Setting your family up for success

Governance for family business

Running a family business is a juggling act. In order for a business to grow and prosper, the needs of the family business must be balanced against the demands and expectations of family members. If a good governance structure is not in place, this can be hard to do.

When you get right down to it, good governance is about open communication and effective decision-making. To help facilitate this, it is essential to have an optimal governance structure in place before problems arise. When appropriate governance structures have been established, business decisions and family relationships can be enhanced. Most importantly, the risk of significant conflict is reduced, which in turn can help your family business grow and prosper instead of flounder.

Family business rules

You don't need them, until you need them

In business, as in life, families do not always see eye-to-eye. Family members can have different perspectives and ambitions depending on their role in the business, the family, and as owners. Disputes can paralyze management of the enterprise, endangering ongoing family control and, sometimes, the very existence of the business. Trying to manage this sensitive position can leave family business leaders grappling with some or all of these anxieties:

– How do we define and separate family and business issues?
– Do we have an effective structure for decision-making and communication?
– Do our strategic business objectives reflect our agreed-upon family values and aspirations for the business?

Times of transition are especially sensitive and it is common for families to have differing views on what the rules governing the business should be. It is far better to have guidelines created when everyone is getting along, prior to major events in a family business. Likewise, when a business reaches a size and complexity unsuited to more informal management styles, the time has come to consider a more effective governance structure.

When family business rules or guidelines have been put in place, everyone knows what is acceptable and there is less risk of problems arising. Better governance of a family business can improve business performance and help satisfy the expectations of all family members.

"When you get right down to it, good governance is really about open communication and effective decision-making."

“Learning how to manage the family component early on in the evolution of the family business, through the use of family councils, family constitutions, boards and the like, will pay dividends down the road.”

Best practices in good governance

Learning how to manage the family component early on in the evolution of the family business, through the use of family councils, family constitutions, boards and the like, will pay dividends down the road.

To create a governance structure that will work for your family and business, there are three different areas to consider: the needs of the family, the business, and the ownership. Each of these areas must be addressed if you want to achieve your goals and find the right structural balance. Keep in mind that while the outcome is important, the process of thinking about and agreeing on important decisions before they have to be made is key.

“From the boardroom to the kitchen table, KPMG Family Business Advisers share leading practices to help business families implement creative and practical solutions to bring their business to the next level.”

Setting up for success

The Mensah* family was well aware of the expectations of keeping the business in the family. This was engrained since childhood and Grandpa’s picture adorned more than one wall in the head office of the family business.

The younger, third-generation owners, Kwasi and Abena, were still learning from the second-generation owners. With more than 20 cousins vying for jobs and ownership positions, some form of family governance would need to be put in place in order for the business to make it to the next generation.

The ownership group assigned the task to Kwasi and Abena since they would be the ones at the helm when the proposed governance structures would be in effect. They decided to approach their KPMG Family Business Adviser for guidance.

A year later, the broader family was invited to the company’s annual shareholders’ meeting. The new family governance structure and rules, which had been approved by the ownership group, were circulated to all. This in itself was no guarantee that the destination was assured, but it certainly addressed the issue of what the journey would look like getting there.

**Actual family business members’ names have been changed to protect confidentiality.*

The following are common leading practices and potential outcomes of good governance within family businesses:

	Leading practices	Governance structures	Outcomes
FAMILY	– Develop communication channels – Create a family constitution to help resolve future conflict – Appoint an advisory board that includes non-family members – Establish guidelines and policies to help decision-making	– Family Council – Family Assemblies	– Family Code of Conduct – Family Constitution
BUSINESS	– Understand the risks in your business – Develop a clear strategic vision – Monitor and evaluate key business performance indicators – Implement an effective assurance framework	– Board of Directors – Advisory Boards	– Strategic Plan
OWNERSHIP	– Develop a shareholders' agreement that includes management and succession objectives – Establish ownership criteria for family members – Establish an education plan for the next generation regarding ownership rights and responsibilities	– Shareholder – Assemblies – Shareholder Meetings	– Unanimous Shareholders' Agreement – Ownership Succession Plan – Estate Plan

We're here to help

While the risk of family conflict can never be entirely eliminated, KPMG Family Business Advisers understand the impact of family dynamics on your business and can work with you to put governance structures in place to help you achieve long-term prosperity and family harmony.

Contact us

Let's do this.

enterprise@kpmg.ca

kpmg.ca/enterprise