



Family Business Strategy & FGM

Master's programme in
Family Business Management
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Governance



The **Board** is usually **selected-appointed by the owners at the annual meeting of shareholders** and has two main functions: the exercise of **control and advice for the CEO** and the management.

The **Chief Executive Officer** and the management are **responsible for the performance of the business and must report to the board of directors**. At the annual general meeting of shareholders, the group of shareholders is informed of the financial position of the company and the board of directors is elected.

Gallo & Kenyon-Rouvinez, 2005; Bammens, Voordeckers, & Van Gils, 2011;
Gersick et al., 1997

FGM Definition

Family Governance Mechanisms within the family system perform a particularly important function by facilitating family-to-business relationships, strengthening social interaction and relationships between members of the family business.

The main purpose of family governance is to highlight opportunities for family involvement, to facilitate the flow of confidence-building information, and to minimize manipulation by family members and above all to enhance the sense of belonging to the business among the extended family.

Gallo and Kenyon-Rouinez (2005) describe it as "**a system of processes and structures that established at the highest level of business, family, and ownership to make the best possible decisions about the direction of the business**".

Unlike many business mechanisms, family governance is not legally binding and enjoys freedom of application. Koeberle-Schmid, Witt, & Fahrion, 2012

Family meeting

This is a recurring **meeting of family members to discuss business and/or family issues** and is the **simplest and most common form of FGM**.

(Habbershon & Astrachan, 1997; Neubauer & Lank, 1998; Martin, 2001)

Family council

This is a select **group of family members** - often including **multiple branches and/or generations** - who **meet frequently to discuss issues related to family involvement in the business**. Its main purpose is to provide **a structured forum that allows the family to express their needs, expectations and values about the business** to develop policies that protect the long-term interests of the family and the business.

(Berent-Braun & Uhlaner, 2012; Gersick et al., 1997).

Both family meetings and family councils can differ significantly from the point of view of **integration policies**, and their **meeting frequency and the topics covered**.

Family Task Force

Extremely active families can also set up a **Family Task Force**, such as a family, appointing a **committee that serves to select candidates for the position of Managing Director and Board of Directors**

(Neubauer & Lank, 1998; Aronoff & Ward, 2002; Suare & Santana-Martin, 2004)

Family constitution

This is a **regulatory agreement** that includes the **fundamental principles and guidelines** that the **family organizes its relationship with the business**. It addresses fundamental issues of governance (eg sale / purchase of shares or recruitment / dismissal of family members) and expresses "what its family, expectations and fundamental values mean". This is usually done with the collaboration of a rather large group of family members and, among other things, **should reduce the chances of conflict in the family business**.

(Berent-Braun & Uhlauer, 2012; Neubauer & Lank, 1998)

Family Foundations are **rather social institutions that serve a higher, public purpose** and place their weight on **fulfilling social needs**.

(Jaffe & Lane, 2004; Ward, 2004; Amit et al., 2008; Gersick, 2004; Ylvisaker, 1990).

Prosperous family businesses can also set up a **Family Office** to **manage wealth, provide professional management advice and shareholder meetings**.

Family Foundation to work with the Family Office to decide on his **donation family wealth for social purposes**.

(Gallo & Kenyon-Rouinez, 2005; Amit, Liechtenstein, Prats, Millay, & Pendleton, 2008; Ylvisaker, 1990)

Older family businesses are more inclined to create FGM than younger ones, which has been reported by several researchers. Fahed-Sreih and Djoundourian (2006) concluded that a **mature family business (over 30 years old) is more likely to make decisions on a participatory basis, using advisory committees** and keeping family meetings more frequent. **younger family businesses follow a more centralized decision-making practice, with the power to make decisions usually in the CEO.**

Suare and Santana-Martin (2004) confirm and extend these formalities. They concluded that **FGM**, irrespective of the degree of formality, is primarily **applied by family-owned multi-generational businesses**. As a possible explanation, the authors emphasize the stronger dependence of family businesses on the establishment for the whole family. On the other hand, more **mature family businesses, which often include several generations, could be more reliant on FGM, as a larger number of family members are now actively involved in the enterprise** (Brenes et al., 2011) for information and coordination.

According to Habbershon & Astrachan, (1997), the **larger the number of generations** in the end and the **larger the size of the family**, the **lower the level of social interaction among family members - a problem that can be overcome by of FGM**. Thus, **family governance** can be a fertile approach to **managing the increased professional and family complexity** that arises due to increased business age, family size (ie a larger number of family shareholders and inactive family members) or the number of the family generations that lead. (Mustakallio et al, 2002).

Less complex business families may also realize the need to govern themselves, integrate non-active family members into business concerns and ensure continuity of business - to this end, **less formal FGMs such as casual family meetings can be valuable and useful** (Suare & Santana-Martin, 2004).

By increasing the complexity of families and businesses, and family businesses, however, tend to opt for **the use of the most formal FGM, such as a family constitution or a family council**.

Conclusion. **A high level of business and family complexity increases the likelihood of developing FGM**, and if implemented, the degree of formalism is likely to correspond to professional and family complexity. Suare & Santana-Martin, 2004

Whenever **family members develop a united team**, working together to achieve a common goal, it is likely to **lead to a higher level of economic performance**. Fahed-Sreih (2009) also found a **correlation between family governance, business performance and business survival**.

According to another study, Astrachan and Kolenko (1994) showed that **frequent family meetings** along with other **governance mechanisms** (business plans and board meetings on a regular basis) were **positively correlated with business longevity**.

Applying a sophisticated (family) system of government may indicate a higher degree of professionalism in the family business, which could therefore be reflected in improving economic performance.

Although Tower et al. (2007) did not find any difference in the overall performance between the groups they meet and the groups they do not meet, they noticed some **differences of performance based on who participated in the family meetings**. Family businesses with the most comprehensive meeting of members (including fathers and children) achieve higher performance results than those with a stronger membership restriction.

Another **important purpose of family governance is to create procedures for managing family conflicts**, as a family business can survive for generations only if it is able to survive inevitable family conflicts (Martin, 2001).

Thus, ***family members should be treated with respect and not be excluded from family meetings or other FGMs as this could lead to anger and isolation among family members and may even cause legal action against it family or business.***

Available liquidity and dividend policy is another important issue in family businesses. To avoid conflicts in this context, **family shareholders should be clearly informed of the amount of cash they can get from the business and when.** The same applies to the appointment or promotion of family members within the enterprise. In order **to minimize anger and jealousy among family members, there must be clear values and preferably written standards for the sake of capacity, qualifications and value.** These standards should also be communicated to family meetings (council).

In addition, it is argued that family differences can lead to the application of FGM (Poza et al., 2004), as there will be a need to resolve these conflicts.

In conclusion, **FGM is positively linked to family unity, conflict mitigation, and conflict resolution among family members.**

As a step in the direction of business professionalism, Martin (2001) emphasizes that **an effective system of family governance would require "responsible competence in assigning responsibilities"**.

To this end, he suggested that the family should have written the standards to define the qualifications and experience that family members need to have to take on specific positions to ensure an effective governance process. In addition, family members need to be trained in their sense of responsibility to understand aspects such as current business performance and addressing any challenges the business has to deal with. As previously mentioned, FGM positively affects the social interaction between family members, which leads to a commonly accepted vision.

This in turn leads to increased decision quality and a stronger commitment to decisions (Mustakallio et al., 2002).

The necessary measures may, for example, include increased planning, a higher number of external managers and written standards for family work in the company. By taking such measures, the family starts a process of professionalization. On the other hand, if, for example, the family decides to hire key managers and consultants in the business, the directors and advisors could - based on their experience with other family businesses - advise the family to set up a family council , so that they do not clearly discuss family issues at business meetings. Thus, some degree of professionalism within the family (in the form of FGM) could also be the result of business professionalism.

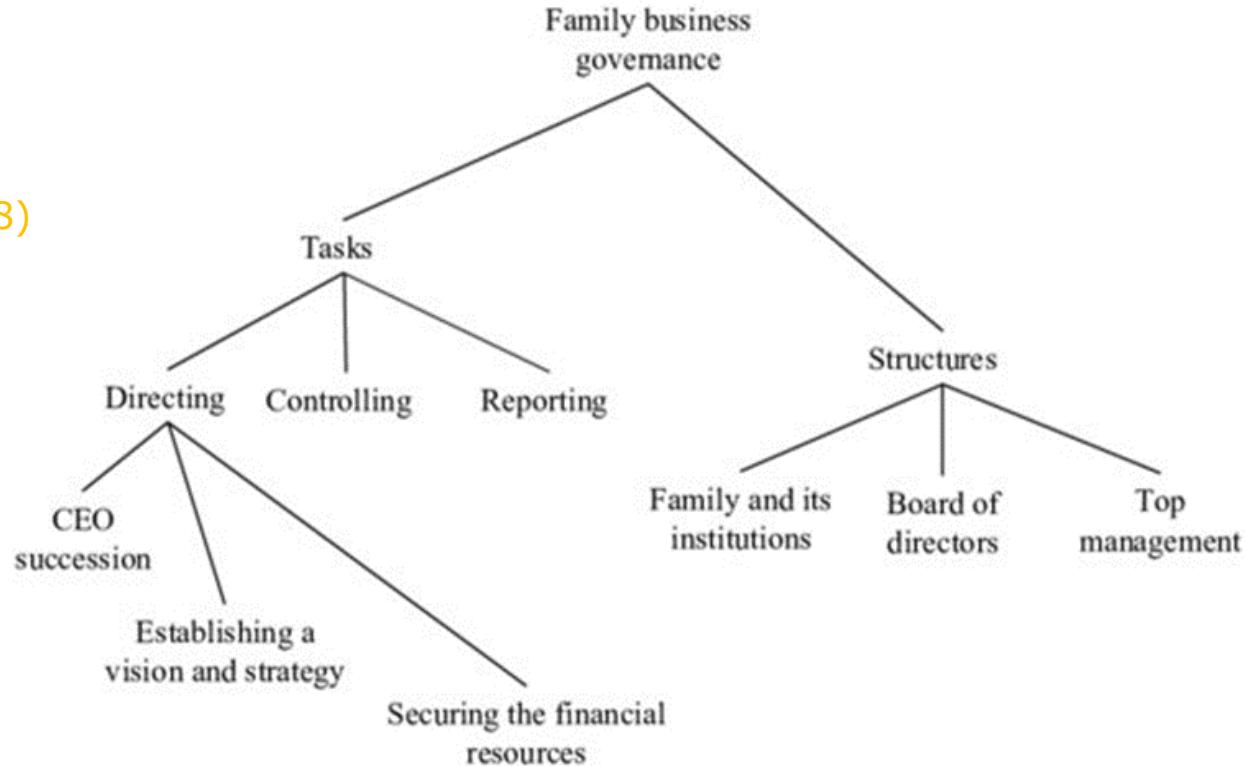
Another important issue that family businesses have to **deal with is succession and planning for succession**. Family governance plays a crucial role in this area. To make the family business viable, the **FGM should create some form of succession planning** (Martin, 2001). As a result, the **family council could devise a succession plan, choose the most qualified successor and ensure adequate preparation for the takeover.**

Martin (2001) notes that **such a practice could be particularly difficult if a patriarchal / matriarchal family governance refuses to relax the reins.**

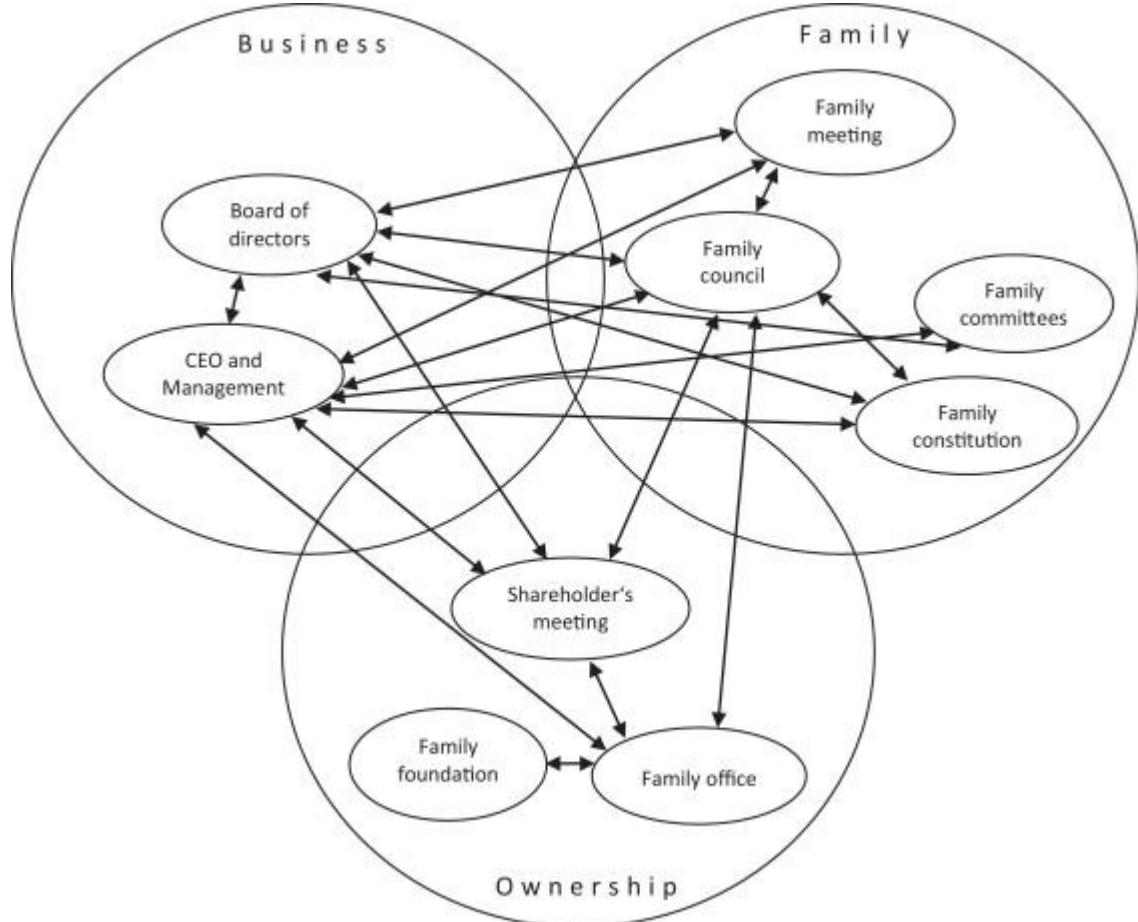
Based on qualitative data, Chittoor and Das (2007) also found that **family councils facilitate succession by providing the next generation of space to develop and represent family values and interests in management without any interference.**

In addition, a **Family Constitution**, for example, which has been developed through intensive dialogue and with the entry of a wide family of family members, **can fulfill the same purpose as a succession plan drawn up and started by the family council**. In conclusion, **FGM contributes to the start of the succession planning process.**

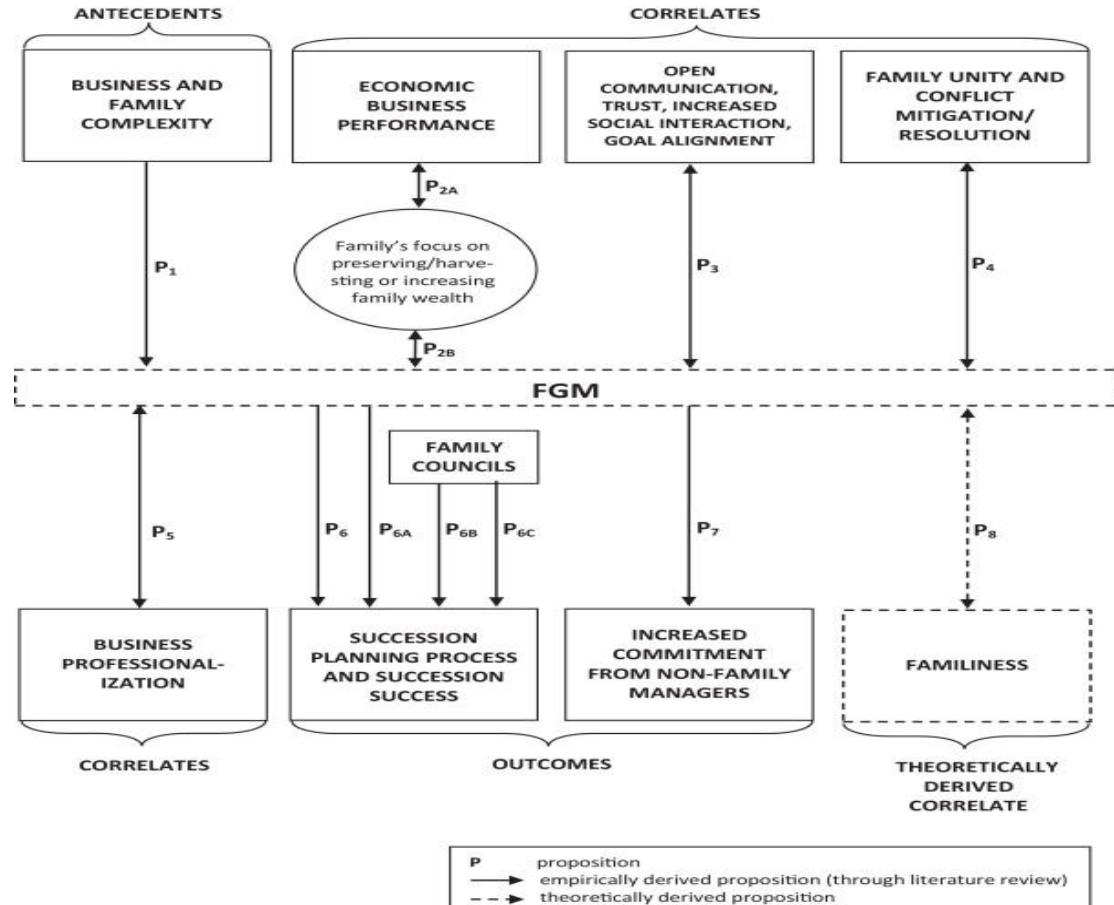
Neubauer and Lank, (1998)
*The Family Business: Its
Governance for
Sustainability*



Gallo and Kenyon -
Rouvinez (2005),
Gersick et al. (1997)
*Classification of
Governance
Mechanisms by
System*



Suess (2014)
*Family Governance
 - Literature Review
 and the
 development of a
 Conceptual Model*

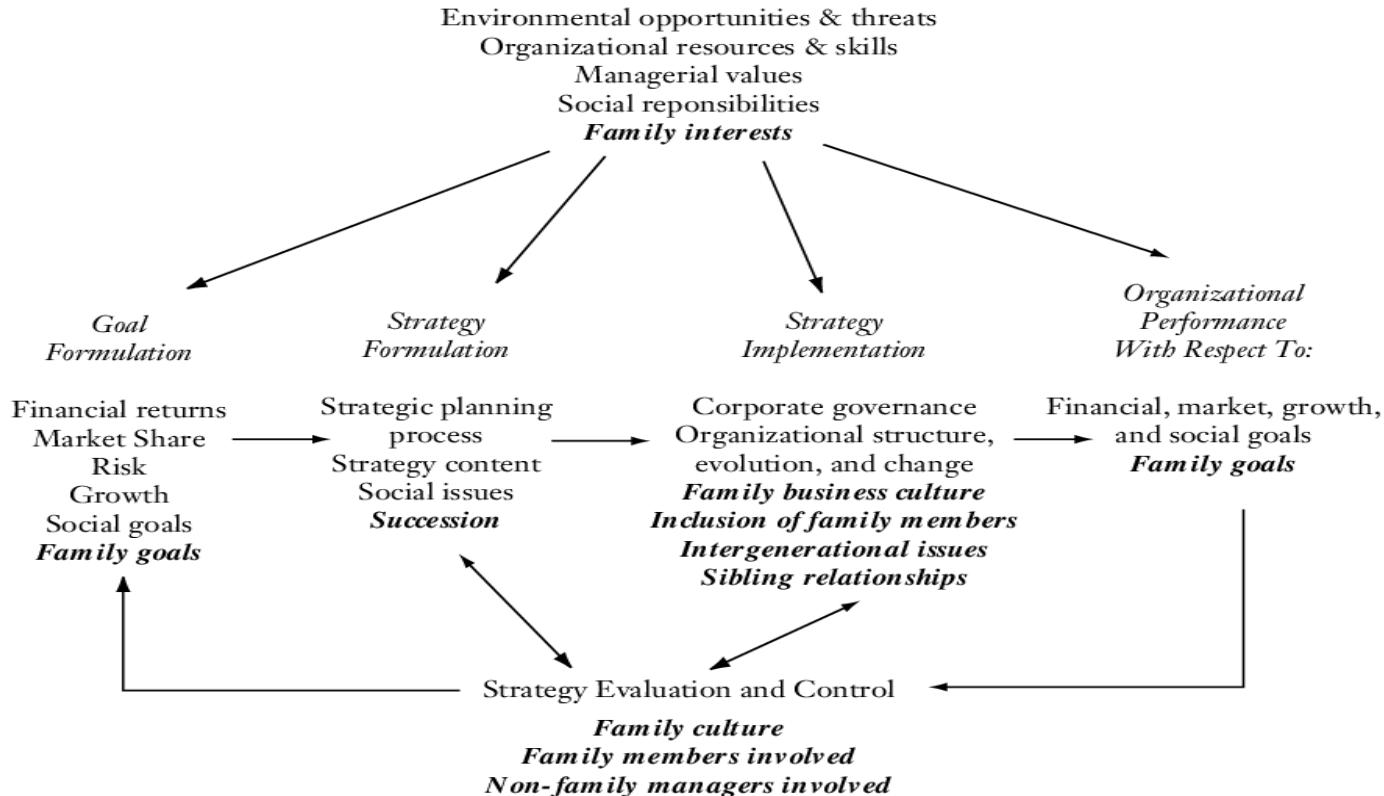


Strategy



Sharma, Chrisman,
and Chua (1997)
*Strategic
Management of the
Family Business:
Past Research and
Future Challenges*

Figure 1. The Strategic Management Process*



Family Parameters

- The Influence of family interests
- Preparation and guidance of the next generation
- Long-term survival of the family business
- Resources and Capacities of the family business
- Share Capital of the family business
- Human resources in the family business
- Family dynamics
- Development and Internationalization Perspective

Strategic goals

Strategy Formulation

- Family Priorities
- Strategy Formulation and Succession

Strategy Implementation

- External Directors and Board Members
- Family Business Culture
- Integration of Family Members
- Generation transfer
- Brother competition
- Organizational issues



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