

New Model For Family Governance

In this article, Anil Sainani, one of the senior panellists during the First Asian Conference in Family Business at the ISB, argues for the need to understand the barriers that prevent the implementation of family governance systems. He proposes a new model to ensure effective delivery of Family Business Governance systems. Hailing from a business family Sainani, for the past few years, has been successfully working with several Indian Business Families. He has also taught in Executive Programmes on Family Business and Entrepreneurship at IIM Bangalore and the ISB.

Family Business Leaders are aware that differences of opinion exist between family members, whether they are involved or not involved in the business. They also know that institutionalisation of family business governance is the best way to deal with such differences, as it will help perpetuate the growth of both the family and the business. Yet, only a miniscule percentage of family business owners have actually embarked on the journey of formalising family governance processes and systems.

Need for a Family Charter

Research over the last 15-20 years, in the field of family business, recommends that the best way to resolve differences in a family, and ensure perpetuation and growth of both the family and the business, is to develop and institutionalise family governance processes with the help of a 'Family Constitution'.

A Family Constitution includes first the Family Business Philosophy, which comprises core purpose, mission, values, and a code of conduct. The Constitution would also include clear policies on number of issues like rights and obligations of family members, family employment, compensation, and performance evaluation etc. It should incorporate processes for succession, ownership and management,

managing differences, and amendments to the constitution. Structures to implement the philosophy, policies, and processes for the family through the Family Forum, and for the business, through the Family Business Board, are an integral part in the Family Constitution. An additional Family Council to deal with issues that overlap the family and the business is essential as well.

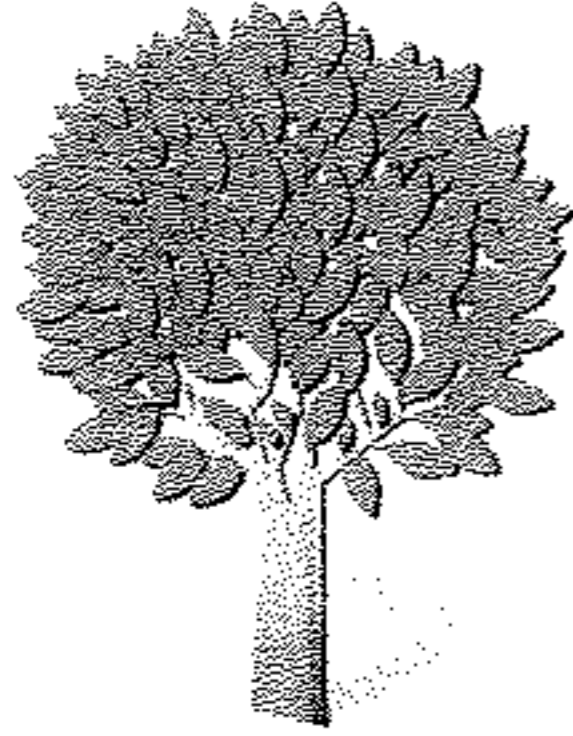
Over the last few years, it has been observed that while people get enthused by the idea of proactively setting up family governance systems and processes, very few actually do it. It can be said that less than five percent of the participants, who are exposed to and get convinced by the idea, move forward to implement it.

Making the Choice

Father-son, brother-brother, brother-sister, husband-wife, boss-subordinate, or in any other relationship, no two persons are same, nor would they agree on everything. People generally have differing viewpoints on any given issue, and within the family this can potentially create a volatile situation.

Fundamentally there are two alternatives that all family business owners have to choose from. (Figure 1)

Most families inadvertently choose the second path. They deny or ignore the



Anil Sainani

differences. They fear that by discussing differences they may actually accentuate the problems instead of resolving them. They would rather pretend to ignore hurt feelings and let them fester. This works in the short-term because it helps them to avoid the difficult situation of confronting each other. But, treading on this path, over a long period, turns simple differences into irreparable disagreements, which could degenerate into conflict and animosity, ultimately leading to a split accompanied with significant costs to the family and the business.

The road less travelled is the first alternative. In this case family members accept their differences and allow them to surface. They discuss them and try to understand each other's perspectives. They either agree to each other's position or quite often develop a third position/solution, incorporating their individual positions. This is the path of perpetuation and growth for both the family and the business over multiple generations.

Some Road Blocks

The fundamental constraint running across all the reasons is the difficult and cumbersome process of developing a Family Governance system. It requires a high investment of time and energy. If

Family Governance systems have to find a wide acceptance, the process needs to be simplified and experts in the field have to develop a new implementation mechanism.

Diminutive Role of Women

Of the small number of families that set out on the journey of developing their family constitution, approximately half decide not to involve the women in the process. While at the intellectual level, everyone agrees that differences of attitude towards men and women would adversely affect their businesses in the long run, they do not muster up the courage to involve women in the process. Perhaps, sub-consciously, they think that women related issues are trivial or that women are too sensitive and that they would not be able to manage their feelings. However, neither of the assumptions is true because feelings have their own realities and they need to be understood. Women are as reasonable and capable in managing their feelings as their male counterparts.

In Search of Solutions

Despite several difficulties, it is possible for families to synergise the strength of the family members and arrive at a beneficial solution that safeguards the interest of both the family members and the business. I propose a new model that addresses many

of the issues involved, and suggests a systematic method to implement governance processes. This new model (Figure 2) can significantly reduce the time and energy requirements. The goal of the new model is to facilitate development of the Family Business Constitution within six months from the start of the exercise. The process of developing and signing the Constitution could be completed in five stages.

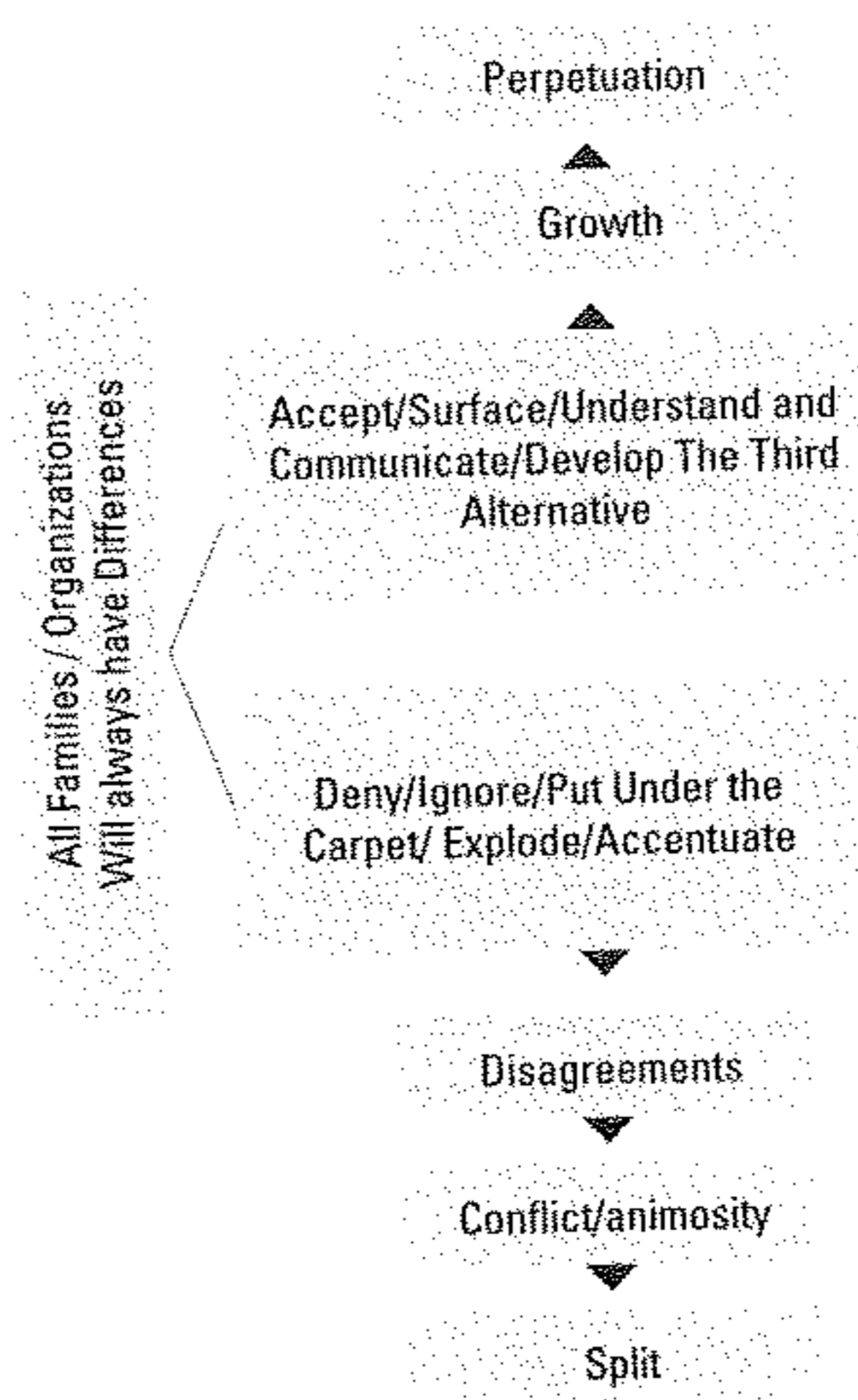
Stage 1 - The family participates in a one-day introductory workshop on Family Governance. At the end of this the family members need to realise that as a family business they have to choose between the two alternative paths – one of perpetuation and growth and the other of conflict and splits. They also need to comprehend that Family and Business are two diametrically

opposite systems. The Family is a socialistic institution while business is capitalistic, and that as family members are part of two opposing systems they are likely to get pulled and pushed in different directions. Finally the Family should be made aware that Family Governance involves the introduction of reason and discipline into family matters. It is essentially about institution building. The family and the business are larger than any one individual. At this stage, the methodology of the development of the Constitution (all five stages) is explained to all the family members.

Stage 2- At this stage, a leader (an outside consultant or a trusted family member), can conduct one-to-one session with all the family members. This would help understand the current pain/discomforts/fears of individual family members and identify key issues from each individual's perspective. They would then be synthesised to develop a common unified perspective on the key issues of family and business as one unified entity.

Stage 3 - At this stage four to five days off-site would be conducted to commence the work of developing the Constitution. Individuals would be given an opportunity to discover and articulate their views on the family philosophy, policies, and processes. A professional family business expert would be a great help in making this exercise smooth and acceptable, this would also help in working out customised solutions for the family's unique situation. An expert would be able to share the experiences of other families in handling the issues of management succession, the options available, the pros and cons of each option and then aid the family in making their choice. All the decisions taken during the day should be documented and made available to individual family members before the end of the day. Based on these decisions, a set of policies processes, and structures should be developed so that by

Figure 1: Two Alternative Paths



the end of the workshop the family would have developed the first draft of its Family Constitution.

Stage 4- Each family member would then have three months to study the draft Constitution. Doubts and questions will arise, and can then be discussed amongst family members informally or with the expert consultant working on the project.

Stage 5 - The fifth and last stage would be a 2-3 day final workshop during which the unresolved queries of all family members would be discussed and resolved, and the necessary changes would be incorporated in the Constitution. All the differences that might have crept up during the three month period should be discussed and resolved at this stage. This is an excellent opportunity to implement the agreed process of managing differences. On the last day of the workshop family members should go back with the final copy of the Constitution duly signed by all family members.

Ensuring high quality in the process would require involvement of all adult family members, including women. All family members should clearly understand the concept of family governance, develop key policies (vision & values, employment, etc.) processes (succession, managing differences, amending the Constitution etc.) and agree on the structures (family council, family business board, family

forum) that would implement the agreed policies and processes. The family should have a clearly identified lot of parking issues (whether women could work in business, etc.). Both during Stage 3 and Stage 5, each family member should have at least one sitting of an hour or so to discuss his/her differences with other family members. These discussions need to be done as per the agreed process of managing differences. This is a vital exercise, and helps immensely in releasing a lot of negative energy within the family. It is both a pre-condition for the success of the process and a necessity for ensuring better compliance.

Conclusion

Living the Constitution will always remain a life long challenge but if the entire design, planning, and execution of this model are done well, it is quite likely that family members would experience an attitudinal shift, and would feel committed to living the Constitution. As a consultant, I have recently tested this process with a client. I have completed the first three steps and based on the feedback and response of the family members. I can broadly say that the model delivered the required outcomes. The 19 family members, with an age range of 22 to 71 years, who participated in the workshop, developed a draft constitution together, and experienced an attitudinal shift with a resolve to comply with it. The model surely needs to be tested further but initial responses indicate that it perhaps has some answers to the issues of implementation of the family governance system. The new model has good chances for replication with other families, and has the potential to create significant value for all the stakeholders in the family business.

Nevertheless, the single most important factor that would influence the success of the model is the deep commitment of the family members to perpetuate their family and business.

"The Family should be made aware that Family Governance involves the introduction of reason and discipline into family matters."

Figure 2: Five Stage New Model Process

Stage 5	3-day final Workshop
Stage 4	3-month study period
Stage 3	5-day Workshop
Stage 2	One to ones with All Family Members
Stage 1	One Day Introductory Workshop on Family Governance