

Transforming Family Companies into Business Institutions



Converting private family companies into institutions that are professionally managed can place these companies competitive on a global level; ready to face strong competition, ready to export their products and services, ev. ready to be acquired etc.

Many companies I know are waiting either too long to get institutional and misses tremendous opportunities for growth or just never make it into 3rd or 4th Generation and die.

This is a great opportunity for every family company if transformed into a business institution to become a leader in the industry and assure the challenges of the future.

In order to become a leading competitive company, private firms must:

- Attract skilled people to its management ranks
- Attract capital from investors and financial institutions
- Merge small companies to achieve economy of scale and distribute fixed costs over a larger production base

In order to convert family businesses into professionally run institutions, we need to understand the forces affecting family business:

OWNERSHIP

Structure

The owners exercise their power through two organization structures: Shareholders Meetings & Board of Directors

1. Shareholders Meetings

These have two major purposes

- Discussing financial results presented by management
- Election of a new Board of Directors

1. Board of Directors & Advisors:

This is usually composed of 5-8 persons. Its main purpose is:

- Making policies to protect the interests of shareholders
- Formulating & monitoring company strategy
- Deciding on dividends, debts and executive salaries
- Advising top management
- Defining criteria for family members who want to be directors, stressing business experience instead of seniority or status in the family
- Filing top management positions and following up their personal development in cooperation with the Family Council

Few companies can afford to hire top-level skilled professional managers to fill all the gaps in the controlling owner's experience and therefore to appoint a Board of Directors can be a good solution.

The Board might be composed of:

- 2-3 family representatives
- 4-5 non-family directors:

These directors should have the following qualifications:

- Experienced, successful, independent outsiders (not friends)
- With no conflict of interest (for example not company suppliers)
- With skills that complement the owner –manager's and each other's
- Preferably familiar with the company's particular industry
- Knowledgeable in how to give advice

The Board should hold 4-6 meetings per year, 1/2 – 1 day each, plus 2 days retreat per year.

However, if the idea of forming a Board, with the majority of its members from outside the family, is too drastic and remote from the thinking of the owners, then another solution could be the formation of a Board of Advisors from outside the business who does not have decision – making powers but only an advisory role to the Board of Directors.

Plans

The Board creates four plans:

1. **Strategic Plan:** defining the roadmap of the coming 5 years.
2. **Management Development Plan:** covering the training programs and the career path of the key executives
3. **Continuity Plan:** identifying the replacement of each executive in case of Promotion or absence
4. **Contingency Plan:** to cover emergencies

FAMILY

Structure

The family exercises its power through the structure of the Family Council.

Family Council

The Council discusses family values, needs, and expectations from the company.

Its main purpose is:

1. Educating family members about the rights & responsibilities that come with business ownership & management. This means understanding the Limits of each member according to which of the three circles he belongs to.
2. Giving Family members, who are not in the Business or ownership circles, a chance to be heard and to receive information about the business, the family and the ownership.
3. Providing the forum to create a Family plan
4. Defining policies & rules to be discussed & approved by the Board of Directors.

Among the rules that must be clarified are:

Rules for hiring members of the family

- Rules for hiring wives and husbands
- Rules for dismissing a family member from his job
- Salaries, fringe benefits (loans), dividends, pension, promotion.
- Professional career development
- Selection of future leaders
- Relations with suppliers
- Transfer of ownership
- Methods of valuation
- Who receives shares
- Who votes shares
- Who gives agreement on buy/sell
- restrictions on transfer of shares
- Establishing a family code
- How to treat one another
- How to give support to the family
- How to resolve conflicts (arbitration, mediation)
- Relation between Family Council & Board of Directors
- Rules for meetings of the Council: responsibility for preparation, location, agenda.
- Organizing activities to have fun together, vacations, celebration

The Council should meet quarterly and it is preferable not to have the company's leader as the council's head.

Family Plan

It should cover the following:

- Training programs
- Code of conduct of the family
- Process of resolving disputes

Conclusions

- When we define the roles (rights & responsibilities), structures & rules that protect the interests of each power base we can create the professional business institution instead of the one-man show
- Highly qualified individuals will not join a company that does not offer long term growth and personal promotion
- Nepotism discourages the performance of people and limits their loyalty
- Outside investors would be more interested in participating in the capital of a professional organization which will safeguard their investments
- And finally, mergers between companies become easier if they are converted to institutions because it eliminates the problem of which owner will manage the combined company and therefore solves the ego problem

Transform your Family Company into a Business Institution and become a Leader in your Industry.

Carlo Reato



Carlo Reato, Gründer und Lenker von REATO CHANGE MANAGEMENT, ist selbst aktiv als Unternehmensberater, Interim Manager, Coach und Verwaltungsrat. Gemeinsam mit ausgewählten Partner und Spezialisten auf ihren Fachgebieten steht er seit über 25 Jahren für erfolgreichen Change auf globalem Parkett. Das Unternehmen REATO CHANGE MANAGEMENT steht für nachhaltig erfolgreiche Turnarounds, Transformationen und Restrukturierungen auf internationaler Ebene.

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