



The Family Business Charter

An essential tool for growing and sustaining a family business.



TRANSFERRING A FAMILY BUSINESS to successive generations can be one of the most difficult business transitions to implement successfully. According to The Exit Planning Institute, only 30 percent of family businesses successfully transition to the second generation, only 12 percent transition to the third, and the odds of success diminish from there. One way to improve these odds is to adopt a Family Business Charter.

At its core, a Family Business Charter is similar to a constitution in that it provides a framework for operating the business and captures the wisdom and vision of the family founders. It sets forth the essential rules, obligations and responsibilities relating to ownership and management of the family business, as well as the family values that will help sustain the business for future generations. How family members become eligible for ownership and participation in the family business, and how succession and leadership transition are handled, can have a huge impact on the success of the business and the legacy left to future generations. The Family Business Charter addresses these issues.

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Key Elements of the Family Business Charter

- 1. MISSION AND VISION.** Capture the values, purpose and vision of the business into a mission statement. This includes the pearls of wisdom and “secret sauce” developed by the founders that made the business a success. If this is a legacy business intended to be passed on to future generations, the notion that each generation is a steward of the business and should not be looking for short-term gain at the expense of the future generation should be included in the document.
- 2. GOVERNANCE.** The governance structure of the family business should be described so family members understand how the business is managed and how important business decisions are made. In addition to a board of directors, a family business will often establish a Family Council or Advisory Board so that non-owner/non-manager family members can be tangentially

included in the family business. Meetings of the Family Council provide a platform for educating the broader group of family members about the business and the opportunities presented therein.

- 3. RULES OF THE ROAD.** It is important to establish certain ground rules and expectations for family members who want to participate in the business. For example, is a college education required? Are family members expected to work in the business in lower level positions and work their way up the ladder? Should family members work outside the business and gain experience in other businesses before committing themselves to the family business? Providing clear guidance in this area can help avoid instilling a sense of entitlement in family members who do not follow the rules of the road.
- 4. DEFINITION OF FAMILY.** The definition of family for purposes of becoming eligible to work and become owners in the business is very important. Issues such as how in-laws are treated as opposed to direct lineal descendants of the founder or what the consequences of divorce are should be clearly addressed.

Creating the Family Business Charter

Drafting the Family Business Charter should be a collaborative undertaking to encourage buy-in and consensus among family members. The founder and/or CEO of the business typically leads the process with help from a facilitator; other family members are invited to provide input and given opportunity for meaningful comment. Special consideration should be given to the invitation list to ensure the meeting is both meaningful and productive.

Adopting a Family Business Charter can reduce conflict and family dysfunction by clearly communicating to family members in a written document the values and mission of the family business, what future generations should expect from the business, and how they can participate and potentially become owners. Without this document, future generations are left to their own devices to figure these things out.

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