

Business Planning

Family business charters help sustain family businesses for generations.

By Jeremy S. Lurey, Ph.D.

Family business is often described as the oldest and most common model of economic organization. In the United States alone, there are roughly 5.5 million family businesses. Maybe more importantly, these businesses account for more than 50% of the U.S. gross domestic product, they generate more than 60% of the country's employment opportunities, and they create 78% of all new jobs. If family-owned businesses are so critical to creating a majority of our wealth, then why is it that nearly 90% of all family businesses will cease to exist after three generations?

Family businesses are perhaps the most complex and challenging organizations that exist since they combine two very different and potentially conflicting systems—your family and your business. Very few family business leaders successfully implement a “both/and” approach to managing this inherent overlap between their family and their business though to effectively prioritize both at the same time. Neither is right nor wrong per se, and both very clearly serve a purpose. The question then for any family business owner is whether or not you prioritize your family or your business. Or do you do both?

Prioritizing your family is what happens when, for example, you give your son a job because he just graduated from college and he doesn't know what else to do with his life. Prioritizing your business, for example, is only giving your



daughter that same job because her qualifications actually match the requirements of the position, and strategically you believe she brings something special to your business. Once you hire her, you then treat her just like every other employee by reviewing her performance in line with stated expectations and giving her merit-based pay increases only when she deserves them.

One of the best tools for clarifying your intentions and setting the policies and procedures that will guide your family business is a family business charter. The purpose of a charter (also referred to as a “Family Constitution”) is to clearly outline how family business leaders will handle family related matters that may impact the business, and vice versa. It is intended to capture

your core values as a family and serve as the foundation for your business for generations to come. As such, it defines various roles and responsibilities for family members who are involved in the business and provides a framework for the governance, leadership, and ongoing ownership of your family business.

Components of a Family Business Charter

The following are some of the most critical components for your family business charter.

- Mission & values
- Ownership
- Employment
- Compensation
- Leadership & succession

MISSION & VALUES – What are your long-term objectives? To stay together as a family and amass tremendous wealth to pass on to future generations, or maybe to serve a niche market of consumers regardless of who manages the business? What are your core values, and what guidelines would you like to establish to govern both family and business activities?

OWNERSHIP – Are shares in the family business limited to only family members? And maybe even just bloodline relatives? Would you consider selling some portion of the business to outside investors if that infusion of private equity will accelerate your growth and/or create a more sustainable future? Would you consider granting shares to senior executives as part of a long-term incentive plan?

EMPLOYMENT – Are family members required to get a college degree or gain valuable work experience outside of the family business first before joining the company? When you hire family members into the business, do they experience the same process as anyone else? For example, would you hire a family member simply because he/she needs a job, or would you only hire a family member who is qualified for a specific open position?

COMPENSATION – Once hired, are family members compensated like all other employees, or do they benefit from increased wages and/or other perks because they're family? What if your family business has a board? Do you compensate your family members who serve on the board, or is it simply expected of them?

LEADERSHIP & SUCCESSION – Has your family business established a family council to monitor your mission and manage the transitions from one generation to the next? What other governance structures or succession plans exist to create a sustainable business and groom your NextGen leaders to take over one day?

Your family business charter will be most effective if you consider it a living, breathing entity just like any of the family members or other employees who work in your family business. For that reason, don't consider your family business charter a "one and done" effort where you draft it once and never look at it again. You wouldn't do that with your trust or other estate planning documents, so don't do it with your family business charter. It's essential that everyone, including current leadership and future generations, reviews your charter over time and especially in line with any changes to your family's make-up, differences

in your family's collective priorities, or with any shifts in your market. Any time someone gets married or divorced, someone is born or passes, or if other significant changes happen to the business, that's a good indication that it's time to revisit your charter.

By establishing these guidelines in a charter now, you can maintain greater harmony within your family and prevent potential conflicts between family business leaders from ever even occurring.

Remember, crafting your family business charter is intended to help you minimize family drama and reap the benefits of being BOTH a family AND a business. It will also enable you to define the key priorities for your multi-generational efforts so that you and the other members of your family can successfully transition your wealth and your business from one generation to the next to create a more sustainable future for everyone.



Dr. Jeremy Lurey, CEO of Family Legacy 1st, serves clients ranging from families of significant wealth to mid-market companies to Fortune 500 corporations. With a passion for helping multi-generation families sustain their legacies, he excels at enabling these families to transfer their wealth and transition their businesses from one generation to the next. Dr. Lurey regularly facilitates family forums and retreats, drafts family charters to define core values for families, and provides family counseling both to parents and their children. He frequently presents at professional conferences and seminars, and has authored several publications on family business, succession planning, organization development, change management, and leadership excellence. Dr. Lurey holds MS and Ph.D. degrees in organizational psychology from the California School of Professional Psychology as well as a BS degree in communication studies from Northwestern University.