FOSS Family Office Services Switzerland

www.switzerland-family-office.com/family-governance.html

Family Governance

The goal of family governance is to establish a sustainable family structure in relation to the family business. The main purpose of family governance is to define how a family-owned company is to be run once more generations get involved and/or more family members become active within the family business. It covers such questions as how business decisions are taken in such case and how the company's future strategy is to be set out. A good family office in Switzerland can assist you in putting a solid family governance code in place.

What does family governance mean?

The term 'family governance' is not immediately clear to most of us. The main aim of family governance is to cover how a family-owned business is run once more generations or relatives get involved in it. Family governance is therefore not an issue for public companies,but in a family-owned company it could be essential for the continuity of the business to put the right governance in place at the latest when, or just before, the next generation gets involved.

Family governance will not be an issue if you own 100% of a company yourself and your only child will take over the company (see succession planning). But if you own the company jointly with other relatives and each of you has children, you may very well imagine that the next generation of owners might not completely agree with each other on the way forward.

The complexity of operating a large family business

The more family members get involved in the business, the more their opinions can differ. This could result in a lack of consensus between the family members as long as no clear decision structure is laid down. How will the company strategy be decided on when the family members do not agree with each other on the way forward? How will family members who hold shares in the company, but who are not active in it, be financially compensated? How do family members communicate with each other? A Swiss family office can play an important role in organising this potential trouble spot.

Additionally, good communication between the company and the (inactive) family members is of high importance. If this does not function well, the company, and its performance, could become paralysed. It could also have a negative impact on the relationship between the family members. And how will the company deal with potential threats to the business? All these issues are particularly problematic where part of the company shares are traded publicly.

The main components of family governance

Although there are no set rules, we usually see the following three components:

- A **family constitution**, in which the basic principles of the business and the family's policies and views are laid down.
- A **family council** - a council that represents all the family members vis-à-vis the company.
- Regular **family assemblies**, annually or twice a year, including information about the business, education of the younger generations, strategy of the company, potential changes of ownership, etc.

Family governance addresses all these topics and more. Most of the business-owning families find family governance a very difficult topic to address and a lot of family offices are not familiar with this topic at all. In case this topic is important to you, you should make sure to select a family office in Switzerland that has the necessary know-how and expertise to support you with putting the right family governance in place.

You will find more information about family governance in IFC's Family Business Governance Handbook (available in 15 languages) and in the 2012 Family Governance Report: Sources and Outcomes of Family Conflict of The Wharton Family Alliance.

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