

Pocket Summary



Family Business Charter

Developing a Family Business Charter or the Rules of the 'Game'

Family business combines two conflicting value systems. Managing the overlap and ensuring that everyone knows 'the rules of the game' is the key to harnessing the power and the passion that the family brings to the world of business. This overview introduces you to a process for establishing a set of rules for your family.

A documented **family charter** outlines strategies and solutions which can be implemented to deal with family-related matters that impact on business issues. Family constitutions include criteria for joining the family business, a definition of roles and responsibilities of active (i.e. those family members employed in the firm) and passive (i.e. those not employed in the firm) family members, and mechanisms to be adopted for the transfer of ownership and leadership.

A Family Charter is a document which specifies the relationship between the family and the business, and sets out guidelines for resolution of issues and how the business is to be managed. It reflects family and business values, and formalises the procedures and relationships between family members and the business.

The Charter is geared towards maintaining harmony and co-operation, and preventing conflicts. While this might not seem important in the early stages of a growing business such as in the two person family business with one or two employees, it is critical in multiple generation enterprises where patterns of relationships are more complex.

A Family Business Charter, like a business plan, is a working document which provides guidelines for ways in which the family will deal with the interface between the family and the business.

There are many matters that can be covered in a Family Business Charter. Listed below are a number of questions that can be considered when developing a framework around which the Charter can be formulated.

Family mission and long-term goals:

- How important is continuation of the family enterprise?
- What is the current and future management philosophy?
- What are the short-term and long-term objectives of the family?
- What does the family plan to do with the enterprise in the long-term ie keep it in the family? Sell it?
- What family values do you want the business to exhibit?

Share ownership

- What criteria entitle an individual to own voting or non-voting shares in the business?
- In the event of critical milestones such as marriage, birth, death, divorce, or termination of employment are ownership privileges affected?
- Under what conditions, including price and terms, must shares be offered for sale to other shareholders or to the firm?
- What constitutes a fair distribution of assets among family members and what is best for the success of the business?
- Should key non-family employees hold shares?
- What restriction should be placed on sale or transfer of shares?

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- What type of shares control (e.g. voting) should be made available for family members who are active (i.e. those employed in the firm) in the business versus those who are passive (i.e. those family members who are not employed in the enterprise)?

Compensation

- Should members be remunerated above, at, or below market rates?
- Should all family members be compensated at the same rate, regardless of their contribution to the business?
- Is there a fair and objective compensation system for family members?
- Are employment perks equitably awarded?
- Should active family business members receive higher dividends than passive members?

Employment

- What are the policies regarding joining the business? At one end of the spectrum, membership is open regardless of talent or skill levels. At the other end, families specify high entry standards. Whatever the position adopted, it is important to be clear about who can enter, what their qualifications must be, and what it takes to remain in the business.
- How do family members earn their stripes?
- Is employment a birthright or a privilege?
- Under what terms and conditions will a family member be employed (or for that matter be terminated from active work in the business)?
- Who makes the employment decision when family members join or are asked to leave the business?
- Should family members obtain experience outside of the firm before joining?

Career opportunity

- Should career opportunities be made available to all family members with ability and commitment?
- Are family members who do not meet employment criteria counselled accordingly? What career opportunities or alternatives are available for these individuals?

Leadership

- Will future managers come exclusively from the family?
- When will the firm's future managers be selected and by whom?
- What qualities are essential in future leaders of the business?

For more information, speak to a professional adviser or visit the Family Business Resource Centre on www.fbrc.com.au.

**This article by Lucio Dana & Harry Kras is for general information only and should not be relied on as, or in substitution for, professional advice.*

(The above text has been excerpted, with modifications, from Smyrniotis, K. Romano, C. & Dana, L. Family Business Succession Planning: A 10 Step Guide. 2000 Centre for Professional Development to which readers are referred for references and acknowledgments.)

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