

The Family Constitution—Empowering the Next Generation of Leaders

Every business—small or large, public limited or privately owned—requires rules, protocols and guidelines to function effectively, writes Dr Eric Clinton and Ms Martina Brophy of the DCU Centre for Family Business.

Governance structures are particularly crucial within a family business operation, where rational reasoning can be skewed by emotional issues. It is by no means a simple undertaking, yet there are significant benefits to formulating a family constitution early. Writing the family constitution or charter allows the family business to encapsulate the company's goals and vision; this enables management to develop strategies for the future and align the interests of all company stakeholders.

The family constitution provides a point of reference for family business members when faced with most eventualities. The presence of a constitution is particularly useful when major changes take effect, such as the appointment of a successor to the family business. In every generational cycle, the rules governing the family business should be examined and renewed. "The family governance structure must evolve with each stage," says the author of "Family Business: A Survival Guide", Kieran McCarthy¹. Optimising the likelihood of family business survival requires family businesses to develop a workable plan to secure next generation involvement.

Professors Moores and Barrett, in developing the 4Ls Framework, identified four distinct phases of a normative family business life cycle:

- Learning Business (L1)
- Learning Our Business (L2)
- Learning to Lead Our Business (L3)
- Learning to Let Go Our Business (L4).

Phases one and two, known as the apprenticeship stage, involve individuals working "in the business". During phases three and four, or stewardship stage, individuals work "on the business". Each phase has a set of priorities, paradoxes and pathways.

¹ McCarthy, K. 2014. *Family Business-A Survival Guide*. Dublin: The Institute of Chartered Accountants in Ireland.

G1 - Moores & Barrett's 4Ls



Moores' and Barretts' 4L Framework

Moores and Barretts advocate the need for preparedness within a family business. When drafting a family constitution, due consideration should be given to possible areas of contention, e.g. the appointment of family members to the business, the division of shares among family members, and the configuration of the top management team.

Learning Business (L1)

In Learning Business (L1), the aspiring business leader discovers both practical and theoretical skills required for leadership, but where best to do so is a topic of universal debate. In the first phase of the cycle, learning sourced outside the family business can prove advantageous. The skills and knowledge acquired outside could later be transposed to the family business. The caveat, of course, is that once outside, the individual may not desire a return to the family firm. In this phase, it is useful to draw on protocol laid down in a family business constitution. The constitution may include an employment policy outlining the entry requirements for aspiring family business members, e.g. minimum age, industry relevant training and experience. Central to this planning is the question: Will the incoming family member add value to the existing business?

Learning Our Business (L2)

While concentration is focused on preparing the successor for eventual leadership, it must be noted that not everyone will be "the leader". During the phase, "Learning Our Business" (L2), preparing the successor may run concurrently with planning the incorporation of other family members in the business— possibly by appointment to leadership roles in a non-operational capacity. The rights, roles and obligations of family business members, family shareholders, owners, board of directors and/or family council should be addressed and recorded in the family business constitution.

Tensions may arise if an individual is singled out and groomed for succession. Major conflict can be side stepped if the business implements a fair policy for nominating and appraising potential business successors — one that considers non-family as well as family business members.

The core values of the family business must be examined by those planning for a leadership role in the business. Continuity of these core business values is essential for upholding a long-standing,

business image, which both external and internal stakeholders will recognise. A family constitution is one way of safeguarding family business values for the future. Multi-generational family business members may use the constitution as a way of aligning agreed family-based values, traditions, and knowledge with the objectives of the business.

However, the family constitution should not be so stringently adhered to as to prevent any necessary change for business growth and development. Business leaders must adapt to the continuously evolving market, especially when products or industries become obsolete. The next generation must consider how they will “continue differently” in the business. Management should provide a definitive and coherent outline of the company’s vision and values so as to dispel any uncertainty or doubts about the direction in which the company is moving in.

Learning to Lead Our Business (L3)

Acquiring business knowledge and knowing how best to implement it are two different things. However, the gap between the two is bridged by what is called “a special perspicacity”, which is the insight upon which the third phase “Learning to Lead Our Business” (L3) is based. The incumbent leader should identify the triggers for family related conflict within the business. Astute family leaders see the importance of drawing up an agreed policy that secures guidelines for non-family, external and family involvement in the running/ownership of the business and the sale of family owned shares.

Learning to Let Go Our Business (L4)

Transitioning to the final phase “Learning to Let Go Our Business” (L4) requires a degree of foresight and preparation. Adequate planning is a prerequisite of a smooth transition, as is the willingness of the incumbents to lead their own departure, rather than simply to acquiesce to it. In the 4Ls framework, there are three main guidelines to follow when stepping out of a leadership role:

1. Develop a defined timeline for retirement
2. Create management development systems
3. Most importantly, stick to the plan.

As part of the family constitution, a succession plan should be drafted to act as a guide for outgoing family business CEOs. Conflict between incumbent and aspiring CEOs can be avoided when agreed guidelines are in place. Some family firms have a suggested or mandatory age of retirement for CEOs/managers or a specific stay-back period for outgoing CEOs, to train the business successor, before relinquishing management control.

Governance structures support the stability of a family business during times of great change, such as management restructuring or succession. Building a comprehensive family constitution empowers the next generation of family business leaders.