

Preparing a constitution for the family b

By Peter Hughes September 28, 2020

*A distressing number of family businesses collapse amid heartache and recriminations. Yet f
members can lay a solid foundation for success.*



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Virtually every farm begins as a family business, but how many farms in your district are run b
generation farms are still successfully under the control of the founding family?

Very few make it this far!

The same phenonmenon can be seen the world over, as family business consultant Tony Bals
Work (Human & Rousseau).

Mum and Dad start the business, the second generation siblings build it up, and the third gene

consortium' stage, it has a good chance of becoming a household name.

Setting the rules of the game

One reason so many family businesses fold, and incompatible members so seldom part politely and selling. Yet the solution is simple: one family member must buy while the other must sell. corporate world, where rules for these and many other procedures are established.

Families that operate similarly reduce the risk of a family feud and losing control of the business the 'family constitution'. This document should cover the following topics:

- Founders' vision: All family members should know what the intentions of the founders were. It helps to build a shared vision.
- Family vision, mission and values: Formulating these gets agreement and commitment from everyone, and provides a framework for decision-making.
- Family council: Establishing and operating this formal committee is a crucial step towards building family unity. It should include all family members above the age of 16 and meets at least once a year. Its primary purpose is to act as an advisory body. Its decisions are binding on all family members. Any member may request an agenda item and decisions are taken by consensus. Each member has one vote, and the chairperson should have the casting vote. Any serious conflict that arises should be referred to the council.
- Employment conditions of family members: These should be set by the board of directors and made clear to all. They should be in line with the market and the company's needs.
- Investments: Suggestions for investments can be raised by members for consideration by the board of directors.
- Loans to family members: Clear rules should be laid out on how these will be dealt with.
- Trustee appointment and succession: In the case of family trusts, it should be established how successor trustees are appointed.
- Family member's involvement in outside businesses: How this is handled is up to the family, but needs to be agreed. "Family members, whether family or not, may involve themselves in active business outside the family business".
- Employment of family members: Again, there are no hard and fast rules. The document could, for example, state that if there is a suitable opening, and the family member is suitably qualified for the position, he or she would receive preference.
- Appointment of directors: This should be the prerogative of the shareholders, with the family council being consulted.

A major benefit of drawing up a family constitution with the input of all concerned is the process is high impossible to develop a constitution fully supported by all. Get professional help from so

It's worth it!