

## The Family Business Constitution: Why You Need One – Part II

Michael Newton *News & Events*

Unlike a Family Counsel, whose objective is to provide a sounding board for family members and to assist in conflict resolution and/or arbitration, the Family Business Constitution is a written document that serves as a roadmap for business continuity and family harmony.

The difference between the family business constitution and a shareholders' agreement are the signatories. All family members are party to the family business constitution, not just owners.

What follows is Part 2 of 2 articles on the Family Business Constitution.

### What to include in your Family Business Constitution:

1. The long-term goals of the family business, including what the family defines as success. These measures will impact other principles (maintain the business in the family, sell to a 3rd party, etc..) that would affect succession
2. Business succession:
  - How should the successor be determined and based on what criteria
  - What should be done to ensure business practices, ethics, contacts, policies and procedures are passed smoothly to the next generation
3. How to care for retired family members – are their needs being met, and under what circumstances?
4. Governance:
  - The communication of family values, mission and long-term vision to all family members (whether working in the business or not)
  - Keeping family members (especially non-management) informed about business accomplishments, challenges, etc...
  - The communication of the rules and decisions that might affect family members' employment, dividends, tax planning, and other benefits that come from business ownership
  - Establishing formal communication channels that allow family members to share their ideas, aspirations and issues
  - Allowing family members to come together and make necessary decisions
5. Family Involvement:
  - What rules should determine how particular family members are admitted to, promoted in and ejected from the business?
  - How closely do family members need to be involved in ownership or the management of the business?
6. Commercial (non-family) management of the family business – is this allowed, acceptable or a must?
7. Training – new leaders (particularly from within the family) should be appropriately trained and educated, not only in business matters, but within the roles they will be taking on.

- Do potential successors spend time at a non-family business to gain insight, knowledge experience and credibility before taking over the family business
8. Rectification of errors – what is the mechanism for rectifying incorrect decisions/choices? How are these errors identified?