Most certainly the Chair needs to be organized and know how to lead others who are typically volunteers.

If a Chair is selected for other reasons besides leadership skills, the family may struggle to achieve its goals. Some families will use this Chair position as a method of developing leadership skills among family members. This can work, but in order for the Chair to be

successful, resources (such as family advisors, training seminars or administrative support) may need to be brought in to help organize and implement family initiatives. Similarly, an inexperienced Chair will benefit from coaching to strengthen his or her leadership abilities.



6. Create a Charter

A Family Council that meets but is not clear on its purposes or areas of responsibilities is likely to frustrate both council members and the broader family. An effective Family Council has a charter that identifies its purpose, roles, responsibilities and high-level goals. In many ways the charter serves as the operating manual for the Family Council. A charter gives clarity around decision-making at the Family Council level and broader family as well. It will contain processes for identifying members of the Family Council, terms and conditions for membership, and an overview of the structure (i.e. will it have committees?) and communication relationships.

The charter will reflect the unique circumstances of each family. For example, a very large family would likely seek term limits to force rotation of Family Council positions amongst different family members over time. This allows greater opportunity for family members to contribute their strengths and develop new family leadership skills. Conversely, a smaller family would avoid term limits — acknowledging that they do not have an endless supply of potential council members.

Small families may have only a few members who are gifted with leadership talents and oriented towards serving the family. Rotating them off for the sake of rotation ends up harming the overall family by limiting the contributions they can offer the family.



7. Use Standing Committees, Task Forces and Ad Hoc Committees

Getting the work of the family done is no easy task. It requires sustained effort over time to achieve family goals. In order to accomplish the work of the family, there are often standing subcommittees reporting up to the Family Council. **Standing committees** are agreed upon committees that will exist over sustained periods of time to meet family goals. For example, Family Councils may have an Education Committee whose purpose is to increase the knowledge base of the family, or a Philanthropy Committee to guide the successful implementation of family philanthropy over time.

Occasionally a subgroup needs to be organized to achieve a family goal that has a shorter time limit, such as organizing the artifacts of an enterprising family. This is called an **ad hoc committee** and will usually involve at least one Family Council member as well as members drawn from the Family Association. Upon completion of that task, the committee will disband. By calling it an ad hoc committee, members selected for the committee understand that they are undertaking a significant commitment that will require a sustained effort, but it has an end.

When a Family Council has a singular task that needs to be quickly addressed and is not an ongoing matter, a **task force** is recommended. A task force may or may not include members of the Family Council. A common example would be the development of a family employment policy to guide expectations and processes around family employment within the enterprise. The task force's job is to deliver a recommended policy by a specified date, then disband.

In all three types of subgroups, clarity around the purpose of the committee or task force is critical. Clearly defined roles and goals will help focus the subgroup and a set of deliverables. An extra benefit of committees and task forces is the ability to include family members who have unique or specialized talents, but are unable to serve on the Family Council due to time commitments or an inability to get elected. This is a way of using a greater percentage of the family's collective brainpower.



8. Use Consensus Decision-Making, but Don't Allow it Hold You Up

First, don't get caught in the trap of searching for unanimity when you are actually just trying for consensus. Members on a Family Council can be nice to each other, yet not always agree. In fact, if the Family Council is doing what it should, there will be disagreement — hopefully out in the open where it can be dealt with. The definition of consensus is a solution that everyone can live with. Too many Family Council meetings get bogged down with too much talk about the same issues with little resolution.

Conscientious Family Council Chairs will know when to take an issue to a simple majority vote and move on, and when to talk it out — sometimes without resolution. Straw votes can be taken earlier in discussions, just to see how everyone might decide. A Chair reminding everyone that for minor issues, a vote either way is really a vote meaning: “This is my preference, but I'll support the majority.” Family Councils seeing their productivity increase will have more time for the weighty topics.



9. When a Solution isn't Emerging, Maybe You Need a Process

Issues from the business and family overlap often make their way to

the Family Council. For example: Mary has a starting position in the company that pays more than George who has worked for two years in the company. It looks fishy to some because Mary is the CEO's daughter and George is the son of a non-operating shareholder — Was Mary given special treatment?

Too quickly, Family Councils try to find the answer. Was there an injustice, or who is right in a dispute? Family Councils are not family court — they don't often have an opportunity to produce justice. What they can do is be a catalyst for producing information, communication and encouraging listening. They can also steer a problem into the right forum, which is often away from the back channels of family sub-groups. Asking, “What is the way to get a resolution?” rather than, “Who is at fault?” can be a huge contribution from the Family Council.



10. Create and Make Progress on Goals with Deliverables

Setting concrete goals that have associated deliverables allows others to see the results. The Family Council itself needs to see that it is having an effect and making progress with concrete milestones for morale purposes. Boards and management teams who understand the potential contribution of a Family Council, yet may worry about its effectiveness, also benefit by seeing results. Examples of concrete deliverables include:

- Code of conduct and conflict resolution procedures and policies
- Family employment policy recommendations
- Philanthropy philosophy and guidelines for collaborative grants
- Results of assessment on the need for a Family Foundation or Family Office
- Guidelines for Family Association members travel reimbursement

- Shareholder education and development programs
- Education curricula for all age groups across the family

Of course, much of the value is in the work and collaboration that takes place leading up to these deliverables. More involvement means more buy-in and increased recognition of work performed by the Family Council.



11. Create and Make Progress on Goals without Deliverables

Even though trust, better relationships, family unity, alignment with the business strategy and overall commitment are difficult to express as deliverables, they are critically important contributions of a Family Council. They are also hard to measure.

However, proof of results with measurement is not always necessary. If the well-networked Family Council is sensing improvements across the family in the level of trust after implementing significant communication improvements, progress is being made on an important goal. Balance is needed between the deliverables and the “hard to measure” criticals.



12. Advertise What the Family Council is Doing

Family Council members often end up underselling themselves and losing respect from the family because they do not know about the work the Council is doing on the family’s behalf. Family Councils do well to engage in a bit of self-promotion, which not only helps their image, but also helps the family realize that it is moving forward towards its goals. E-mail blasts or newsletter-type memos are wonderful ways to communicate the goals and accomplishments of the Family Council.

Another way to advertise is to select a spokesperson from each family branch whom is adept at communicating to that branch what is happening in the Family Council. Some Family Councils will structurally include at least one member from each branch and this member will be identified as having the responsibility to serve as a communications liaison within their branch. Getting the message out helps the family experience a sense of accomplishment.



13. Hold Enough Face-to-Face Meetings

When Family Council members are geographically dispersed, conference calls and video conferencing are attractive for increasing group communication with more frequent meetings, managing travel costs and taking advantage of talented members’ limited time. Regularly scheduled face-to-face meetings are generally held two to four times per year with conference calls as needed in-between. However, the Family Council Chair should not rely solely on a calendar, as the intensity and importance of topics confronting the Family Council don’t always conform to a calendar.

Some have found the following guide to be valuable. Use face-to-face meetings when:

- A key outsider needs to address the Family Council, such as the business CEO or when the Family Council and Board conduct a joint session.
- A critical issue needs resolution, such as a conflict within the family or making a major decision that has a close deadline.
- An important project needs to be kicked off where members must coordinate with each other, or a significant project is coming to an end where there are divergent options for follow through and a decision is needed.

Use conference calls or video conferencing when:

- Organizing and conducting preliminary work leading up to an in-person meeting.
- Follow-up is needed on a project, or for checking progress and holding people accountable to a schedule of a project that was initiated in a face-to-face meeting.
- To maintain the momentum of the Family Council when few issues are in need of attention.

Generally, use the conference calls and video conferencing to make the face-to-face meetings productive and valuable.



14. Recognize Cycles are Normal

A common pattern is often seen with new Family Councils: Lots of energy and goal setting during the formation stage, growing pains as members learn to function together, accomplishment of the project backlog that had piled up, and then a letdown. There is so much enthusiasm through the accomplishment stage, and then there is nothing important left to do for a while. This downtime can sometimes last between one to two years.

Yet, if families look at their Family Council during a down-cycle and declare them a failure, they may be doing themselves a great disservice. Keep a Family Council with low energy or a moderate purpose maintained and functioning, as it will be useful again, at which time re-establishment might be too late.



15. Invest in Family Council Member Development

Serving on a Family Council requires a variety of skills that will generally not come naturally for most of its members. Gaining

consensus in a group setting, negotiation with family, problem-solving when dealing with ambiguous situations, and simply making presentations to the broader Family Association are all skills that can be enhanced with coaching and training. Families do well to not only encourage, but expect that Family Council members will develop their skill sets. In fact, serving on a Family Council is an ideal opportunity for development and can be enhanced with outside resources. Books are good for some, but interactions found in seminars and workshops are helpful to most. Individual coaching may also be sought to strengthen the skills of Family Council members, particularly the Chair.

Sometimes, a dedicated external resource (i.e. a family business consultant) who serves the Family Council will help members understand and be able to articulate to the broader family the different roles among ownership, family, management and the board. This ability to work with a resource and then carry that knowledge to the broader family gives confidence to the individual Family Council members that they have a handle on the issues. In return, it gives confidence to the family that the Family Council members are skilled at what they are doing.



Conclusion

Family Councils can be effective vehicles for family governance, decision-making and communication if they are formed and maintained well. They require having the right leadership and members who have the ability and commitment to the process. Staying the course over difficult periods when there is a lull in activity requires a focus on meeting together to work on future needs of the family as well as responding to immediate needs. Family Councils have an opportunity to develop the future talent of the family and promote long-term family harmony.

Authors

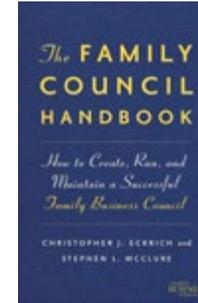


Christopher Eckrich, Ph.D. is a Principal Consultant with The Family Business Consulting Group, Inc., and can be reached at eckrich@thefbcg.com or 260.436.0045.



Stephen L. McClure, Ph.D. is a Principal Consultant with The Family Business Consulting Group, Inc., and can be reached at mcclure@thefbcg.com or 208.342.7775.

Additional Reading



Also written by Eckrich and McClure, this invaluable owner's manual for family councils includes beneficial models, strategies and real-life examples. Available from www.thefbcg.com/publications/books

To learn more about The Family Business Consulting Group and how we serve families like yours, call (773) 604-5005, email: info@thefbcg.com or visit www.thefbcg.com. There is absolutely no obligation.

Portions of this article were published in *Family Business Magazine*, May/June 2013, www.familybusinessmagazine.com. Icons designed by Freepik.

The copyright on this article is held by Family Business Consulting Group Publications®. All rights reserved. All forms of reproduction are prohibited. For reprint permission, contact editor@thefbcg.com.

THE FAMILY BUSINESS CONSULTING GROUP, INC. and FBCG are registered trademarks and the FBCG logo is a trademark of The Family Business Consulting Group, Inc.



Reprinted from The Family Business Advisor®,
A Family Business Consulting Group, Inc.® Publication

