

# Family Governance is Not Business Governance

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## Family Businesses Need Strategies to Govern Both the Family and the Business

Family businesses are unique and the way they are run differs from family to family. Each business has varying degrees of corporate governance. Formal governance structures grow as the business grows and becomes more complex. Governance processes trail business needs in most situations.

When family business owners realize they have issues they can't solve, they reach for outside help. What usually starts with the lawyer, banker or golf buddy, evolves into an advisory board over time. If the family is active, and competent to run the business, there may not be much need for outside fiduciary directors. But if the business is being run by non-family professionals, then the family is likely to have fiduciary outside directors to protect its interests. This is the model of the modern corporation. There is a well-known body of work on how to manage these matters, that I have addressed in prior articles.

*[Editor's Note: For more information on private board of directors, please see [The Role of the Board in a Private Company](#) or read [Effective Private Company Board Strategies to Drive Goals to Completion](#).]*

## Family Constitution Defines Family Governance

Family governance is different than business governance. Family governance determines how the family manages itself in relation to the business. Most managers understand the basics of business governance through their everyday jobs. But if you work in a family business, it is not obvious that you should put family governance structures into place, and there may not be easy ways to learn.



Sometimes family governance does not become an issue until transitioning between generations of owners or active business participants. The Founder may be worried that the following generations do not view the business in the same way she does. A family member who is not active in the day to day workings of the business may feel he should have an equal say in how it is run. It is important that families have discussions prior to these issues coming up rather than addressing them on an ad hoc basis.

A well-governed family has a written, enforced family constitution, annual family assemblies to teach the family about the business, and a family council where ownership makes business decisions. The family governance needs to interface effectively with the business governance, especially if the business is run by professional managers.



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A family constitution should provide rules on the roles, responsibilities and rights of family members, whether they are in the business or not. It should be clear on what the family values, especially with regards to the business (e.g. you earn your position, or get paid because of your last name). The constitution should define how business insiders and outsiders relate to the business and business decisions. Most importantly, a constitution provides consequences for unacceptable behavior.

*[Editor's Note: For more information on the balance necessary in a family owned business, please read [Always Balance Family and Business in a Family Owned Business.](#)]*

Here is the table of contents for a family constitution for an active situation:

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### I Accept

- Stock ownership
- Family employment
- Family business education
- Family Council Governance

- Accountability Matrix

Annual family assemblies become more important when there are many generations, and they are geographically dispersed. These gatherings should educate the family about the business and have the individuals build relationships with each other.

The family council should set policy for the family and provide direction to the board of the enterprise. The board of directors sets policy for the business and may also make recommendations to the family council in matters that concern the business.



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Most family ownership groups have a degree of dysfunction, in addition to the usual family issues. It is unusual for families to be able to figure this out alone. The family business consulting industry exists for this reason. There are many highly skilled professionals who can help families move through these

issues. Having been on both sides of this table, I advocate families finding the right professional for their needs. It is just too hard to go it alone.

*[Editor's Note: For more information on how to have a difficult family business discussion, please read [Sensitive Family Business May Bring Up Fur Balls.](#)]*

## Conclusion

Family governance is a latent need that happens whether you address it or not. It takes time and money, and does not service clients, employees or generate profits. But if you have a family business, you implicitly choose priorities between the family and the business, and both can suffer if these issues are not addressed. If your goal is to pass the business to the next generation, then you need to determine what structures allow you to do that successfully, so that the business will prosper when new people are running it.

## About Bruce Werner

Bruce Werner is the Managing Director of Kona Advisors LLC and served as an outside director on private company boards for the last three decades. Kona Advisors LLC provides advisory services to the owners, investors and CEOs of private and family-owned businesses. With deep experience in governance, succession planning, finance, strategy

