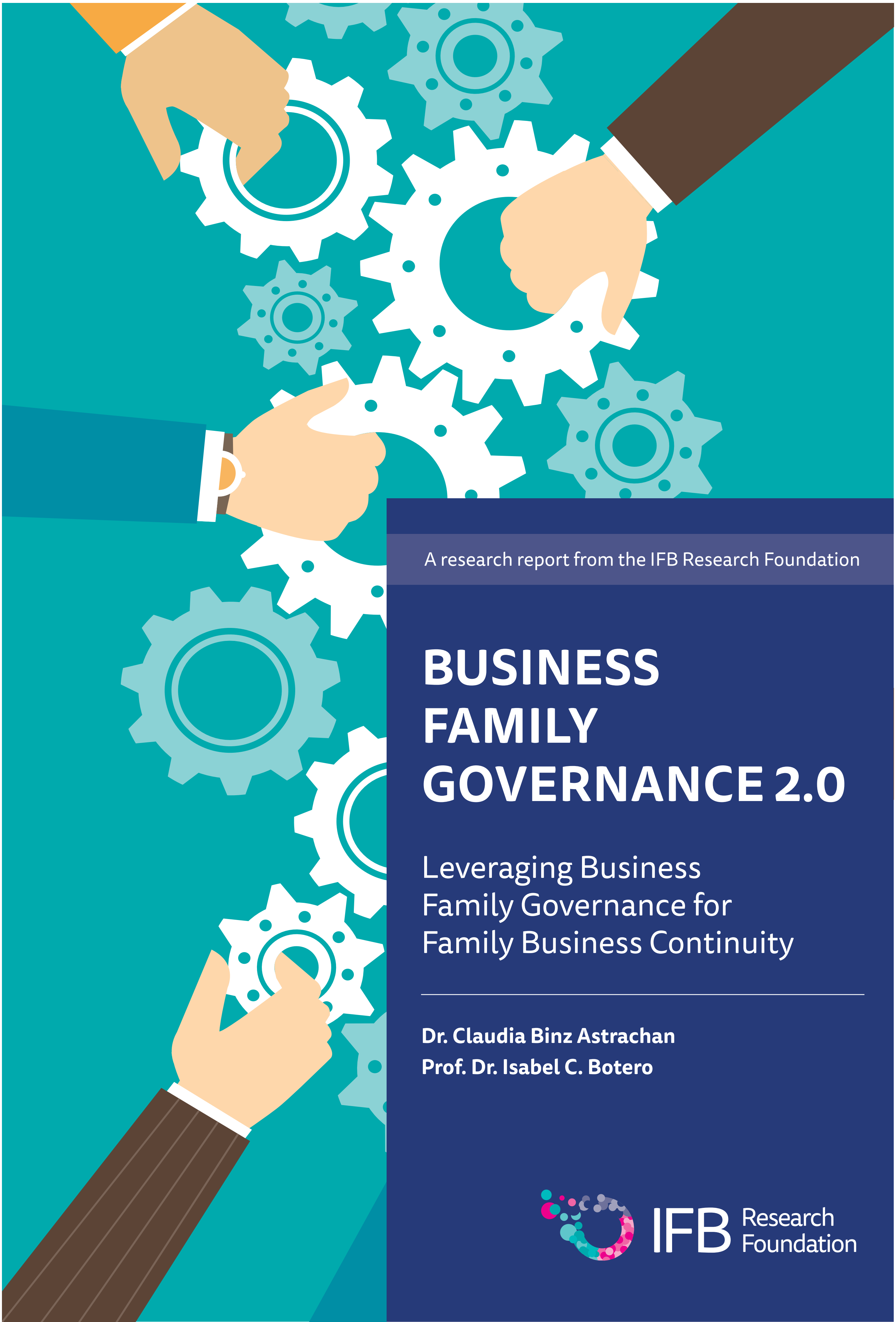

A research report from the IFB Research Foundation

BUSINESS FAMILY GOVERNANCE 2.0

Leveraging Business Family Governance for Family Business Continuity

Dr. Claudia Binz Astrachan
Prof. Dr. Isabel C. Botero

IFB Research Foundation

ABOUT THE IFB RESEARCH FOUNDATION

The IFB Research Foundation is a charity (no. 1134085) established to foster greater knowledge and understanding of family firms and their contribution to the economy and society, as well as the key challenges and opportunities that they face.

The Foundation's vision is to be the UK's centre of excellence for family business research, and to this end its publications are designed to create a better understanding of family business for the benefit of all stakeholders. Alongside Family Business Research and White Papers, providing thought leadership on key family business characteristics and issues, its work covers a broad range of publications, including:

- **Family Business Sector Report** – benchmarking the size and importance of the sector.
- **Family Business Challenges** – offering practical guidance for family business owners on a broad range of topics, including family business dynamics, governance, performance, succession and wealth management.
- **Family Business Case Studies** – showcasing family business exemplars.

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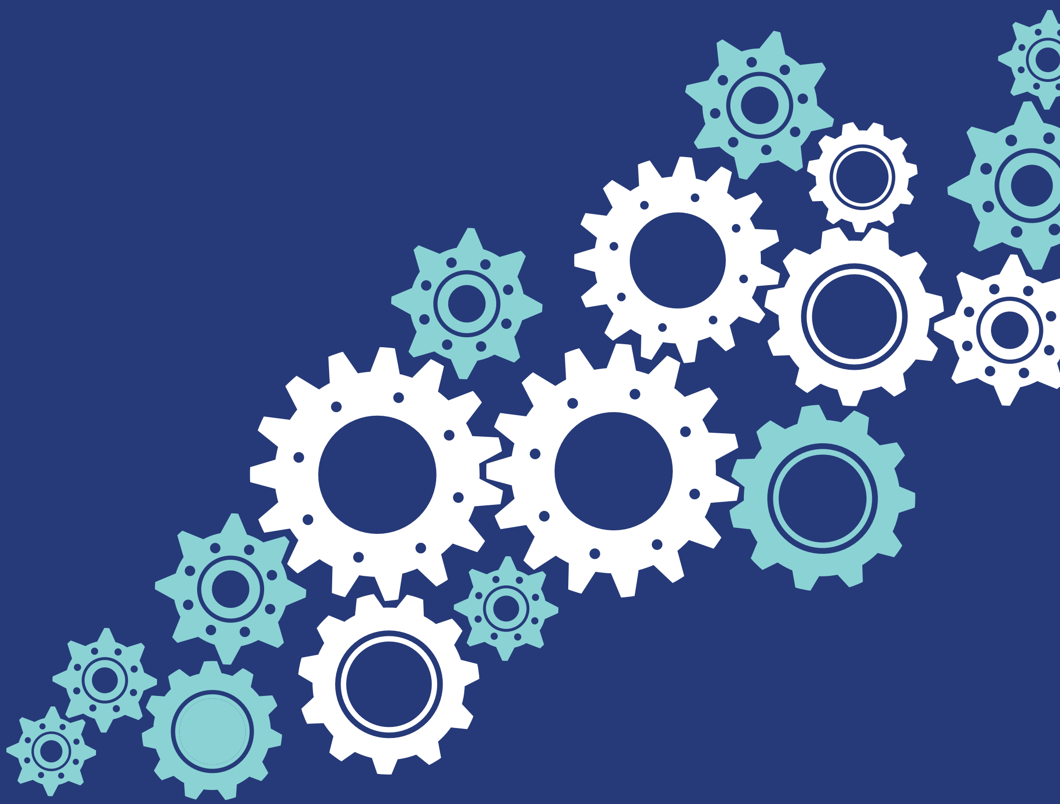


FOREWORD

This new report from the IFB Research Foundation plugs a gap in the existing evidence base in interdisciplinary family business research. The authors of the report, Dr. Claudia Binz Astrachan and Prof. Dr. Isabel C. Botero, take an in-depth look at the family governance practices of UK and international family firms.

The report suggests that the governance arrangements for business families in the third generation or more must take into account each family's particular context – its unique values and objectives, how united it is, how well family members communicate with others, how well family conflicts are handled, and the resources it devotes to educating family members.

Strengthening the family's social capital and the informal networks that bring together extended families is critical for effective family governance. The research presented in this report explores how to approach this complex challenge using some great multigenerational case studies. These show how shared values, a united purpose, and a strong sense of connection, combined with a desire to remain together, prompt business families to embark on their governance journey.

The authors provide some insightful practical recommendations for business families to consider if they want to further develop their families' governance arrangements, flagging up the main areas that each business family should focus on and the questions they need to consider.

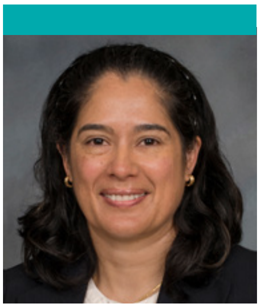
This report will be of interest to all members of business-owning families, managers and advisers of family firms, as well as researchers and students of family business. I urge business families in particular to read the report, and reflect on the points raised. I hope this evidence-based guidance assists your family to work more effectively together to sustain the beneficial ownership of your business well into the future.

I hope you enjoy reading the report.

Sir Michael Bibby
Chairman, IFB Research Foundation

A NOTE FROM THE AUTHORS

Dr. Claudia Binz Astrachan is the head of the Family Business Program at Lucerne School of Business in Switzerland, and the head of the Governance Practice at Generation6 Family Enterprise Advisors in Chicago, United States.



Prof. Dr. Isabel Botero is a faculty member in the Department of Management and Entrepreneurship at the University of Louisville in Kentucky, United States.

Esteemed Reader

Today, most family businesses dedicate significant resources to ensure that they meet generally accepted standards of good business governance. On the family side, however, there is much more ambiguity as to what constitutes good governance of the business-owning family. While some families thrive with few structures and minimal efforts to organize the ownership group, others benefit from sophisticated mechanisms to organize and align the family shareholders and the extended business family.

For any family governance system to be sustainable, it must reflect and reinforce the business family's values and goals and acknowledge its needs and capabilities. It must nurture the ownership group's ability to make competent decisions, and it must contribute to the family's connectedness and unity. In other words, it must be holistic.

This report seeks to shed light on what holistic family governance involves in practice, and on the issues that families need to pay attention to when designing their family governance system. It provides an overview of the current state of research on family governance and shares the findings from new research to present evidence-based guidance to motivate business families to reflect on current family governance and explore new ways of managing and inspiring their family shareholder/beneficiary group so that they can perpetuate their family's stewardship for many generations to come. Based on survey and case study data from business-owning families in the UK and beyond, we provide suggestions for business families at any stage of their life cycle and governance journey who seek to engage in meaningful conversations within their own families and with their advisors.

We hope that you find this report useful for deepening your understanding of family governance, for better serving your family business clients, or for safely and effectively navigating your own family's governance journey.

Claudia Binz Astrachan and **Isabel C. Botero**

CONTENTS

LIST OF FIGURES

LIST OF TABLES

EXECUTIVE SUMMARY

For family enterprises wanting to ensure long-term continuity and prosperity, having an effective corporate governance system is not enough: family enterprises seeking to secure a multigenerational legacy are well-advised to invest time, money, and emotional energy in developing and maintaining an effective and sustainable family governance system.

Family business scholars have recognized this need, as evidenced by the growing body of research and guidance on family governance. Unfortunately, the prevailing orientation treats business families as one and the same, overemphasizing similarities, while failing to consider their differences. This can result in one-size-fits-all recommendations on family governance system design, which do not acknowledge the specific context of the enterprising family. However, family governance systems that poorly reflect a family's unique values and its needs and objectives tend to cause family conflict, rather than preventing or mitigating disharmony.

This research, commissioned by the IFB Research Foundation, acknowledges the tendency to disregard business family heterogeneity, as well as the paucity of data-based, actionable guidance for enterprising families seeking to navigate their family governance journey. The report summarizes findings from a review of prior research on family governance, a survey among representatives of business families, and case studies with members of multigenerational business families. It seeks to provide readers with an understanding of what is known about family governance based on earlier studies, an overview of what family governance looks like in practice, and examples of enterprising families' unique governance journeys. These findings form the basis for the six principles of good family governance and the reflection questions presented at the end of the report.

FAMILY BUSINESS GOVERNANCE IN RESEARCH: FINDINGS FROM THE LITERATURE REVIEW

Prior research has identified factors that drive family governance adoption, such as the level of family complexity (e.g., age, size, and diversity of ownership) and business sophistication (e.g., size, family representation, level of professionalization). While there is some agreement on drivers and outcomes of family governance, there are also many inconsistencies in terms of the directionality of the relationships between these factors. For example, some authors consider good family communication to be an antecedent to family governance, while others view it as an outcome. This lack of consistency points to a circular, mutually reinforcing relationship, where effective communication and effective family governance reinforce one another, rather than one causing the other. The inconsistency also indicates there might be missing pieces in our understanding of the inner workings of family governance systems.

In the absence of a deep understanding of what makes businesses and families different from one another, researchers often rely on easily observable proxies (e.g., older family firms are more likely to have a family constitution) to classify businesses and families. This focus on the observable, however, prevents understanding underlying causes at play. For example, knowing why and when families decide to develop a family constitution could shed light on the objectives they pursue through their family governance. Understanding how the family's history of and approach to dealing with conflict affected their formal governance structures would deepen researchers' understanding of how these structures are designed, and their effects on the family. In summary, a deeper knowledge of the drivers and outcomes on the family level would both further researchers' understanding of the family behind the business and also help in the developing of sensible recommendations for practice.

FAMILY BUSINESS GOVERNANCE TODAY: SURVEY AND CASE STUDIES FINDINGS

To better understand the formal and informal family (business) governance mechanisms multigenerational business families rely on, an online survey limited to family representatives of business-owning families was launched. The survey was distributed in two languages (English and German) through networks of the IFB Research Foundation as well as the IFB UK, and the researchers' networks. A total of 114 responses were received between March 15 and April 28, 2021. Of the family businesses featured in the survey sample:

- → Sixty-four per cent were based in the UK.
- → Companies ranged in size from 1 to more than 2,500 employees.
- → Fifty-one per cent had 500 or fewer employees.
- → Companies ranged between 1 and 524 years in age [average age: 131 years].
- → Sixty-two per cent were held in the fourth generation of family ownership.

The main findings from the survey include the following:

- → Formal family governance mechanisms are widely used: most families in the sample reported having a family council (62 per cent) and a family constitution (65 per cent).
- → Family representation in the business is strong: almost all families in the sample allowed family members to work in the business (92 per cent) or serve on their board of directors (93 per cent).
- → Qualification matters: most respondents stated that strict qualifying criteria were in place for family employees (85 per cent) and family directors (61 per cent).
- → Engaging the rising generation: many families in the sample stated that they offered multiple opportunities for the rising generation to engage with the business, such as summer jobs (54 per cent) and internships (48 per cent).

In addition to the online survey, several case studies with multigenerational business families at different stages of the governance journey were conducted. The key findings from the case study interviews include the following:

- → A strong foundation of shared values, a common purpose, and trust-based family relationships facilitate the design and implementation of effective and sustainable family governance systems. This foundation should be continually reinforced.
- → The success and continuity of the family governance system hinges on the rising generation's knowledge of and involvement in the family governance journey. Ownership competence allows family owners and stewards to make informed decisions that align with family and business values and objectives. The family plays a key role in supporting family members in acquiring these competencies.
- → While family governance journeys may look very different, they all have one thing in common – they take a long time. Ensuring that every family member's voice is heard in the process is crucial in securing buy-in for the family governance system, but this can be an emotionally challenging and lengthy process that may require outside help.

In summary, business families choose formal and informal family governance mechanisms for different reasons, at different rates, and at different points in time. Understanding which mechanisms are more beneficial at which point in time is important when developing meaningful recommendations for practice. Hence, despite prior research focusing on business-related drivers of family governance (e.g., firm size, age), the findings from the survey and case studies highlight the need to incorporate deeper-level family variables – such as level of family cohesion – to understand what accounts for differences in family governance practices between business-owning families.

SIX PRINCIPLES OF GOOD FAMILY GOVERNANCE

Building on the learnings from our past experience, the literature review, survey, and case studies, six principles of good family governance are developed. Chapters 6 and 7 provide more detail on each principle and outline reflection questions for enterprising families and their advisors.

I. IDENTIFYING FAMILY GOVERNANCE GOALS

Enterprising families mostly pursue three types of goals through family governance. The way in which families prioritize these objectives determines both the design of the family governance system and the process by which it is developed and implemented.

II. DEVELOPING A HOLISTIC FAMILY GOVERNANCE SYSTEM

Effective family governance goes beyond organizing and managing the family through formal means of governance and is built on five pillars that inform both informal and formal means of governing the family.

III. REFRAINING FROM USING STRUCTURAL SOLUTIONS FOR EMOTIONAL ISSUES

Families sometimes try to calm their anxieties with structures, by trying to deal with conflict through formal, contractual agreements. This tends to rigidify underlying emotional issues.

IV. ASSURING FIT

For any family governance system to become effective and sustainable it needs to closely align with the family's values, objectives, and level of maturity. A lack of alignment can cause conflict, while fit leads to mutual reinforcement.

V. LEVERAGING THE PROCESS

Fair process means making sure that everyone feels their voice is heard and understands the process and its purpose. It facilitates securing family members' buy-in and leads to broader support.

VI. INVOLVING AND EDUCATING THE RISING GENERATION

Dedicating resources to educating current and future generations of owners and steward is not a choice, it is a requirement for any family with a multigenerational vision.

DEFINITION OF KEY CONCEPTS

Corporate Governance

Corporate governance is the structure of rules, practices, and processes by which companies are directed and held accountable. It provides a framework for attaining a company's objectives. Good corporate governance fosters ethical and integrity-driven behaviour, and balances the interests of a company's various stakeholders, resulting in increased stakeholder trust and superior corporate reputation. According to the Cadbury Report,

> *"Boards of directors are responsible for the governance of their companies, [which includes] setting the company's strategic aims, providing the leadership to put [these aims] into effect, supervising the management of the business and reporting to shareholders on their stewardship".*[1]

Family Business Governance

Family business governance represents a system of processes and structures put in place at the highest level of the business and family ownership group (and, sometimes, the extended family) to make the best possible decisions regarding the direction of the business and assurance of accountability and control, particularly in the light of diverse and potentially diverging objectives among management and ownership.[2]

Business Family Governance

Family governance regards the making, monitoring, and adjudicating of rules for family members' internal and external interactions and is exercised through a variety of decision-making bodies such as family assemblies or family councils. Effective family governance helps business families with a multigenerational vision foster cohesion and unity, facilitate alignment, and effectively manage the family-business interface[3]. It turns family actions into intentional behaviour characterized by widely held agreement and strongly felt commitment from family members. Family governance can be formal (i.e., structures, mechanisms) or informal (i.e., guidance through generally accepted values and objectives) in naturee.[4]

Family Maturity

Family maturity refers to the family's level of functionality, ownership competence, and sustainability. Family functioning describes the family's ability to (1) remain unified, aligned, and committed, (2) communicate and identify and resolve conflict effectively, and (3) foster resilience and adaptability in the face of change. Ownership competence refers to the knowledge, skills, abilities, and capabilities of current and future family business shareholders that allow them to successfully perform their role(s) in the business as well as the family, and to contribute to the success of the firm and the functionality of the family. Sustainable families instil a sense of responsible stewardship in current and future generations of business owners and family decision-makers, thereby safeguarding the survival of the business across generations. This is closely connected to having an overarching purpose that connects the family together and to the business.[5]

1. INTRODUCTION

For family enterprises to succeed, having an effective corporate governance system is not enough. Family enterprises seeking to secure a multigenerational legacy are well-advised to invest time, money, and emotional energy in developing and maintaining an effective family governance system. Despite the growing interest in family governance among academics and practitioners, there is a paucity of data-based, actionable guidance for enterprising families seeking to navigate their family governance journey.

The need for actionable and sensitive advice on family governance is where this research project was born. The IFB Research Foundation in the UK recognized the importance of further exploring the constraints and contingencies of effective family governance for UK family firms, and in particular the importance of answering:

(1) What drives business families to develop family governance systems?
(2) Depending on the specific context of the family, what makes family governance effective and beneficial, or ineffective and potentially harmful?

This research draws on quantitative survey and qualitative case study data to address these questions, and adopts a holistic approach to family governance, taking into consideration the uniqueness of each family in terms of their values, needs, objectives, and capabilities.

The report is structured as follows: Chapter 2 explains the forces that often pull the business family apart over time and discusses the role that cohesion plays in keeping the family together, and the importance of goal setting for the family business system. Chapter 3 summarizes the state of the research on family governance and identifies the most important drivers and outcomes of family governance. Particular attention is given to the importance of leveraging the process and aligning family governance with the unique situation of each family. The findings of the survey (Chapter 4) and the case studies (Chapter 5) enrich these insights and provide important contextual information. What governance tools do enterprising families use to manage both their families and the intersection between the family and the business? How is their family governance system related to their family functioning and to their business governance? What do different family governance journeys look like? Chapter 6 summarizes the findings from the literature review, the survey, and the case studies, which form the foundation for the six principles of good family governance. Chapter 7 provides key take-aways and reflection questions for business families, their advisors, and family business researchers who seek to inspire meaningful conversations about business families at any stage of their governance journey.

This report is designed for individuals – family business researchers, students, and advisors – and families interested in:

- Learning about the formal and informal governance practices multigenerational business families rely on to manage themselves and their interactions with the business;
- Learning from the experiences of other multigenerational families that have developed governance systems over time; and
- Understanding the elements of a holistic and sustainable family governance system as well as why it is crucial to consider the unique circumstances of each family.

2. MAINTAINING BUSINESS FAMILY STABILITY OVER TIME

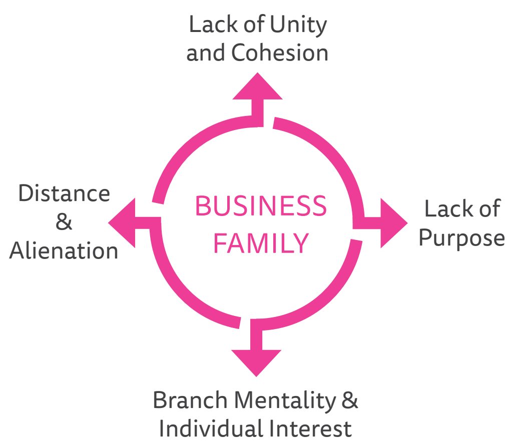
Good governance – which translates into holding an organization or group accountable for its decisions and actions to those it affects – is meaningful regardless of the size or complexity of the organization or group. Transparency strengthens stakeholder trust, thereby facilitating decision-making and alignment and nurturing group cohesion.[6] As family businesses and their owning families grow, it becomes increasingly important to keep stakeholders and shareholders aligned, connected, and engaged.[7] In this section, some of the challenges that growing families encounter as they grow larger and grow apart over time are considered.

2.1 THE FORCES THAT PULL BUSINESS FAMILIES APART

Many business families experience growth over time. Take, for example, a family where there is one person in the first generation, but four already in the second (two parents, two children). If the two children in the second generation have two children each, the family grows to 10 in the third generation (two grandparents, two children with spouses, and four grandchildren – that is before they have families of their own). If each family member becomes a shareholder at age 18, it is possible that eight family members (or seven, if only one member of the founding generation has ownership) make decisions together.

Regardless of the size of the shareholder group: as the family grows, more effort is required to manage and align individual values and objectives, and to keep family members connected to one another and the family. The visualization (Figure 1), which is informed by Baus' risk potential of alienation[8] framework, highlights the centripetal forces that threaten to pull families apart over time.

Figure 1. Centripetal Forces Threatening Family Stability



When families lack an overarching purpose that would nurture a desire to pull together rather than pull apart,[9] when individual interests are prioritized over collective interests, when branch mentality reigns and rivalry ensues, when geographical distance promotes emotional distance, and when family members become disconnected from a business that they know so little about, the fabric of the family is weakened. When families fail to instil a sense of unity, and when they fail to invest in fostering cohesion, they become vulnerable.

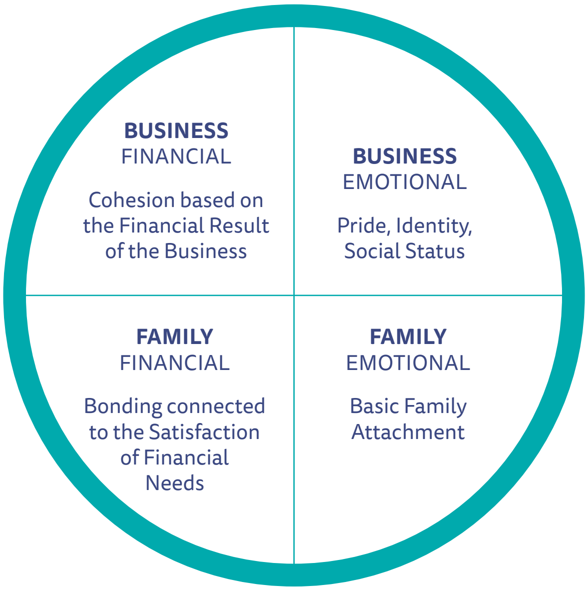
2.2 THE POWER OF FAMILY COHESION

Family cohesion, or the emotional bonding that family members have towards one another,[10] helps tie the family together and keeps it connected to the business. Families are more cohesive when group members identify with the family and feel emotionally connected to it, when they trust and support one another, and when they communicate effectively and resolve conflict productively. Cohesion is a key dimension of lasting business-owning families. But how can it be cultivated?

Often, family business experts conceptualize family cohesion as a unidimensional phenomenon expressing that family members feel connected to the family and/or the business because of a sense of belonging. Torsten Pieper's[11] research demonstrates that cohesion is, in fact, a multifaceted phenomenon, and that family members connect to the business and the family in a variety of ways – and usually in multiple ways (see Figure 2 below).

While some family members are primarily motivated by financial considerations and dividend payouts, others may connect to the business on an emotional level, e.g., through a family business museum or other artefacts, or stories about the founder or other family members who had an important role in shaping the family or business history. Some areas of activity, family member employment, for example, relate to both business emotional and business financial concerns. Other family members may primarily connect to the family business system on the family financial level; for example, a family educational fund, a holiday home, or a private jet. Yet others feel most connected on the family emotional level – that is, the more they engage with the family, communicate, and spend time with other family members, the more they feel connected to the family business. To help ensure that a family remains together, unified, and aligned over time, families are wise to activate all four dimensions of cohesion in parallel. The COVID-19 pandemic offers a powerful example: as families decided to withhold or reduce dividend payout, conflicts erupted in many shareholder groups – shareholders became disenfranchised, and why? Because they connected primarily, or exclusively, through the business financial dimension. Once this disappeared, they felt disconnected from both the business and the family.

Figure 2. Dimensions of Business Family Cohesion (Pieper, 2007)



Enduring families offer their family members all four dimensions of cohesion.[12] They communicate regularly and organize family events so that the family can spend time together. They offer educational funds to encourage their family members to grow and develop professionally. They offer financial income through the business to help make the financial investment worthwhile. And they share stories about company achievements and history to nurture the family's sense of pride and shared identity.

Now, cohesion is a necessary condition for family survival in the long term, but not a sufficient one: long-lived business families also need clarity around their goals and expectations in relation to the business as well as the family, and they need those goals to be aligned with the goals they set for the business, and the actual performance the business can achieve.

2.3 FAMILY GOAL SETTING

As indicated earlier, business families can have the potential to grow exponentially over generations. The shareholder or beneficiary group can quickly grow from one or two in the first generation to 10, 20, or 50 in the second, third, fourth, and fifth generations, depending on how inclusive the family decides to be (e.g., what are the criteria for ownership/beneficiary status). If a family decides to keep its payout constant (maybe out of a desire to continue to financially provide for its family members), according to Adams and colleagues,[13] the business needs to experience exponential growth to sustain the family's lifestyle over time. This simple relationship is something that many families fail to consider when they set long-term objectives for the family in relation to the business. The question every family[14] needs to ask itself is: are we able to provide a sustained profit growth rate that meets our financial expectations over the long run, or are we setting ourselves up for failure?

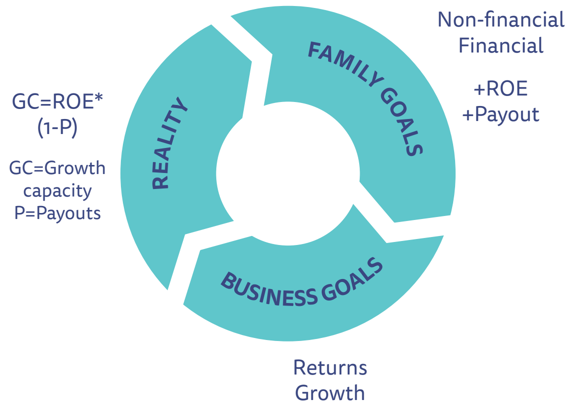
For a business family to meet its financial expectations they must continually revisit their expectations by engaging in a family goal-setting process. In a first step, family shareholders need clarity around their non-financial (e.g., identification, pride, access to network) and financial (e.g., return on equity, access to funding) goals. Shareholders' returns and profit growth expectations then shape the goals set for the business, while taking into consideration the family's risk appetite.

These expectations determine the family's business goals, such as return expectations and profit growth expectations. Once family and business goals are understood – mainly but not exclusively based on financial expectations – comes the reality check: growth capacity is limited by return on equity minus payout. In other words, the bigger the payout, the less the family business can grow to continually support the needs of the growing family. Hence, if a family sets financial goals that limit their growth capacity at the tail end of this cycle, they are likely to set themselves up for failure. Figure 3 below is loosely based on the ROE-Payout-Growth-Debt relationship described by Adams and colleagues and helps to visualize this process.[15]

Our professional experience suggests that many business families fail to engage in a systematic process to clarify their expectations and goals, and align those family goals with business goals, such as business growth. Not having a set of shared and sensible financial and non-financial objectives for the business can greatly harm not just the enterprise but the family as well. Family governance is the key to building and maintaining family cohesion and the foundation upon which to develop and revisit a sustainable goal system, both of which are crucial to a family business' and a business family's survival.[16]

Figure 3. Goal Setting in the Family Business System (informed by Adams et al., 2000)

*Assumes constant debt/assets as defined by family "chicken factor"



3. FAMILY GOVERNANCE: INSIGHTS FROM PREVIOUS RESEARCH

Corporate business governance plays a central role in the continuity of family enterprises, as it balances the interest of the organization's various constituencies – both family and non-family – and provides accountability and transparency. Researchers and family business advisors frequently advocate family businesses to implement formal governance structures, governance principles, and governance documents. Governance structures entail, for example, a competent and diverse board with a majority of independent directors; governance principles pertain to efforts undertaken to foster a culture of mutual accountability, providing transparent information to large shareholders and creditors, and striving for alignment between purpose, goal, and strategy; and governance documents include written agreements such as corporate bylaws, stock ownership guidelines, articles of incorporation, or committee charters.[17]

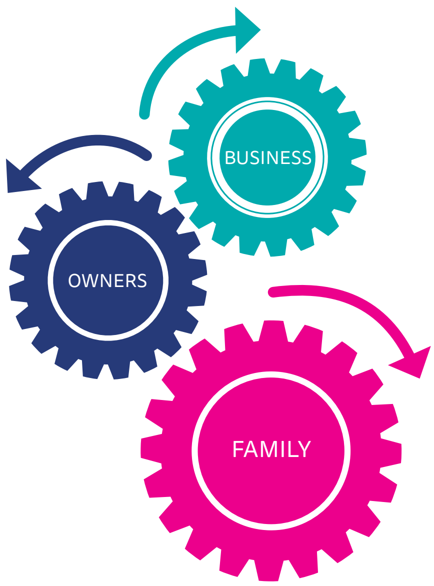
However, effective governance of privately owned family firms goes beyond the business realm. For example, in family businesses, Howorth and Kemp state, *"Good governance [must] be effective for the firm and the family."*[18] And as the business family grows, business governance alone will not suffice to support the family system in coordinating their actions. Growing family and shareholder groups benefit from incorporating family governance mechanisms that supplement the informal, values-based mechanisms families have cultivated over generations.[19] These governance mechanisms can support the growing family system in managing their family relationships, as well as the intersection between the family and the business – coordinating information and resources between shareholders and across branches.[20] While the family governance system makes decisions that affect the business, the business governance system (i.e., board, management) makes decisions that flow back into the family.[21] Even though both systems are important, the focus of this project is the family governance system.

Effective family enterprise governance can help ensure continuity and prosperity in the firm, while simultaneously supporting family alignment and family functionality, which, in the context of the family business, pertains to the family's ability to make decisions together that support the prosperity and longevity of the family enterprise system. To achieve these goals, business-owning families benefit from having a dedicated system to manage the ownership group and its interactions with the business: the family governance system.

3.1 FAMILY GOVERNANCE: FROM PAST TO PRESENT

In the formative stages of the family business field, the term family governance was mostly used to describe the involvement of the family in corporate governance within the family firm.[22] Realizing that this narrow definition failed to reflect the multifaceted nature of family involvement in formal and informal governance, recent definitions acknowledge that family governance itself is important for family business sustainability.[23] In this broader sense, family governance describes governance mechanisms aimed at organizing and facilitating relationships within the family context and between family and business.[24]

Figure 4. Family Business Governance System



Based on this more encompassing understanding, family governance represents a component of the larger family business governance system (see Figure 4 below). This larger governance system helps align family, owners, and business, thereby ensuring family and business continuity across generations.[25] While some enterprising families – particularly in early stages – forego the development of family governance mechanisms, previous empirical evidence suggests family enterprises that incorporate family governance elements are more successful.[26]

The growing body of research in this area highlights a range of benefits associated with establishing a family business governance system, such as enhanced social interactions between family members and improved family relations.[27] In the business domain, effective family governance has been shown to help organize and manage the relationship between the family and the business, the extended family and the shareholder group, and family and management.[28] Various studies further show that formal and informal mechanisms of family governance tend to vary based on the life stage cycle of family and business.[29]

In sum, prior evidence shows that family and business governance can contribute to family and business functioning – but there is limited understanding as to the circumstances under which specific governance mechanisms will be effective and beneficial, rather than ineffective and potentially harmful. To gain a more comprehensive understanding of how governance affects the family and business systems, next, a closer look at the antecedents and outcomes of family governance is warranted.

3.2 ANTECEDENTS AND OUTCOMES OF FAMILY GOVERNANCE

Prior research provides a preliminary understanding of drivers of family governance system creation, and what the potential outcomes might be – both from family and business views.

Most research points to the level of complexity of family and business as a key driver of family governance.[30] Family complexity is generally conceptualized as the number of family members who have ownership in the business, the generation of the family, the diversity of opinions within the family, and the level of agreement on central business goals. Business complexity is conceptualized based on the size of the business, the number of family members that are active in the business, and the degree of professionalization of the business (e.g., introduction of qualification criteria for family board members).[31]

Prior research suggests that the greater the level of complexity of the family and business, the higher the probability that a family will use, develop, and implement family governance systems. However, few studies point to family relational factors as drivers of family governance creation – the desire to strengthen family unity, avoid or mitigate conflict, or improve communication. In this context, family governance is viewed as a vehicle to strengthen family relationships, maintain or foster the family's ability to remain close, share decisions, and remain committed to the overarching purpose of the family enterprise.[32]

Figure 5. Antecedents and Outcomes Associated with Family Governance

Enterprising families that are more likely to put in place family governance mechanisms ...

- are larger and older,
- have members working in the business,
- have a strong desire to engage family members who are not involved in the business,
- agree on family goals, and have high levels of trust and family unity,
- experience frequent social interactions among family members,
- communicate effectively and value differences in opinions, and/or
- experience intense conflict.

Family enterprises that are more likely to put in place family governance mechanisms ...

- are larger,
- have a larger number of family employees, and
- have a higher level of professionalization and/or formalization

Formal and informal means of family governance

Enterprising families that put in place family governance mechanisms are more likely to ...

- experience higher levels of trust, family harmony and family unity,
- gain more clarity around family members' expectations,
- strengthen their goal alignment and family members' commitment to family and business,
- report increased social interaction among family members and higher levels of family collaboration,
- improve their ability to make decisions, to communicate effectively and to manage conflict, and/or
- improve their ability to plan and see through successful generational transition (succession).

Family enterprises that put in place family governance mechanisms are more likely to ...

- see improved financial performance,
- experience higher rates of business growth,
- experience a higher level of commitment from non-family employees, and/or
- survive in the long-term (succession).

There is some limited evidence concerning the impact of family governance. The use, development, and implementation of family governance systems have been found to positively affect the financial performance of the business.[33] Family governance systems have also been found to be valuable to the family by enhancing open communication between family members, strengthening trust, increasing social interactions between family members, and helping family members align their goals.[34] Finally, family governance is hypothesized to enhance succession planning.[35]

Figure 5 above summarizes the findings from prior research in terms of the drivers and outcomes of family governance. The two boxes on the top show the drivers and the bottom two boxes show the outcomes in both the family and the business.

While prior research largely agrees on drivers and outcomes of family governance, it also highlights inconsistencies, as exemplified by the confusion and inconsistent findings around the strength and direction of these relationships.[36] While some authors argue that factors such as open communication, high level of trust in the family, and the degree of social interaction between family members are prerequisites for family governance systems to exist,[37] others believe these to be outcomes of effective family governance, pointing to a circular, mutually reinforcing relationship rather than a unidirectional one.[38] Similarly, some argue that family conflict can be mitigated through the implementation of family governance,[39] while other authors have suggested the opposite may be the case.[40] This indicates that there might be a missing piece in this family governance puzzle.

3.3 FAMILY GOVERNANCE AND FAMILY HETEROGENEITY

This short review of the state of research on family and business governance demonstrates there is limited understanding of the drivers and effects of governance mechanisms on both the family and the business. It also points to a lack of empirical work as to why certain governance mechanisms are effective for some families but not for others. This point has been addressed in recent research suggesting that while some families benefit from certain elements of formalization (i.e., the formalization of structures, processes, and relationships by means of a family constitution, or a family protocol), others survive and thrive for generations with little to no formalization.[41]

Business families, just like family businesses, are heterogeneous. These differences make it difficult to prescribe effective governance mechanisms that work for every business family. Certain governance mechanisms will work for some families, but not for others, which explains why solely relying on anecdotal evidence and best practice guidance in developing one's family governance system can be problematic. Family governance systems that lack *"structural fit [with] the underlying family norm system"* and are *"at odds with the family culture"*[42] – while common – tend to rigidify existing conflicts and fuel new one because they poorly reflect the family's idiosyncratic values and objectives.[43] Mechanisms and structures (e.g., shareholder agreements, family charters) that do not fit the family's needs and capacity end up doing more harm than good.

Developing an effective family governance system means transforming a family without mechanisms or structures to manage itself or its relationship to the business, into one that actively manages family interactions and decision-making processes, as well as the intersection between family and business. The concept of Family-Practice Fit[44] posits that for any family governance system to be effective and sustainable, it needs to not only reflect but also reinforce the family's values and objectives, which inform the behaviour and decisions of family members. What is more, effective and sustainable family governance systems correspond with and strengthen the family's level of maturity, which refers to the family's level of functionality, ownership competence, and sustainability:

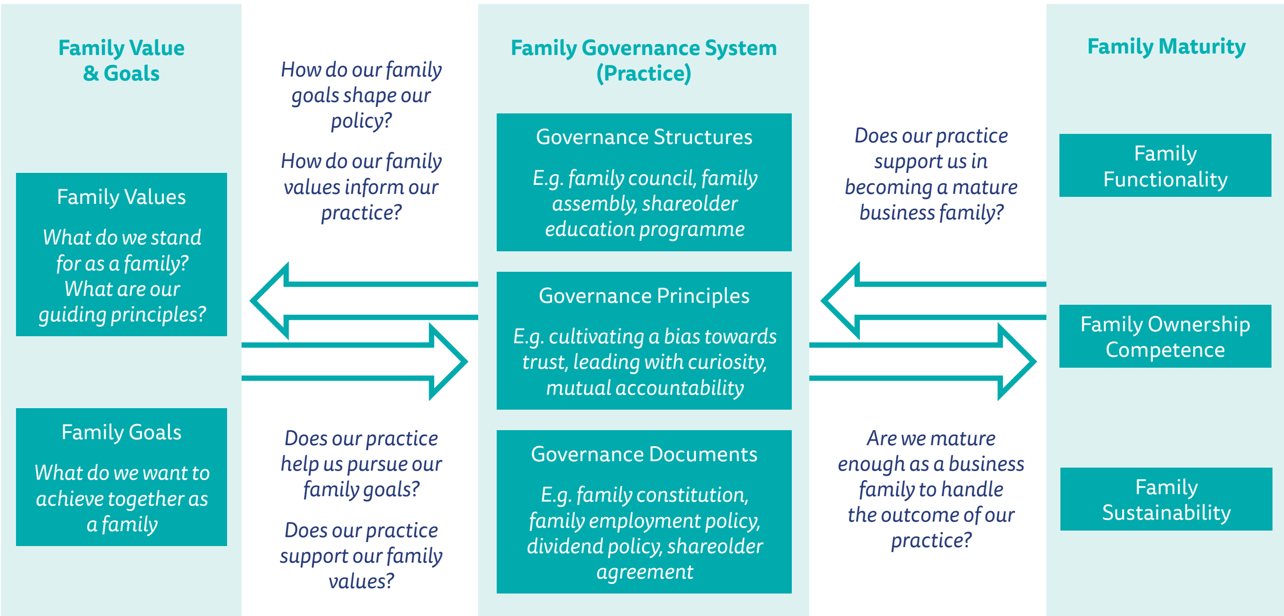
- Family functioning describes the family's ability to remain unified, aligned, and committed, to communicate and identify and resolve conflict effectively, and to foster resilience and adaptability in the face of change.
- Ownership competence refers to the knowledge, skills, abilities, and capabilities of current and future family business shareholders that allow them to successfully perform their role(s) in the business as well as the family, and to contribute to the success of the firm and the functionality of the family.
- Sustainable families manage to instil a sense of responsible stewardship in current and future generations of business owners and family decision-makers, thereby safeguarding the survival of the business across generations. This is closely connected to the overarching purpose that connects family together and to the business.[45]

The idea of Family-Practice Fit is based on the observation that while some best practices are highly successful for some families, they cause difficulties for others, and that practice failure or success is a function of how well the practice aligns with the family's values and objectives, and the family's ability to communicate and identify and resolve conflict, among other factors. Family-Practice Fit can shed light on why governance practices work for a certain family, and why not. For example, an inclusive shareholder agreement that allows for a free flow of ownership across branches and generations is likely to be beneficial for a family characterized by high levels of cohesion and interpersonal trust. However, it could have negative consequences for a family that lacks these qualities.[46] In the latter, the absence of mutual trust will lead family members to suspect each other of having hidden agendas for purchasing and selling stock. The little trust the family has would further deteriorate, harming the family. Inconsistencies between a practice and the reality of the family can render the practice ineffective and cause harm to family functioning.

A lack of fit, or inconsistencies between the three areas – the family's value and goals foundation, the family's level of maturity, and the actual practice – tends to exacerbate conflict over time, while fit leads to mutual reinforcement. Another example would be a family that has a history of poor conflict management putting in place an employment policy where family members are allowed to report to one another, in combination with low qualification requirements for family employees. While this might work for a family that is highly effective at communication and resolving conflict, for a family that lacks these qualities, it would likely lead to significant conflict.

Figure 6 visualizes the relationship between the family value and goal system, the family's level of maturity, and any practice (e.g., a family employment policy)[47] put in place as part of the family governance system.

Figure 6. The Concept of Family-Practice Fit



The concept of Family-Practice Fit suggests that before putting in place any formalized governance structures, business families benefit from assessing their level of family maturity. This means, first and foremost, understanding the values and objectives that drive the behaviour of the collective family, as well as behaviours of individual family members. Second, it means evaluating the degree to which the family functions effectively as a decision-making group. Third, it means assessing whether family members are competent to make decisions that support business continuity and family unity. And last, it means critically evaluating whether the family can foster a sense of stewardship across generations and branches. This approach informs the process of designing and implementing family governance, adding in a necessary step of collective self-reflection, where families ask themselves the following kinds of questions:

- What are our family's shared values and goals? What is our overarching, unifying, and compelling purpose?
- How well do we communicate and handle conflict?
- How well do our family members understand the business and the family? Are they competent owners?
- Does the family manage to instil a sense of responsible stewardship in the next generation?

3.4 THE NECESSITY OF LEVERAGING THE PROCESS

Jaskiewicz and Dyer argued that *"differences among families shape family business goals, behaviours, and outcomes"*.[48] However, many business families end up with generic, one-size-fits-all solutions that were originally designed for other families.

As indicated above, a process that supports fit between the practice and the family must begin with a period of collective self-reflection and self-assessment. Unless the family already has a set of agreed-upon, widely shared, and consistently upheld values, taking the time to come to an agreement on what the core beliefs are that characterize the family is essential. The same goes for an overarching family purpose and family objectives, which can be business-centric, family-centric, financial, and non-financial in nature (e.g., providing employment opportunities for family members in the business is a family-centric non-financial goal; business growth or performance goals are business-centric financial goals).[49] Once values and objectives have been identified and agreed upon, the family goes on to assess its level of maturity (i.e., family functionality, ownership competence, and sustainability).[50]

Any process designed to lead to the development of an effective, sustainable family governance system must nurture family member engagement. We found no research to support the idea that such a process can be quickly implemented and achieve results; a sensible process takes time. Yet, many families rush through the process. Some want to save time, some want to save money, some want to avoid conflict, and some underestimate the importance of securing family members' buy-in along the way. Whatever the reasons were for implementing a generic solution, the results are usually the same: policies, mechanisms, and processes that inadequately reflect the family's value and goal foundation are misaligned with their level of maturity. Sustainable family governance systems are best developed following a fair process approach,[51] which in fact – despite its name – has little to do with fairness, and more to do with making sure that family members are feeling heard and have an opportunity to voice their opinion as part of the process. If they feel that they are being denied this opportunity, they are much less likely to comply with the outcome of the process.

3.5 MAKING RESEARCH APPLICABLE: HOW IS THIS USEFUL?

This short section briefly summarizes important take-aways from this very brief review of the research on family (business) governance.

1. Business families that use formal and informal family governance mechanisms are more aligned and united than business families without such mechanisms.
2. Some families favour formal governance mechanisms, while others prefer informal ones, and many rely on both simultaneously.
3. Families and businesses that are larger and more complex are more likely to rely on governance mechanisms, as are those who have family members working in the business.
4. Both family harmony and family conflict have been shown to drive the adoption of family governance mechanisms, which shows that there is a limited understanding as to how the inner workings of the family affect the effectiveness of family governance.
5. Effective family governance fits with the family's values, needs, and goals, and is in-line with the family's ability to stay united and to make decisions.
6. Not leveraging the governance process is a missed opportunity: family member buy-in is improved when they make their voice heard in the process.

Next, the results from the quantitative survey with business family representatives are discussed.

4. FINDINGS FROM THE SURVEY: FAMILY GOVERNANCE IN PRACTICE

Representatives of business-owning families were surveyed to identify formal and informal governance practices that business families use in the UK and around the world and the factors that influence whether they use them or not. The survey focused on the use of formal and informal family governance mechanisms as well as characteristics of the business and the family. In this section, the findings from the survey are summarized. The formal and informal family governance mechanisms descriptions, the survey questionnaire, additional sample characteristics, as well as more detailed analyses can be found in Appendices A, B, C, and D.

4.1 WHO TOOK THE SURVEY?

Participants in this study were recruited using a convenience sample approach targeted to include family representatives of business-owning families. Data collection occurred in two languages (English and German) and took six weeks. The survey was distributed through the networks of the IFB Research Foundation and IFB UK, the networks of the research team, and associated social media (LinkedIn).

The survey was completed by 114 respondents. As illustrated in Figure 7, family businesses in this sample were primarily located in the UK (64 per cent). The age of companies ranged between 1 and 524 years, with an average age of 131 years, and they reported as belonging to the fourth generation most often. Companies varied in size from one to more than 2,500 employees. However, just over half of respondents (51 per cent) said they belonged to family businesses with 500 or fewer employees. In terms of firm structure, 69 per cent reported having a holding structure, and 44 per cent reported that their family business was held in a trust. Most of the respondents indicated that their family businesses were non-listed firms (95 per cent).

Most respondents (82 per cent) were family members that had a formal role in the business. Fifty-one per cent of respondents represented families that owned businesses with a family CEO. Almost all (92 per cent) allowed family members to work in the family business, mainly on the top and middle management level. Eighty-five per cent of respondents said their companies had either some (61 per cent) or strict qualifying requirements (24 per cent) for family members to join the business (see Figure 8).

Figure 7. Distribution of Participants by Country (n = 114)

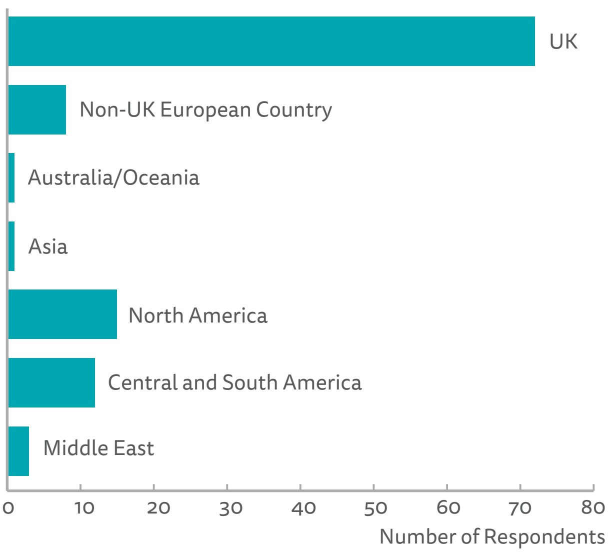


Figure 8. Survey Sample Characteristics: Respondents and their Families

4.2 WHAT DID WE LEARN?

4.2.1 Who are Family?

Who do members of business families consider to be part of their families? This is a quintessential question that warrants an in-depth discussion for any family with a multigenerational vision. It is also one that some families may be reticent to broach, knowing that it may lead to conflict within the family. Understanding who are family is important because it determines who has access to what and how access differs between individuals who are considered family and those who are not. For example, does access to sensitive information differ between owners, beneficiaries, and members of the extended family? What access do spouses, divorced partners, stepchildren, and adopted children have to information and resources? Who can be considered for employment in the family business, inclusion in educational activities, access to family assets such as holiday homes, airplanes or other amenities, invitations to family holidays, or for financial opportunities such as the family venture fund?

The way that business families define the concept of "family" will influence the decisions that they make, including those that are related to family governance. For example, what happens when a family member gets married to an individual who has been previously married, and who brings children into the family? This question is less about what this might signal to the stepchildren, and more of a question about what these decisions can signal to the rest of the family: does a family intend to bring outsiders into their circle of trust and under what circumstances? In the survey, members of business families were asked about the access that family members had:

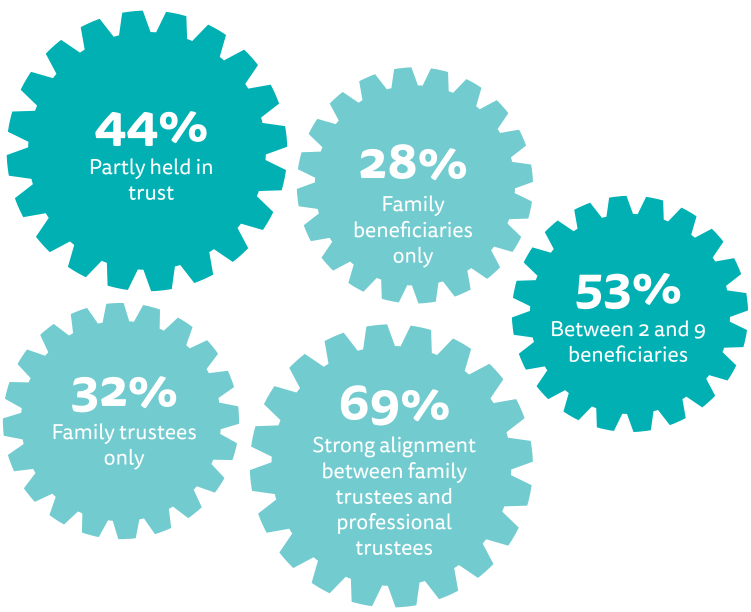
- Among those surveyed, 23 per cent reported that all individuals considered members of the family had equal access to information about the business, 48 per cent limited access to information to family shareholders and/or beneficiaries, and 29 per cent had different levels of access for different types of family members.
- Access to resources (e.g., education, funds, coaching) was more inclusive, with 36 per cent of family members having equal access to resources, regardless of their ownership status. Twenty-nine per cent indicated having varying levels of access for family members depending on ownership status. Thirty-five per cent of families in the sample limit resource access to family shareholders and/or beneficiaries.
- Access to family events was the most inclusive category, with almost 60 per cent of members of business families stating that events were open to all family members, and only 16 per cent limiting them to family shareholders/ beneficiaries. Generally, more than half preferred to keep the shareholder group small (58 per cent), but one third (32 per cent) reported feeling comfortable expanding the ownership group over time. Finally, a minority of 10 per cent expressed a preference to include only members who qualified within the ownership group.

4.2.2 The Role of Trust(s)

As shown in Figure 9, 44 per cent of the respondents stated that parts of their business(es) were currently held in trust. Out of these, 28 per cent had family beneficiaries only, most commonly (53 per cent) ranging from two to nine family beneficiaries.

Of those who reported having business(es) held in trust, 44 per cent indicated that the trusts held more than 80 per cent of ownership, 25 per cent indicated that the trusts held between 50 and 79 per cent of the business, and only a minority of 28 per cent held less than 50 per cent. In terms of trust oversight, most respondents stated that their families used family trustees exclusively (32 per cent) or primarily (11 per cent), while 34 per cent reported using only or mostly professional trustees. For the most part, family and professional trustees seem to be highly aligned (69 per cent).

Figure 9. Ownership Held in Trust(s)



4.2.3 Formal Family Governance

Formal family governance can occur through the implementation of structures or documents/policies. Respondents indicated that their families varied in the degree to which they used formal family decision-making bodies and policies to manage the relationships between family members, and between the family and the business. To better capture these differences in the sample, governance structures and the documents were considered separately. The sections below summarize the findings for each of these areas.

Family Business Governance Structures

Family business governance structures represent the bodies a family business and business family use to govern the business and the family, and to manage the relationship between the family and the business. The survey explored the use of the seven formal family governance structures most often used in research, namely family councils, family assemblies/meetings, family shareholder or beneficiary meetings, employment committees, family foundations, and family offices. On the business side, participants were asked to indicate whether they had a board of directors in place to oversee the family enterprise (see Appendix A for additional information on these structures).

The families in the sample ranged in the use of formal structures from those that did not use any (4 per cent) to those that used five or more structures (23 per cent). Most respondents indicated using three (23 per cent) or four (22 per cent) structures as part of their formal family business governance. In terms of the prevalence of the individual structures, Table 1 reveals stark differences. The overwhelming majority relies on a board of directors (92 per cent) to govern their family enterprise, and over 80 per cent hold annual shareholder meetings. A surprisingly high number of families in the sample have a family council (62 per cent), and 43 per cent have an annual family assembly. Family foundations, family offices, and family employment committees are used by roughly a third of the families in the sample.

Formal Governance Structures	% (multiple response)*	n
Board of Directors	92	110
Annual Family Shareholder Meetings	81	97
Family Council	62	100
Family Assembly	43	100
Family Foundation	30	96
Family Office	26	98
Employment Committee	25	97

Table 1. Formal Family (Business) Governance Structures

* Respondents could indicate that they used multiple structures. Two per cent of respondents reported not using any of the formal governance structures listed.

Respondents indicated that within their family businesses boards of directors varied in size between two and 17 members. However, the median size was seven members. The composition of the board most often included three family members, two independent board members, and one female member. Sixty-one per cent of respondents indicated that their families had clear qualification criteria for the selection of family board members. Additionally, respondents belonging to families that own larger companies (i.e., number of full-time employees) and with larger shareholder groups (i.e., number of family shareholders) were more likely to have a board of directors.

Family Governance Documents

Formal family governance documents are written agreements specifying the roles and responsibilities of family members, shareholders, and beneficiaries, and the relationships and interactions between the family and the business, and those between family members. The survey asked participants to indicate whether their business family used one or more documents as part of their family governance system, namely family constitutions, dividend policies, employment policies, shareholder agreements, family code of conducts, estate plans, or family compensation policies (see Appendix A for additional information on these documents).

The families in the sample ranged in the use of formal documents from those that did not use any (11 per cent) to those that used up to seven documents (2 per cent). Most respondents indicated using two (17 per cent), three (23 per cent), or four family governance documents (17 per cent). In terms of the prevalence of the individual documents, Table 2 shows the percentage of respondents whose families have adopted the governance documents explored in this survey. Family constitutions are the most used document (65 per cent of respondents), followed by a dividend policy (59 per cent), employment policy, and shareholder agreements (both at 47 per cent). Family codes of conduct, estate plans, and family compensation policies are less commonly used.

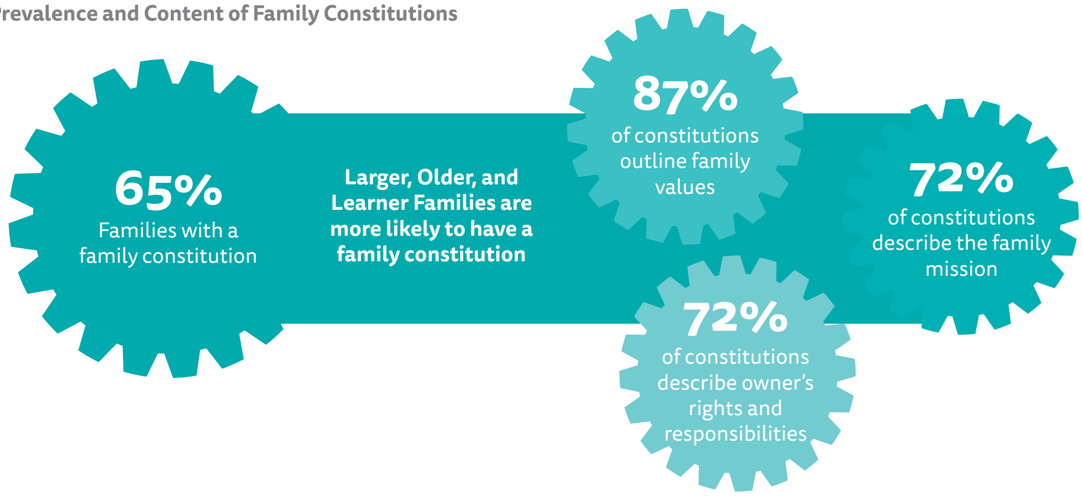
Governance Documents	% (multiple response)*	n
Family Constitution	65	104
Dividend Policy	59	99
Employment Policy	47	99
Shareholder Agreement	47	99
Code of Conduct	32	99
Estate Plan	21	99
Family Compensation Policy	19	99

Table 2. Use of Formal Family Governance Documents by Business Families

* Respondents could indicate that they used multiple documents. Two per cent of respondents reported not using any of the formal governance documents listed.

The prevalence and relevance of the family constitution among business families in the sample warrants a closer look at how this instrument is used. In most cases, family constitutions were developed more than five years ago (64 per cent). Older families, and families with larger companies, were more likely to have a family constitution,[52] as were families that participate in family business learning activities (e.g., university programmes, peer-to-peer learning, conferences). Most family constitutions outlined the family values (87 per cent), family mission (72 per cent), the rights and responsibilities of owners (72 per cent), and the family goals (58 per cent). Fewer family constitutions covered the family's legacy (43 per cent) and the history (31 per cent). While most respondents stated that family constitutions were shared with family shareholders and beneficiaries only (51 per cent), many families in the sample reported sharing the constitution with all the members of the family (43 per cent). In addition, 21 per cent of respondents stated that in addition to sharing the constitution with family members, they also shared it with the board, the head of the family office, and key non-family employees.

Figure 10. Prevalence and Content of Family Constitutions



4.2.4 Informal Family Governance

Families do not only rely on formal means of managing the family and business – quite often they use a range of informal mechanisms to organize, connect, align, and manage the family, and its intersection with the business. Some of the most important informal means of governance creates spaces for individuals to interact in ways that promote communication and interaction.[53]

Effective communication between family members is essential to create spaces for all family to enhance their relationships and for family members to share stories that articulate the family's core values. Informal family governance helps families create these spaces. In this project, we explored five informal mechanisms that help family connect: family gatherings; virtual meetings; using of social networking groups through WhatsApp or other programmes; family newsletters; and family special events.

Among the informal ways of governing the family group, the most common approach reported by respondents was social family gatherings. All respondents indicated that their family had some form of social gathering, and that this happened occasionally (53 per cent) or frequently (30 per cent). Even during and after the pandemic, business-owning families believe that social gatherings have provided a means for families to connect and learn from each other.

Respondents also indicated that they regularly communicated virtually, using platforms such as Zoom or Skype (21 per cent), WhatsApp, and other messaging services (41 per cent). Some families also produced a family newsletter (11 per cent). Respondents also reported communicating more frequently during the pandemic.

Governance Documents	*Row percentages*				
	Never	Rarely	Occasionally	Frequently	All the time
Family Gatherings	-	13	53	30	4
Virtual Meetings	19	22	38	18	3
WhatsApp (or other)	38	3	18	20	21
Family Newsletter	72	7	10	10	1
Family Special Events	19	18	32	21	10

Table 3. Frequency of Interactions among Family Members

These informal spaces enable families to learn and live the family values. In these contexts, family members help each other understand what is important for the family, and make sure that their behaviours reflect the core values that the family has identified for themselves and that pertain to the family and the business. Therefore, these informal contexts help family members develop value clarity and alignment. If the values are not known, or not widely shared, and it is unclear how these values should shape individual behaviour, it is unlikely that family members will adhere to these behavioural expectations. In the absence of clear behavioural expectations – including potential repercussions – there is room for ambiguity that can damage interpersonal trust and weaken the values foundation of the family.

4.2.5 The Importance of Family Education

Shareholder education is crucial for the success of family governance – how else can shareholders make good decisions for the family and/or the business if they do not understand the fundamentals of business, or the basic principles of family dynamics, good communication, and conflict management? In our sample, only 11 per cent of the respondents indicated that their families consistently organized family education programmes, and 18 per cent of respondents reported that they belonged to families that had family business learning programmes.

Many families use a variety of practices to engage the next generation. This is often done by creating programmes within their family businesses or by offering options through other family resources to grow professionally. This survey asked respondents to indicate whether they used four of the most common engagement practices with the next generation. As Table 4 shows, summer jobs and internships are particularly popular vehicles for next-generation engagement and education for the respondents in our sample.

Practice	% (multiple response)*
Summer jobs in the family business	54
Using family business advisors	52
Internship in the family business	48
Mentors and coaches for family members	36
Base n	95

Table 4. Practices for Family Members to Engage with the Business

*** Respondents could indicate that they used multiple practices. Ten per cent of respondents reported not using any of the practices listed.**

4.3 WHAT DRIVES FAMILY GOVERNANCE?

One objective of this research project was to better understand how a variety of factors on both the family and business level relate to the type of formal and informal family governance mechanisms that business families use. The findings from the survey provide important insights that lead to a better understanding of family governance.

Prior research primarily focuses on the business-related drivers of family governance, or on easily observable family variables, such as the age or size of the family group and how they are related to the use and development of family governance.[54] The results of the survey suggest, however, that the inclusion of family factors can greatly deepen researchers' understanding of what drives the use of different family governance mechanisms. This highlights the need to incorporate deeper-level variables on the family side – such as the level of family cohesion – to understand what drives family governance, and why there are differences in the implementation of family governance practices between families. Unless one understands what drives a family's governance process on a level that goes beyond easily observable characteristics, research will remain unable to formulate recommendations for action that take into consideration the context of the family behind the enterprise. For example, there is little value in issuing one-size-fits-all governance recommendations for business families in the third generation and beyond without considering a family's unique values and objectives, their level of family cohesion, the effectiveness of their communication and conflict resolution, or the resources they dedicate to educate their family members.

Family governance looks very different in different families. Some rely strongly on formal mechanisms while others primarily govern the family using informal instruments. Some use structures, such as family councils or family assemblies, while others only use policies, such as family employment policies. Some families start their governance journey in the first or second generation, but others only get started in the fourth or fifth. The results indicate that the families of the respondents surveyed choose formal and informal governance mechanisms for different reasons, at different rates, and at different points in time.[55]

On the one hand, the use of formal governance structures and documents is driven by the maturity of the family. This implies that families with higher degrees of maturity in the sample tend to have more complex family governance systems. However, based on the nature of the data (i.e., it was cross-sectional, which means data were collected at one point in time) it is difficult to determine the temporal nature of the relationship: is it that families with higher levels of family maturity are more likely to adopt family governance mechanisms, or does the adoption of family governance mechanisms lead to higher levels of family maturity? Further longitudinal research is needed to explore the directionality of this relationship. However, the concept of Family-Practice Fit (Chapter 3) would suggest that both might be the case, and that family maturity and governance practices are mutually reinforcing – if the governance practices in place align with the family's level of maturity, as well as their values and goals.

In addition to formal means of governance, the survey shows that many business families rely on informal ways to help the family connect and learn about the family and the business. Results from the in-depth analysis (see Appendix D) suggest that formal family governance is driven by the level of family maturity. However, the data also suggest that the presence of informal governance is strongly – and negatively – linked to the number of generations that have worked together in the business. The results thus point to the fact that, for the families in this sample, the longer they have worked together, the less likely they are to use informal governance – suggesting these families may lose or substitute informal mechanisms over time, leading them to rely primarily on formal mechanisms. This finding was interesting and unexpected, as one might think that long-lived business families have nurtured storytelling and other elements of informal family governance to ensure family bonding. Holistic family governance rests on both formal and informal mechanisms, and one cannot substitute the other. The COVID pandemic was a powerful example of the need for both given that informal approaches to family governance were suddenly more important in remaining connected during this time of crisis. Thus, families need to pay close attention to both formal and informal approaches to governance to be able to develop a holistic approach to governance.

The results also highlight the presence of multiple governance goals. Business families at an early stage of their governance journey, for example, use different governance mechanisms – a family code of conduct, a dividend policy, a family constitution, shareholder agreement, or estate plan – to govern their family. This indicates that families in the sample approach family governance with different objectives. Families with no current sense of urgency might start with a family constitution, whereas families with an ongoing conflict might desire a code of conduct or a shareholder agreement. More research is needed to find out what determines how families begin their governance journey.

The results featured in this section suggest what might drive or hinder the adoption of family governance mechanisms, and how characteristics of the family (e.g., the effectiveness of their communication or their conflict management skills) and the business affect the family's governance choices. One of the most powerful results of the in-depth statistical analysis (see Appendix D) is the influence that family maturity has on the use of formal family governance mechanisms. Respondents that rated their families higher in terms of family functionality, ownership competence, and sustainability were more likely to report that their families adopted formal means of family (business) governance.

To complement these survey results, in-depth interviews with business-owning families at various stages of their governance journey were conducted. The next chapter describes the data collection approach for the case studies and presents the exemplary cases.

5. FINDINGS FROM THE CASE STUDIES: FAMILY GOVERNANCE IN ACTION

To further contextualize the results from the survey, a series of in-depth interviews with multigenerational business families were conducted to better understand how differently these families designed and implemented family governance. The researchers were particularly interested in learning about each family's unique governance journey, and how their family governance evolved across the family life cycle.

5.1 CASE SELECTION

The business families featured in this section were identified in collaboration with the IFB Research Foundation. The goal was to ensure that the sample was diversified in terms of:

- Size of the family
- Generation of the family
- Stage of the family's governance journey
- The use of formal and/or informal mechanisms of family governance
- Size of the company
- Primary industry
- Location of business headquarters

The final sample of five families ranged from the second to the 12th generation, with shareholder groups ranging from four to 170 family shareholders. The companies vary in size of revenues from GBP 380mn to GBP 15bn. The following families were included; all gave their permission to be named and have their cases included in this report:

- Brown Family, Brown Forman, USA/UK
- Elsener Family, Victorinox, Switzerland
- Grimm Family, Estafeta, Mexico
- Merck Family, Merck Germany
- Scott Family, Applerigg Holding Company, UK

In addition to the families featured in the case studies, the researchers conducted interviews with representatives of the Mickel Family (Mactaggart and Mickel, UK) and the Jackson Family (Thomas Jardine & Co, UK). In addition, the researchers interviewed several representatives of multigenerational families in Europe and the United States, who chose to remain anonymous.

5.2 INTERVIEW PROCESS

Each family was approached for a preliminary interview to assess interest and adequacy for the research project, and later interviewed by the two researchers. The case study interviews lasted between 60 and 90 minutes. After obtaining permission from the interviewees, each interview was recorded, and notes were generated to write each case. The interviewees for each case included at least two individuals who had detailed knowledge about the family governance approach, and always included members of the family who were active within the family's governance.

The preliminary interview focused on the general background of the family (e.g., size, location, characteristics of the family and its relationships) and the business (location, founding year, industry, size). The actual case study interview was semi-structured and included questions in seven areas:

1. Characteristics, strengths, and areas of improvement of the family.
2. Characteristics of their family governance approach.

3. The family governance process and its evolution.
4. Preparing capable family members.
5. Engaging family members and the next generation.
6. The effects of COVID on family governance.
7. Advice for families who are starting their governance journey.

Additional information about the cases included in this study can be found in Appendix E. In addition to the interviews, the researchers studied secondary data (e.g., the company and/or family website, corporate brochures, media articles, PR material, social media) that were either provided by the interviewees or available online.

5.3 THE CASE STUDIES

The five cases presented below shed light on the contextual factors that determine the family's approach to designing and implementing their family governance. Learnings are presented at the end of each case. At the end of the chapter, commonalities and differences between the cases are outlined.

The first case focuses on the Mexican Grimm family. The four siblings of the second generation were left to deal with a rigid structure put in place by their departed father. Over the course of several years, they not only designed a family governance system that fits their needs, but one that supports them in working together as a unified ownership team. This case highlights the importance of identifying and aligning around a strong family foundation (i.e., shared goals, family unity, and the ability to work together), and the need to build a family governance system that is rooted in this foundation. Additionally, it highlights some of the challenges the family faced as they learned to work together as an ownership group, and the steps they took to overcome them.

The Elsener family, makers of the world-famous Swiss Army knife, is featured in the second case. Even though this family is in the fifth generation of family ownership, they only recently embarked on their governance journey. This was driven by their desire to foster the family members' commitment to and engagement in the business. This is particularly important because members of the Elsener family receive no dividends, and all profit is reinvested in the business, or goes towards the family's philanthropic efforts. The case discusses the importance of a shared purpose within a growing business family, and how this purpose drives decision-making at the intersection of family and business.

The third case highlights the Scott family's transition from being a family business to being a family that is in business together. The case highlights the different tiers of family governance in place and how they interact. It also shows the importance of leveraging the governance process to help develop strong trust-based relationships between family members, and to continually reinforce shared values and a common purpose in the family.

The Brown-Forman case outlines the journey of a family in developing a purposeful governance system. Learning from their experience as a publicly traded company, Brown-Forman have created a set of formal and informal family governance mechanisms that help connect the family to one another and to the business. They have a strong education component to help younger generations be responsible stewards of their family legacy.

Finally, the Merck case describes how a larger family of 170 family shareholders leverage their family governance to engage and educate current and future stewards of family assets. The case outlines how the family actively develops spaces and opportunities for all family members, but particularly those of the rising generation to learn to be responsible owners. The case also highlights how to create spaces to engage younger generations in the business.

5.3.1 THE GRIMM FAMILY: USING THE GOVERNANCE PROCESS TO DISCOVER WHAT KEEPS THE FAMILY TOGETHER

estafeta

LOCATION	Mexico City (MEX)
NUMBER OF EMPLOYEES (FTE)	12,000
ANNUAL REVENUE	$ 350m
NUMBER OF FAMILY MEMBERS	5
FOUNDING YEAR	1979
NUMBER OF GENERATIONS	3
INDUSTRY	Logistics

The day that the founder of Estafeta lost his fight to cancer, his four children were informed that they were going to be beneficiaries of a trust that their father had put in place. Over the course of seven years, the siblings had to learn how to trust each other not as family members, but as business partners. Step by step, they developed their ability to face difficult conversations and work through conflict together – and reverse some of the rigid requirements their father had imposed on them through the original trust structure.

Last-Minute Ownership Changes

When Gerd Grimm, the founder of Estafeta, passed away in 2013, his four children were facing a difficult situation. The day he died, the siblings – three sisters and one brother – learned that their father had put all his shares into a trust, and that his youngest child – the only son – were to be the chairman of the board of the company. Gerd's children had been kept in the dark about their father's intention with regards to the transition of ownership, preventing them from preparing themselves for this next phase. In parallel to mourning the loss of their father, the three siblings were facing the challenging task of organizing the ownership succession of their family enterprise.

The beginning of this process was full of challenges. The first of these was the legality of the trust. Because Gerd signed the trust documents at the last moment, weakened from cancer, the bank initially did not recognize his signature. To further complicate things, the bank had two versions of the trust document in their possession. In a first, older version, the mother was listed as the sole beneficiary. In the newer, second version, the four children were listed as additional beneficiaries.

Once they gained clarity on the circumstances of the trust, the four siblings familiarized themselves with the content. They realized that their father had put strict constraints around ownership. The trust document tightly regulated what the family could and could not do in the business, how shares could be sold and passed on through inheritance and specified the terms of changes to the trust. What became clear was that the father viewed the 'family' as the literal, blood-related family: His spouse, and his four children. Their spouses – even if they worked in the business – were not considered part of the family by Gerd.

The siblings were torn. They wanted to honour their father's wishes, as expressed in the trust, but they also wanted to do – with the consent of the fifth beneficiary, their mother – what they felt was right for their generation, and for the generations to come. They also realized that they were far from aligned on these key questions – they recognized that they had individual goals and held individual beliefs that were at odds with those of others. They were lacking a common foundation, which would make it difficult to make decisions together.

From Exclusion to Inclusion

The exclusion of family members not related by blood posed a particular problem to the youngest sibling, whose spouse had brought three young children into the marriage. As per the trust document signed by Gerd, these children could never have ownership of the business, even though they were considered full members of the family by the second generation. There was disagreement among the four siblings as to how to treat their brother's stepchildren: It was never a question that they should be able to participate in family events – but should they be treated the same as their cousins in terms of receiving opportunities in and information about the company?

These discussions caused a lot of conflict among the siblings. Some were concerned that these children had been raised with different values, a different understanding of business, and a lack of connection to the family business, which might cause them to make decisions – as future owners – that might ultimately harm the family enterprise. Others felt strongly that excluding them would negatively affect the brother's relationship with his wife and stepchildren, and between the stepchildren and their cousins – in total, there are currently 10 members of the third generation, ranging between 15 and 29 years in age. The siblings were torn.

Over the course of seven years, and with the help of coaches, they engaged in the process of developing an approach that would work for them. In doing so, they created a space for each other to understand different points of view. Instead of focusing on what divided them, they identified commonalities: their family values of hard work, feeling responsible for one another, wanting to remain together as a family, and their shared love for the company that their father had built. These shared beliefs offered the foundation upon which to begin the process to find common goals to aspire to together. They finally decided that the stepchildren should be treated as equals, which required them to make changes to the original trust document.

The gradual process of coming together as owners, in addition to moving closer to one another as siblings, is what the family today perceive as the strength of their governance journey. Learning to listen to one another and to truly understand the other person's viewpoint (that is, listening to understand rather than listening to reply) was a key lever in this process, as it helped them understand that what they shared was far greater than what divided them.

Finding Their Own Voice
"Initially, there was a lot of loyalty to our father, and a lot of obedience", recalls Susanne Grimm. It took the siblings a lot of time to figure out what they needed from each other, and how to work together; they found it very different to trust each other as business partners than as family members.

Through numerous – sometimes very difficult and painful – conversations and working with advisors the siblings and their mother found ways to meet all goals of the individual family members, while remaining aligned with the overarching goals the group had defined for themselves.

The Grimm siblings know today that there was no standard process that could have helped them define their family governance system. *"There is no formula for that. It is something that every family must find out for themselves, and it is important that they do so respecting their history, values and future vision."* What they did know was that as a family, they wanted to make it work, to be able to work together, and to find a way to work from consensus.

The siblings continue working with coaches to support their ongoing governance journey. Susanne Grimm says that: "In order to keep up with this work, together with a coach we define an operating paradigm for our family for each year. We go through all personal and shared celebrations and disappointments, we look for the common patterns that led to the 'disappointments' and work on a sentence, which is meant to be the antidote."

For 2021, the Grimm siblings fittingly came up with: *"We are creating our own legend: Decisive, courageous, and powerful."*

Today, the family have a family council, and the second generation has created a space where they make decisions over a variety of family projects together with their spouses, and members of the next generation, particularly as it pertains to the third generation's education and engagement. The Grimm family has a come a long way.

Learnings from the Grimm Family
In reflecting on their governance journey, Susanne Grimm finds that:

> *"Governance puts order in the system, which helps to ease the system's tensions. Order promotes tranquillity and stillness, which allows for proactive and responsive decision-making, as opposed to instinctive and reactive decision-making."*

This goes back to the principle of transparency – by being clear about what our intentions, objectives, and needs are, we become predictable and trustworthy, thereby calming down the system. *"Governance matters"*, says Susanne, as *"it gives you a frame in which you can define the rules of the game and the boundaries of the playground."* Governance defines where the responsibilities and benefits start, and where they end, and it clarifies roles. And what is more, *"the process of designing our family governance allows us to develop and challenge important skills: empathy, collaboration, listening, and transparency"*. Susanne summarizes the learnings from her family's governance journey as follows:

- Having a shared purpose can help families view their commonalities, rather than focusing too much on their differences. A shared purpose is the foundation for creating common goals that excite the family across branches and generations.
- Learning how to communicate is an important part of the family governance journey, especially for those families

who are only just beginning to embark on it. Listening with the intent to understand (rather than replying), giving grace to oneself and others, greatly helps in identifying common ground and outlining a path forward.
- The process takes a long time and cannot be rushed. Families must be patient – it takes time to fully understand the journey we must embark on as a family.
- The process takes patience with, and a good understanding of oneself and the family.
- Things that the family initially see as a threat can be the basis for a great development.

5.3.2 VICTORINOX: PUTTING THE COMPANY BEFORE THE FAMILY – WITH A LITTLE HELP FROM ABOVE

VICTORINOX

LOCATION	Ibach, Canton of Schwyz, Switzerland
NUMBER OF EMPLOYEES	2,100
ANNUAL REVENUE	CHF 480mn
NUMBER OF FAMILY MEMBERS	5
FOUNDING YEAR	1884
NUMBER OF GENERATIONS	4+
INDUSTRY	Consumer Goods

When Karl Elsener founded a knife workshop in the small town of Ibach in 1884, he likely did not foresee it growing into Victorinox, a global company best known for its famous Swiss Army Knife. The family's unique approach to ownership and governance is a testament of their dedication to the business' roots and the strong values that guide the family's decision-making.

Victorinox is the maker of the Swiss Army Knife, the small device that most notably saved TV hero McGyver's life many times over in the 1980s. Over the course of 130 years, what started as a small workshop has grown into a diversified global company that is currently managed by the fourth generation of the Elsener family. What helped the family become and remain a unified ownership group that managed to outlast a century?

When the Elsener family decided to transfer the entirety of their shares into two foundations in the year 2000, many eyebrows were raised. Why would the family cede control over their business? And why didn't they want to receive dividends? Interestingly, the family hadn't paid dividends in decades. It was in 1980 that the family decided that only those that work in the business would receive a market-based salary, and that there were to be no other payouts from the business to the family.

Why would any owner willingly give up benefitting financially from their investment? To understand the family's rationale, we must go back to the very roots of the business. When Karl Elsener founded his knife workshop in 1884, he did so to prevent the townsfolk from leaving the village of Ibach to find work in the larger cities. To this day, generating and securing employment for the people of Schwyz is the overarching purpose of the organization. Four generations of the Elsener family have perpetuated the founder's legacy, making Victorinox the second largest employer in the canton of Schwyz.

It was the current CEO's father who used to say that his 11 children should never view the business as their property, but rather as something that they are responsible for. Instilling this sense of responsible stewardship in the next generation is something that all members of the Elsener family are deeply committed to. Today, eight of the 11 siblings work in the business, on all levels of the organizational hierarchy. It was this deep sense of commitment to the continuity and prosperity of the business, and the desire to live up to this ideal of responsible stewardship, that led the family to unanimously decide to transfer their ownership into two foundations in 2000.

The corporate foundation that owns 90 per cent of the shares is dedicated to securing the continuity of the business (and, thereby, employment to the people of Schwyz), while the other foundation focuses on philanthropic activities. The family felt strongly about fostering an entrepreneurial spirit among family members – versus accumulation of personal wealth – and to avoid a harmful distribution of estate and ownership. The family never hesitated to put the continuity of the business before the personal interests of the individual family owners:

> *"By putting our shares in the foundation, we made sure that future generations are unable to enrich themselves. Instead, they should perpetuate our values: gratitude, courage, humility, and mutual trust." (Carl Elsener IV, CEO)*

Interestingly, corporate foundations, while widely used in Switzerland, are also controversial, since according to Swiss law, foundations cannot pursue commercial interests. However, since the Victorinox foundation retains all its profits, the family and its advisors determined it a safe option even if there were regulatory changes. Corporate foundations, which are legal entities that have neither owners nor members, are often considered as rather rigid, since they cannot be abolished, and the deed of foundation cannot be changed. No funds can be divested, nor can the original purpose of the foundation be altered, which is why many business families refrain from relinquishing control to such constructs. For the Elsener family, however, which is deeply committed to the founding purpose of the company, a corporate foundation was an ideal vehicle to protect and perpetuate the legacy of the founder. Today, the family shapes the strategic direction of the business through the board of trustees.

Another thing that the family are deeply committed to is their Catholic faith, which shapes the way in which they relate to one another, their employees, and their business partners, and it certainly guides their decision-making in the business realm. For the family, says Carl Elsener IV, the current CEO, "*Christian values are very important. My faith gives me strength.*" The former CEO highlights the role that the family's Christian values play in giving their life and work purpose in a corporate brochure in 2008:

> *"Providing our consumers around the world with practical, functional and competitively priced quality products, gives our lives a deeper meaning and is at the heart of Victorinox job satisfaction."*

The aftermath of September 11, 2001, illustrates how this faith guides the family in times of crisis. When Swiss Army Knives were no longer allowed on airplanes, and no longer sold in airports, Victorinox's sales collapsed by 30 per cent in a matter of weeks. For any other company, cutting jobs at the headquarters in Ibach – where all Swiss Army Knives are manufactured – would have been a natural consequence, but not for Victorinox, as it ran counter to everything they believed in and stood for. But they also knew that adjusting to the new situation would take time. Carl Elsener III, the founder's grandson, and Carl Elsener IV contacted other companies in the region and managed to temporarily accommodate almost 60 employees for several months. These employees would gather at the Victorinox headquarters in the morning, where a bus would take them to their temporary workplaces. To avoid any unnecessary trouble for the employees, Victorinox continued to pay their salaries and maintained all of their other benefits. Reflecting on their actions after September 11, Carl Elsener IV says that *"just like it says in the Bible – we built our reserves in the seven years of prosperity, so we are prepared for the seven years of famine"*. It was the right thing to do, and so they did it.

As the fifth generation of the Elsener family – which currently spans 11 branches – entered adulthood, the conversations around the family's governance structures and mechanisms intensified. The family acknowledged that the transition from siblings to cousins might require additional effort to ensure family unity and alignment. To this end, the family agreed to develop a family charter – in fact, a member of the fifth generation dedicated his bachelor's thesis to developing a joint understanding for what a family charter might look like for the Elsener family. He interviewed seven members of the fourth and fifth generation, in addition to several family business owners and practitioners with experience in family governance. The proposed charter details the family's values and objectives and outlines the conditions of family participation in family and business governance, and the qualifying requirement for employment in the company. It describes mechanisms to assure decision-making, alignment, and unity within the family, and the importance of continuous education and development for family stewards.

Developing the family charter is seen as a joint, transgenerational effort for the Elsener family. The bachelor thesis served as a foundation for further conversations involving all family members. Making sure that everyone's voice is heard in the process and creating and allowing space for dissent and controversial discussion is important for the family, and it is seen as the only way to ensure identification and buy-in with the outcome. The family also considered involving a professional facilitator for these discussions.

Learnings from the Elsener Family
The Elsener family is rather unique in the sense that there are but a few families who unanimously vote to not just willingly forego, but to outright disclaim, financial benefits for the sake of the continuity of the company.

The Elsener family completely align their business decisions and their governance mechanisms and structures with their overarching purpose. Their faith provides a frame of reference for all family members, strengthening alignment and facilitating decision-making. The Elsener family prioritize family peace and dedicate significant effort towards nurturing and maintaining family harmony. Knowing that shared values and goals are essential for long-term family unity, the family make sure that their strong values are passed on through and shared by current and future generations, continually instilling a sense of responsible stewardship among family owners.

5.3.3 THE SCOTT FAMILY: DEVELOPING RESPONSIBLE STEWARDS FOR A FAMILY IN BUSINESS

Applerigg Holding Company: Purposeful Stewardship

LOCATION	London, UK
NUMBER OF FAMILY MEMBERS	120
NUMBER OF FAMILY BRANCHES	5
FOUNDING YEAR	1903
NUMBER OF GENERATIONS	5
INDUSTRY	Financial Services

For most business families, staying together as a family is closely tied to the idea of co-owning the family business. Consequently, many families drift apart after the sale of family assets. The Scott family have mastered this transition to a family in business, thereby confirming their commitment to one another. Together, the current and future generations of family owners have developed a unique and powerful understanding of who they are as a family: responsible stewards of the family's assets, regardless of the business enterprise that once united them.

Three generations of the Scott family grew the Provincial Insurance Company, which was founded by Sir James Scott in 1903, into one of the largest privately owned insurance companies in the country. When the fourth generation took over the family business in the early 1990s, the family realized that far-reaching changes in the industry made for a much more volatile and riskier environment in the future – too much risk for a family where many family members were reliant upon their dividends. Wanting to preserve the value that the family had built over the prior 90 years, the family decided to sell their company and start a new journey as a family in business together.

After the sale of Provincial in 1994, the focus of the family shifted from being stewards of Provincial to acting as responsible stewards of the family's combined wealth. *"In some cases, the legacy of the family continues to make a positive impact that extends beyond the lifespan of the original firm"*, says Alex Scott, former chairman. The family members agreed to jointly manage their individual assets, which led to the creation of Sandaire in 1996. Over the course of 20 years, Sandaire grew into a successful multi-family office dedicated to supporting more than 40 families around the world in managing their wealth. In 2020, the family once again put long-term stability and profitability of the family assets first, which led to the sale of Sandaire to Schroders, a family-controlled financial services business. The 120 family members across five branches remained firmly committed to working together as an investment group. The Applerigg Holding Company continues as a family business which owns Yealand, a sister company to Sandaire, and will own future business initiatives.

Across five generations and three transitions in business ownership, the family has continually recommitted itself to the idea that it is not the business that keeps the family together, but the family members' ties to one another, and the benefits they derive by nurturing family connections. How did the Scott family remain together after these multiple transitions that so many families struggle with?

Developing a Sense of Purposeful Stewardship Across Generations
The Scott family are closely aligned behind and committed to the idea of acting as purposeful stewards of family assets and using family wealth to make a positive difference in the world. Their investment decisions are rooted in this very premise: *"We need to be purposeful, and we need to look after our capital well if we want to be good stewards"* (Alex Scott) – and this idea of purposeful stewardship is at the core of Applerigg's approach to business:

> *"It requires us to focus on preservation and growth whilst giving us the responsibility to reinvent and innovate so as to be relevant for the future [...] we continue to grow robust business enterprises which deliver a positive impact for our communities, our shareholders and society in general."*[56]

As the members of the next generation step up, they are claiming their voice in investment decisions:

> *"Something interesting has been happening in the last few months, as this generational transition happens. There is a shift in priorities, such as social or environmental sustainability and responsibility, which is more important for younger generations, at least in certain branches. It will be interesting to see how this develops."* (Oenone Scott, chairwoman of the Family Council)

This sentiment is echoed by Alex Scott, who states that investments are being directed more towards sustainability to ensure the next generation wants to inherit what has been created.

Family Governance as a Way of Keeping the Family Together
How do you keep an enterprising family together and aligned in the absence of a family enterprise that represents a natural vehicle for identification and engagement? Building an identity as a business family without an apparent family business requires a conscientious effort from the family group, and constant work to find ways that help the family stay and work together as a coherent and cohesive group. The Scott family have found that developing their family governance system provides that space within their family.

The family began setting up their family governance system in the 1990s, before finalizing the sale of Provincial. According to Alex Scott, the corporate governance of Provincial was highly professional – but not the family governance:

> *"The family governance was far less developed, close to anarchy. I got involved in FBN and realized we needed to do something: by defining ourselves as a family in business, rather than purely owners of a specific family business, we could give ourselves the freedom and licence to plan for our future by looking forward. We then had to decide if we wanted to stay in business together – operating under the imperative that we did not want to be the generation to screw our business inheritance up by overseeing the dissipation of what our ancestors had so skilfully created." (Alex Scott, former chairman of the Family Council)*

The fourth generation realized that they needed governance structures that would enable them to act as a cohesive group and they spent the next 25 years developing these structures. This family governance system grew into a platform for family members to share and exchange their views about how business actions align with the family values, allowing the family to constantly renew their commitment to one another, and to their overarching purpose. Family shareholders are at the centre of the family governance efforts – the objective being to nurture an active shareholder group that shares ideas and concerns with the family council and informs the family's investment decisions.

The family governance system of the Scott family has three tiers:

1. *Family Council*. The family council serves as the conduit for general questions from the family shareholders. The council's key functions, besides addressing shareholders' questions, are to organize the bi-annual family gathering, to help educate the family, and to facilitate the communication between generations and branches, and between the family and the business. Membership in the council is voluntary, and next-generation participation is heavily encouraged (i.e., the current chair of the family council is a 29-year-old member of the fifth generation). People who marry into the company are permitted to join as council members, if elected. Generally, the family strives for a mix of generations and branches to foster connection and exchange between the generations.
2. *Shareholder Advisory Committee*. The purpose of this committee is to help the family hold strategic discussions about their businesses and investments (i.e., how to invest, where to invest) and communicate these decisions both to boards of directors mandated to execute strategies and to the wider family. Being a member of this committee requires specific business knowledge and representation of a substantial share ownership. Members (including experienced non-family members) are appointed by the Committee.
3. *Operating Boards*. The family's holding company – Applerigg – as well as several companies under the holding umbrella have boards with family representation though a majority of board members are non-family owners. Family members for these positions are selected based on their business knowledge and expertise. Generally, family members who serve in a board role have served in the family council and shareholder advisory committee.

In addition to these formal governance bodies, the Scott family take great pride and joy in their bi-annual family gathering, which connects family members that are dispersed within England, Australia, and California. The bi-annual family gathering creates a space where family members can develop connections with one another from a very early age, planting the seeds for the future of this business family because it enables the family to *"develop relationships as family first and the business part comes later, when the family relations are already built"* (Alex Scott). What is more, the gathering is an opportunity to introduce the next generation to the history and values of the family and business, and to equip them with general business knowledge. About half of the family shareholders (roughly 60) tend to participate in these voluntary gatherings.

At this point, the Scott family does not follow a formal education and training process for the continuity of the family's involvement in governance, but in addition to the annual family gathering, the family arranges family information meetings throughout the year where family and executive leadership share information about business performance. Partners (even unmarried) are welcome to join these shareholder meetings, there is no formal policy.

Achieving Continuity in Family Governance
There are three elements for success and continuity of the Scott family governance system.
First, the family focuses on developing strong trust-based family relationships that allow for difficult conversations, and can, in turn, facilitate decision-making. As a family in business, the family members feel that

> *"they are able to stay connected as a family because of the business [which] creates opportunities for people to connect with each other. The business supports the creation of familial relationships." (Oenone Scott, chairwoman of the Family Council)*

Second, the family nurtures a strong foundation of shared values and overarching purpose. Across generations and branches, members of the Scott family are closely aligned behind and committed to the idea of purposeful stewardship, even in the absence of a family firm.

Third, the family continually creates opportunities for family members to participate and voice their opinions. Having the opportunity to be heard promotes the involvement and buy-in of family members, strengthening family cohesion and identification. It also encourages future generations to contribute to the values and legacy of the family. The family is eager to create opportunities within the family governance system, particularly the family council, for family members to develop leadership skills and enhance their knowledge about the business. These experiences give family leadership the opportunity to assess who is interested in and capable of representing the family interests in a formal family governance capacity.

Learnings from the Scott Family
The family, and family relations, are at the core of the Scott family governance system. As Peppet explains in his commendable podcast on the family-focused family office:

> *"You got to put the [...] thriving of the family members first [...] if you have a huge pile of money, and really great tax planning, you can still have miserable, destroyed human beings. And if that's where you, where the family ends up, then all the work and all the time and all the effort have been for naught."*

In essence, if the family do not want to stay together, no amount of profit or dividends can change their minds. Strong family relations represent the foundation of the sustainable family.

Family members' identification with the values and objectives of the family, and the purpose of the business, is what allows a family to make the transition from an enterprising family to a family who is – and intends to remain – in business together. Identifying a compelling purpose that excites the family across generations and branches is key. This purpose needs to be revisited continually, to ensure each family member's commitment and buy-in.

The Scott family viewed the main purpose of its family governance as ensuring family cohesion and alignment – engagement and inclusion is therefore at its core. It also views governance as an ongoing and participative process. Allowing family members to freely and frequently voice their opinion and concerns fosters trust and strengthens relationships.

Inclusion matters, and the Scott family is an example of a particularly inclusive family, allowing people who married into the family to join the family council or own shares, or non-married partners to join the family shareholder meetings. This may not work for any family, but inclusion is a very powerful way to foster engagement among the extended family.

5.3.4 BROWN-FORMAN: INSTILLING A BIAS TOWARDS TRUST THROUGH FAMILY GOVERNANCE

BROWN-FORMAN

Nothing better in the market

LOCATION Headquartered in Louisville, Kentucky (US)
ANNUAL REVENUE $ 3.08 B
NUMBER OF FAMILY MEMBERS 150+
FOUNDING YEAR 1870
NUMBER OF GENERATIONS 7
INDUSTRY Spirits and Wine Business

Through six generations, the Brown family has guided Brown-Forman from what began with two half-brothers selling whisky in sealed glass bottles into what is today a multi-billion-dollar global enterprise with a workforce of approximately 4,700 employees. While the company has been publicly traded since 1933, the family maintains control of a majority of the voting shares. Since its inception they have supported, guided, and led the company in a multitude of ways that have created a resilience that has allowed the company to survive, thrive, and remain independent for more than 150 years. Currently, there are four family members serving on the board, ten working in the business, and many others serving on a variety of committees; all fostering a continued family stewardship and helping to ensure Brown-Forman's independence for generations to come. What is the Brown family's secret in creating engaged multi-generational ownership?

Developing a Purposeful Family Governance System

From the beginning, the Brown family supported opportunities for its male family members to join the business. Starting when Owsley Brown, the son of the founder George Gavin Brown joined the business, efforts were made to ensure that any family members interested in joining the company had a deep understanding of the business. To achieve this understanding, family employees would rotate through different parts of the company enabling them to learn more about how the business functioned.

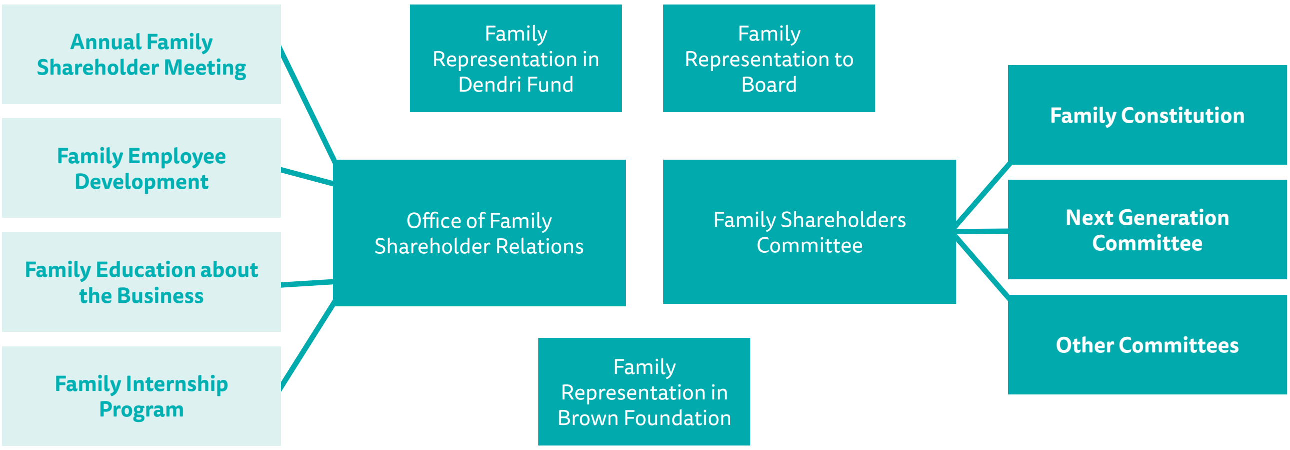
For four generations the Brown family offered this opportunity to interested male family members, which helped those involved learn about the business and develop their careers within the company. However, as the fifth generation of the family began transitioning into the business, the company and its family leadership recognized the need to start thinking more purposefully about how to engage a broader and growing family group, including women, that was increasing spread over different states and countries.

Supported by an advisory group, the Brown family began holding family meetings to work on developing additional programmes to better connect the family members with one another, as well as strengthening the connection between the family members and the business. A pivotal point organizing the family was the creation of The Brown-Forman/Brown Family Shareholders Committee in 2007, which was tasked with helping the family understand what type of relationship they wanted to have with the business and how they could work together to achieve this process. This Committee was also interested in providing a forum for frequent, open, and constructive dialogue between Brown-Forman and its controlling family stockholders in accordance with all applicable laws and regulations.

One of the first responsibilities of the Family Shareholders Committee was developing the family constitution. This created an opportunity to capture the family history and values, and to outline a plan for how family members would relate to the company. This Committee also created the Family Employment protocol, as an additional family governance document. The family constitution and family employment protocol planted the seeds for the encompassing family governance system that the Brown family has today (See Figure 11 below).

The Brown family's governance eco-system provides a menu of options that helps the family stay connected to the business and to one another. As presented below, there are five ways to encourage these connections. First, the Family Shareholders Committee oversees the formal structures and mechanisms coordinating the family, such as the family constitution and the various standing and ad-hoc committees (e.g., education, governance, philanthropy and family involvement, and the next-generation committee). The Committee, which is currently composed exclusively of members of the 5th generation, meets six times a year.

Figure 11. Brown Family Governance Ecosystem



The Director of the Family Shareholder Relations is a Brown-Forman employee who works with other employees and Brown family members to develop and implement policies and practices designed to further strengthen the relationship and communication between Brown-Forman and the Brown family. This office coordinates the annual family shareholder meeting, education programmes for the family, and the professional development of family employees within the company. The objective is to ensure understanding and appreciation for the business and the complexities of ownership. This component of the family governance system serves as the key driver of programming, communication (feedback across stakeholder groups), and education about family governance. At the end, the hope is to bring consistency and clarity around what engagement, employment and succession planning within the family can look like.

The other three components of the family governance ecosystem involve the participation in different boards (i.e., Brown-Forman Board, DendriFund Board, and the Brown-Forman Foundation Board). These opportunities help to engage Brown family members on topics of mutual interest for the family and the business. These topics include the company and its industry, governance, ownership, philanthropy, and other ESG (Environmental, Social and Governance) related topics. In addition, it helps imprint and perpetuate the family values into the company and related organizations that are associated with the family name.

Fostering Family Engagement Across Generations

Today, the company puts a lot of effort into engaging the Brown family, making sure they are actively engaging and recruiting members of future generations to be involved with the company. In addition to the board and committee service noted above, the company offers internships in the business, employment opportunities, access to coaches to help family employees understand their management style and coaching on career development. With family employment *"there are guardrails [protocols] for the family and the business that allows both of them to be protected"* (Tanya Carrico). The Family Employment Protocol outlines expectations for employment for family members, and it is regularly evaluated and adjusted as the family grows and evolves.

The Next Generation Committee, open to family members 23 years of age or older, is another important mechanism to foster next generation engagement – as Campbell Brown states, *"we wanted the next generation to feel like they have a vehicle for participation".* The goal of this Committee is twofold: on the one hand, it helps the prior generations understand how future generations – currently, the sixth generation – view their role in the ownership and stewardship of the business. On the other hand, the Committee is tasked with identifying ways to help the next generations of the Brown family learn how to work together and understand how they want to relate to the business. The Brown family realized early on that *"for us to succeed as a family, we need to be able to identify and cultivate talent and bring people into roles in a way that helps them grow"* (Campbell Brown). Creating space for family members to learn about the business, learn about each other, transfer knowledge, history and values along, and become involved as stockholders is at the centre of the Brown family's governance system.

Nurturing a Culture of Trust – and Pride
Achieving longevity as a family controlled-company requires family members to develop a shared language, familiarity with each other, and connections between close and distant family members. It requires family unity rooted in trust. The Brown family has *"worked hard to create an environment that enhances the trust of family members"* (Tanya Carrico), thereby fostering a trust-based family culture since its early days, and it uses its family governance as a vehicle to build and nurture these trust-based relationships that strengthen the family.

> *"This is why we spend so much time working on our governance. Because governance allows us to look for better ways to have hard conversations, to celebrate together, discuss hopes and aspirations for family, for their business and for their employees. It also helps us create a culture of trust." (Campbell Brown)*

To foster ownership, unity and trust, the family has also worked extensively to make sure that family members have a common interest in the Brown-Forman company. Because in the end, as Campbell Brown says, *"the secret sauce [of their longevity as a family] is having a company that they all love and have been a part of either as an employee, or as a shareholder"*. Having a strong common interest is what makes staying together as a family interesting and important for all.

Succeeding as a Family by Applying Best Practices from the Business
As a publicly traded company since 1933, Brown-Forman has deep experience with balancing the needs of its various stakeholders, and adhering to the principles of accountability, transparency, fairness, and responsibility in running the family-controlled company. This experience has greatly informed its approach to and its perspective on family governance. Brown-Forman has applied what they have learned from business governance and management to their family governance journey and in doing so, they have designed a family governance system that is purposeful and emphasizes transparency for family members. As Campbell Brown says, *"The fact that we are publicly traded helps us: There are policies that require transparency and we have applied these into our family"*.

One key area of learning pertains to the adaptability of the (family) governance system: The family knows that governance bodies and policies are constantly changing and evolving, which is why they think of the family constitution as a living document that describes what the family aspires to and what each generation can contribute to the family's long-term objectives. To achieve flexibility, the family members continually evaluate what works for them, what is missing, and what should be changed. As Campbell Brown puts it, *"You need to bring new innovative thinking into the governance of the family the same that you would bring it to a capital deployment opportunity"*.

Learnings from the Brown Family

- Campbell Brown views the family's *"ability to communicate effectively and to have a mutually interesting subject – our shared interest is Brown-Forman"* as quintessential for family longevity and unity. *"Having this shared interest has enabled the family to create a common language, familiarity with each other, and development of tight and loose connection of family members."*
    - → What is your family's shared interest? What do you do to foster a shared interest?
- The Brown family uses family governance as a vehicle to connect, engage, educate, and effectuate change, says Carrico: *"As a family we are at our best when we do the best for our company, the community that we serve, our customers, and for each other [...] for a family in business together, developing their governance is an opportunity to help create something that is greater than themselves and transcends."*
    - → What is the purpose of your family governance? Does your family governance system support you in achieving your family's objectives?
- The century of efforts the Brown family put into developing a strong, trust-based family culture is paying off as evidenced by the continued interest and engagement of the family in the business. It also affects how family members engage with one another, says Campbell Brown: *"We have a bias towards trust and doing the right thing which makes the elements that could create tension in a family less common."*
    - → Would you describe your family culture as trusting? What might be the benefits of a trust-based family culture? What do you do to actively nurture trust within your family (e.g., transparency, consistency)?

5.3.5 THE CASE OF MERCK: CULTIVATING A GOVERNANCE SYSTEM FIT FOR A DYNASTY

MERCK
INVENTING FOR LIFE

LOCATION	Darmstadt, Germany
ANNUAL REVENUE	EUR 17.5bn
EMPLOYEES	58,000
FOUNDING YEAR	1668
NUMBER OF GENERATIONS	12+
INDUSTRY	Healthcare, Life Sciences, Performance Materials

How does one keep a group of 170 family shareholders, dispersed across the globe, unified and aligned? Over the course of 350 years and 13 generations, the Merck family has developed a deep understanding of the requirements of effective family governance. Its family governance system allows for transparent decisions, fosters active engagement, nurtures strong family relationships, and systematically builds ownership competence.

What a young pharmacist by the name of Friedrich Jacob Merck started in the small town of Darmstadt in 1668 grew into a global conglomerate that today employs nearly 58,000 employees in over 60 countries. The Merck family, which has been stewarding the company for 13 generations, has experienced similar growth. Today, the family counts more than 280 family members, over 170 of which are family shareholders. What is the family's secret to keeping its many family shareholders united, aligned, and connected to the business?

By 1995 Merck had grown into a rather complex organization with multiple divisions and subsidiaries spread across the globe. Driven by a CEO who married into the business family, the family decided to fundamentally revisit its organizational and governance structures. The family listed roughly 30 per cent of the shares of Merck KGaA on the Frankfurt Stock Exchange, with the objective of reducing debt, raising capital, and increasing transparency.[57] The family-controlled holding company, E Merck KG, has no shares in the listed company, but retains firm family control with over 70 per cent of the equity. Given the increased scrutiny this change brought, it was time to revisit the family's governance system.

The Merck Family Governance System
It is important to highlight the family's conviction that they are, in fact, the stewards of the family enterprise, rather than its owners, which shapes both their identity and the way in which they design their family governance. The Merck family governance system has been – quite literally – centuries in the making, with the first version of their family constitution dating back to 1888. The question that guided the family's thinking ever since was *"How can a mechanism be devised that is fair, objective and has a buy-in from everyone?"*[58]

The Merck family simultaneously uses several governance bodies to align the family and facilitate decision-making, and to effectively manage the interface between the family and the business. The family uses a three-tier system: the larger family group selects family members for the family board, who select candidates for the board of partners, who select candidates who represent the family in the boards of the holding and listed companies. Family members are elected through a rigorous process into each one of these bodies:

- The roughly 170 family shareholders (this includes spouses) elect the 13 members of the family board *[Familienrat]*, which is primarily concerned with representing the family interests in the business and keeping strategic oversight on the business (e.g., any acquisitions, divestments, or financial transactions above half a billion Euros require the approval of the family board).[59] The family board is also tasked with nominating five of its members for the family board of partners (see below), one member for the executive board of the holding company, and four members for the supervisory board of the listed company. The family board meets between six and 10 times a year. Family board elections happen every five years, and the process includes a stringent evaluation process and a training programme for incoming board members.
- The board of partners *[Gesellschafterrat]* acts as a quasi-supervisory board to the executive management team and exercises day-to-day operational control over the business. The board of partners is also responsible for electing two of its members to join the executive board of the listed company. These family representatives "play a crucial role in providing strategic direction to the business in alignment with the family's long-term vision".[60] The board of partners counts nine members in total, five of which are family members and four of which are independent experts.

The heads of the *Familienrat* and the *Gesellschafterrat* represent the highest instance of family leadership as a dyarchy. The head of the *Familienrat* is the official head of the Merck family and acts as a link between the family and the business, the public, and a liaison to all family members.[61]

In addition to these formal decision-making governance bodies, the Merck family also relies on its family constitution to ensure that family members understand their rights and responsibilities as stewards of the family enterprise. The constitution, whose contents the family views as sacrosanct, has been continually adjusted to reflect both changes in the family and in the wider society over the years. Family members' only opportunity to exit arises every 10 years, when the constitution is renewed – however, they *"can only transfer their equity participation to another family member [at a] discount of 20 per cent of the market value of the shares of the listed entity"*.[62]

Besides formal means of governance, the family also relies on informal means of governance, nurturing relational quality, living the values, and ensuring ownership competence.

- The Merck family realized early on that without strong family relationships, the family was bound to fall apart in time. They regularly create opportunities to spend time together both socially (as a family) and formally (in the context of the business). In addition to the annual general meeting, the family meets several times each year.
- Consistently living their values is another important pillar of Merck's family governance. One such important value is modesty – *"the family is opposed to displays of material wealth"*.[63] Ensuring that family members understand and embody the family's core values is an important step in ensuring family cohesion and alignment.
- One important way to ensure the family's ability to make good decisions for the business and the family is to invest in family members' ownership competence. Merck has a sophisticated ownership development programme that begins at an early age and covers multiple areas, from company-specific knowledge to general business skills, interpersonal abilities, and knowledge about family dynamics and the family history.

Ownership Competence Development in the Merck Family
One informal mechanism of governance that the family has adopted is to develop the ownership competence of current and future generations. The Merck family has an educational programme that ensures that family members are knowledgeable about the business, the family history, and develop their decision-making capabilities. Their educational programme relies on nine building blocks:[64]

1. Two next-generation programmes for family members aged 15–23 and 24–35 are offered every year. These programmes last two and a half days and focus on business and family. On the business side, children and young adults learn about, for example, the business strategy, innovation strategy, or digitalization strategy. On the family side, they learn about the family constitution, governance structure, and family history.
2. On several occasions each year, "fireside chats" are organized in different German cities that family members and spouses can attend freely – these events provide an informal way of getting to know each other and are led by family council members.
3. Every two years, family members can participate in family bonds, a two-day peer-to-peer learning event where members of six large German business families meet and exchange best practices in managing and meeting the demands of a growing business family.
4. The business family academy is offered by INTES,[65] an association for business families – members of the Merck family can participate and receive funding from the family to do so. The programme focuses on different issues relevant to members of business-owning families, usually in two-day segments.
5. The Merck Family University has only happened once so far (2017/2018) and was designed for family members who expressed an interest in joining the family council or family shareholder council. Participants attended five modules that lasted 15 days each. The whole programme took 15 months to complete and covered both Merck-specific and general business topics. The family plans to offer the Merck University to interested family members before every family board election, every five years.
6. Family assessments are provided for those family members that consider participating in a governance role. The assessment is done by an external service provider who then recommends customized educational activities for each family member.
7. The annual Merck Family Day is open to all family members and always takes place at one of their facilities. The day centres around business highlights, peer-to-peer learning from other business families, and lots of family interaction.
8. The extraordinary shareholder assembly has been held for over two decades and aims to inform the shareholder

group about recent developments in the business – not to make decisions. It is also used to prepare family shareholders for any upcoming big business decisions.

9. Lastly, the family engages family members in committee work and invites family members to expert-led talks and lectures with senior executives from in and outside the business.

These nine building blocks support three objectives: (1) familiarizing the next generation with key topics in business management and family governance, (2) generating a large pool of interested and competent family members who may decide to engage in one of the family governance structures or activities, and (3) ensuring family members have ample opportunities to connect and engage with one another, thereby ensuring the growing ownership group remains aligned over time.

Learnings from the Merck Family

The case of Merck is frequently discussed in the popular press as a best practice example in family governance and ownership development.[66] Over the course of 12 generations and across 170 shareholders the family has dedicated significant resources to ensure that the family members develop and maintain the ability to make decisions together. Prior research shows that families benefit from investing in these capabilities at an earlier stage, and for smaller groups, as it sets a strong foundation for building ownership unity, alignment, and actionability.[67] The Merck family believes that educated owners form the foundation for a successful, long-lived enterprise and a functional, aligned shareholder group. The family governance system rests on the belief that only if owners are informed and engaged do they become capable of making and supporting good decisions that acknowledge the reality and constraints of the business, and those aligned with the family values and objectives.

The Merck family offers family members a variety of ways to connect with the family and the business, formal and informal, family-centric and business-centric: they use all four elements of cohesion simultaneously.

5.4 COMMONALITIES BETWEEN THE CASE STUDIES

The qualitative case studies featured in this report provide some additional contextual data that enrich the findings from the literature review and the quantitative survey.

The five cases indicate that the family governance process runs parallel to families becoming more mature (i.e., the more effective the family became at communicating and resolving conflict, the more they invested in ownership competence, and the better they became at instilling a sense of stewardship in the rising generations). In that sense, the cases confirm the presence of a circular relationship between family maturity and family governance the researchers suggested based on the findings from the literature review: family maturity fosters family governance, and effective family governance reinforces family maturity.

What is more, the cases also highlight – not surprisingly – that a strong foundation of shared values and an overarching purpose, a strong sense of connection, and a desire to remain together greatly facilitate the family governance process. This indicates that families seeking to build an effective and sustainable family governance system should continually nurture these foundational elements.

The Merck and Scott cases in particular point to the importance of making sure the current and rising generations of owners and stewards have the competencies necessary to make good decisions for the family and the business. Engaging the rising generation in the governance process secures their engagement and buy-in for governance outcomes.

In the next section of the report, we synthesize our observations from the literature review and the quantitative and qualitative research into six principles of good family governance.

6. SIX PRINCIPLES OF GOOD FAMILY GOVERNANCE

The purpose of this report was to investigate why and how business families utilize formal and informal means to govern themselves, and to identify best practices in designing and implementing a family governance system.

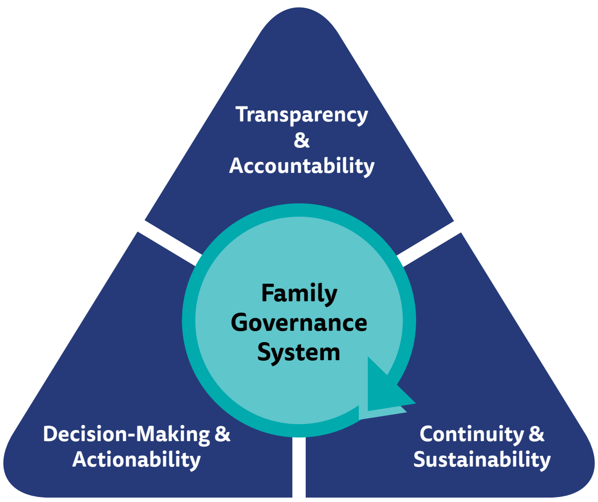
In this section, six principles of good family governance are discussed. These principles are grounded in the findings from our review of the relevant literature, the outcomes of the quantitative survey, and the lessons learned from the case studies with multigenerational families in the UK and beyond.

PRINCIPLE 1: IDENTIFYING A FAMILY'S GOVERNANCE GOALS

Every family has their own reasons to construct family governance mechanisms. Maybe cousin 'Oliver' was an unfit employee causing conflict in the business and damaging the reputation of the family. Maybe brother 'Jack' suggested considering his wife Emily, a seasoned marketing executive, for an opening in the family business – but the family hesitates, as there is neither a precedent, nor a policy. Maybe the next generation of the Waldburger family is disengaged and disconnected from the business. Or maybe the Peterhans family want to simply protect the high level of unity they have been experiencing for decades for future generations.

However diverse the reasoning, the evidence suggests three superordinate goals that drive the adoption of family governance systems (see Figure 12 below). First, the desire to become and remain transparent, and to hold each other accountable to what has been agreed upon. Second, the desire to build and protect the transgenerational legacy, ensuring that the family stays in business together over the long run. Third, the desire to assure that the family group remains able to make decisions, and remains actionable, even under duress.

Figure 12. Key Objectives of Family Governance Systems



A family's goal priorities will reflect the unique circumstances, experiences, values, and objectives of the individual family. A family that has experienced plenty of conflict that hampered its ability to remain actionable might design a governance system that primarily focuses on protecting its decision-making ability by ensuring effective communication and preventing, identifying, and mitigating conflict. A family that is worried about a lack of transgenerational intent in the next generation might enact governance mechanisms that are geared towards engaging and motivating the next generation. And a family that struggles with a lack of trust might lean towards a family governance system that primarily fosters transparency and a sense of accountability among family members.

The case study examples in particular show the sample families try to meet all three objectives to at least some degree through their family governance: Merck, in attempting to manage its large shareholder group, has developed a sophisticated multi-tier governance system that simultaneously targets all three through ongoing ownership education (continuity), a transparent process to elect family members for governance roles (transparency), and a systematic process to engage family shareholders in making strategic decisions for the enterprise. For Victorinox, in its early stage, family governance is mainly about ensuring family alignment and cohesion (continuity), and for Estafeta it was important to ensure a transparency as it moved from a patriarchal to a more collaborative environment.

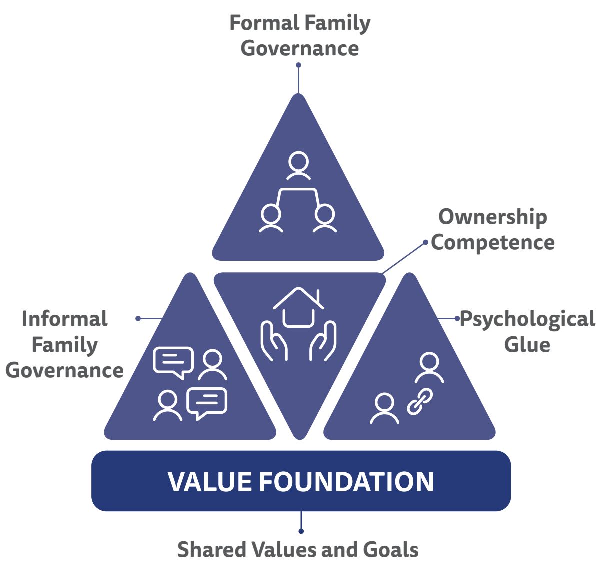
The survey also provides evidence for goal diversity. We found that the families of those we surveyed who are at an early stage in their governance journey (as measured by only having one governance document) are equally likely to have a family constitution, shareholder agreement, dividend policy, code of conduct, or an estate plan. This indicates that, at least for the respondent families, they approach family governance with different perspectives and objectives; families with no current sense of urgency, and a long-term vision might start with a family constitution, whereas families with an ongoing conflict might feel they urgently need a code of conduct, or a shareholder agreement. More research is needed to uncover what determines how families begin their governance journey.

Achieving clarity and alignment around a family's goals is an important first step in designing a holistic family governance system that fits family needs. Once there is clarity, it is important to routinely evaluate if the governance mechanisms serve this purpose. Having the ability to adequately measure progress requires the family to think about what improvement or success might look like in each goal dimension.

PRINCIPLE 2: DEVELOPING A HOLISTIC FAMILY GOVERNANCE SYSTEM

It remains a popular belief that business families are prone to experiencing conflict, and that this conflict spills over onto the business.[68] In the hopes of preventing damaging the family enterprise, families are often advised to formalize their relationships and interactions through contractual agreements and policies such as dividend policies or shareholder agreements. However, as most lawyers will admit, few shareholder agreements have prevented a legal battle or completely held up in court, since most family governance agreements are difficult to enforce legally. Relying on formal means of family governance to keep the family peace and prevent or mitigate conflict, therefore, seems unrealistic at best.

Figure 13. Holistic Family Governance Framework[71]



Family governance documents, structures, and processes are often generic and remain unmodified (i.e., originally written for another family) and therefore poorly reflect a family's unique context. As a result, instead of preventing conflict, these formal governance mechanisms exacerbate it.[69] Researchers and practitioners increasingly question the overreliance on formal family governance,[70] and have begun to consider a more holistic approach to governing the family: one that takes into consideration the unique characteristics of the respective ownership group and extended family.

As visualized in Figure 13, a family governance system is holistic when it not only reflects the family's values, needs, objectives, and capabilities, but when it also continually reinforces the family's overarching purpose (cf. the Scott family). If a family governance system is holistic, it strengthens family cohesion and systematically develops family members' ownership competence (cf. the Merck case). It ensures that the family's values are continually brought to life and uses formal means of governance sensibly to effectively manage the family group as well as the family-business interface.

In that sense, holistic family governance goes beyond simply organizing and managing the family. When families expand their focus beyond formal mechanisms of governing the family, the family governance system can become a vehicle to protect and ensure the unity and the decision-making ability of the shareholder/beneficiary group and the extended family.

Holistic governance systems are built bottom-up; they are not grounded in formal structures, but in the family's shared values and goals. Once the family is aligned, other elements of family governance are addressed. This means making sure all four dimensions of cohesion are continually nurtured, and family members are equipped to make good decisions for the family and the business. It also means looking into how the family's values are brought to life in interactions and decisions – this speaks to informal family governance, which can be a powerful instrument to ensure transgenerational stewardship.[72] Formal mechanisms (e.g., family council, family assembly, family constitution, family employment policy) are important instruments for the family governance system; nonetheless, they need to be firmly rooted in and aligned with the other elements to make the system sustainable and effective.

PRINCIPLE 3: REFRAINING FROM USING STRUCTURAL SOLUTIONS FOR EMOTIONAL ISSUES

Families sometimes try to calm their anxiety with structures including formal contractual agreements, in hopes that structures can prevent, or that they can mitigate, existing conflict. Popular structures used for this purpose are family employment policies. However, enacting formal, structural solutions to address emotional problems is not sustainable. Unless the family understands the true drivers of individual actions, they risk rigidifying emotional issues through structural solutions that concretize and exacerbate underlying problems (as evidenced by the Estafeta case). Families rarely fight about what they think they fight about – there is often an underlying issue that goes unaddressed unless recognized and broached directly.[73]

Consider this example: aunt 'Sandra', a minority shareholder in a third-generation family business in Germany, routinely complained about low dividends. Bothered with the constant complaints, the family council put in place a dividend policy. This did not solve the problem – in addition to the continued complaints about the policy, aunt 'Sandra' then complained about not having been involved in the process. This complaint resonated with other family members who also felt that the family council rarely consulted the larger family – and soon enough aunt 'Sandra' had gathered a sizeable group of disgruntled family members that began routinely objecting to family council decisions. In addition to the continued complaints about dividends, aunt 'Sandra' now also complained about low company performance and what she viewed as 'bad marketing'.

Many families seek to prevent or mitigate conflict by putting a lid on it (or a structure around it). However, not identifying and curing the roots of a disagreement likely causes the issue to emerge elsewhere. In the example outlined above, putting in place a dividend policy, clearly outlining the process and constraints of dividend payout, did not solve the problem. The underlying problem that came to light in conversation was that aunt 'Sandra' had wanted to serve on the family council for years – she had applied and was turned down several times. In addition, she often sent topics for debate to the family council, and those were rarely addressed. She felt excluded from information and the decision-making process, and that feeling of exclusion turned into anger over the years. Seeing the council respond to her complaints with putting in place a structure – the dividend policy – made her feel even more shut out.

Despite risks of conflict arising among family members, advisors frequently suggest formal means to manage and govern the family, such as a family employment policy, a dividend policy, or a shareholder agreement. The practice is grounded in the belief that the formalization of processes and structures increases transparency and accountability and ensures the family's ability to make decisions and remain actionable. Moreover, some argue that formal measures and structures are most effective in achieving family harmony by managing family conflict.[74]

Formal means of governing the family are as valuable as they are powerful: a family code of conduct, a shareholder agreement, and an employment or dividend policy all have an important function in terms of assuring transparency, which builds trust. However, formal governance mechanisms are often used to prevent or deal with emotional problems – and this is a point that needs repeating: families must never use structural solutions to address emotional problems. The emotional problem will simply pop up elsewhere, and it will likely be worse. Structural issues need structural solutions, and emotional issues need emotional solutions. Formal governance mechanisms serve an important purpose, but they are not sufficient in ensuring the family's ability to remain actionable, and capable of making decisions as the family group grows and grows apart.

PRINCIPLE 4: ASSURING FIT

For family governance systems to be effective and sustainable, they need to be aligned with the family's shared values and goals as well as their level of family maturity. Inconsistencies, or a lack of fit between the three dimensions, causes conflict over time, while fit leads to the three dimensions being mutually reinforcing. Figure 14, Family-Practice Fit, below visualizes this relationship (Family-Practice Fit was discussed in Section 3.3).

- The family value and goal system embody a business family's set of shared values and objectives, which are effective guides to and represent the foundation upon which family members base behaviour and decisions.
- Family maturity (discussed in the Key Concepts section at the front of this report) refers to the family's level of functionality, family ownership competence, and family sustainability. Family functionality refers to how well the family communicates and resolves conflict, and how unified and aligned it is; ownership competence pertains to the question of whether the family systematically equips its members with the competence to make sound decisions for the business and the family; and sustainability addresses whether the family instils a sense of responsible stewardship in current and future generations.
- The family governance system refers to the sum of agreements, structures, entities, governance, and adjudication bodies, decision-making groups, plans, and actions that families design and implement to manage the relationships within the family, as well as the relationships and intersection between family and business.[75]

Figure 14. Simplified Family-Practice-Fit Framework

In addition to horitzontal fit (i.e., fit between values and goals, the governance system, and family maturity), we also need internal fit (i.e., within each dimension) when designing an effective family governance system. For example, take the family governance system. Family governance becomes tangible through governance structures (e.g., a family council or family assembly, or a family shareholder education programme), governance principles (e.g., cultivating a culture of trust, establishing an environment of mutual accountability), and governance documents (e.g., a family constitution, employment policy, or a shareholder agreement). These are three dimensions of a family governance system, and they need to be aligned horizontally with the family values and goals and the family's level of maturity (across fit), as well as vertically, with one another (internal fit).

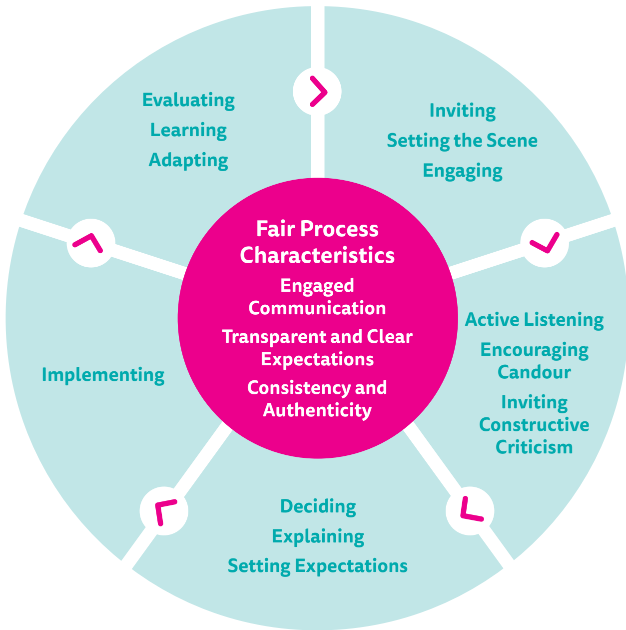
Take, for example, a family that has always freely shared information and resources with members of the extended family (i.e., an inclusive family). After a few members of the next generation expressed an interest in joining the business, the family seek the advice of a trusted lawyer, who suggests developing a family employment policy. The family, following their lawyer's advice, put in place a fairly restrictive employment policy that limits family employment to a small subgroup of family shareholders. The lawyer argues that this will reduce the likelihood of family conflicts. For this family, however, such a policy contradicts their shared value of inclusiveness, and can lead to disenfranchisement among family members who feel excluded. Instead of preventing conflict, the lack of fit across family values and goals, and the family governance system, causes and exacerbates it.

This hypothetical example also highlights the importance of addressing the question of who are family and understanding its implications for family governance. A family that considers spouses and adopted stepchildren to be part of the inner family circle is wise to develop family governance mechanisms (e.g., shareholder agreements, family employment policy, attendance policy for family events, access to education) that likely vastly differs from that of a family that only shares information and resources with family shareholders. Another example of lack of horizontal fit is a family that struggles with conflict and communicating effectively, and that puts in place an employment policy where family members can report to one another, which would likely lead to extensive conflict (lack of fit between family maturity and family governance).

PRINCIPLE 5: LEVERAGING THE PROCESS

In any effort to engage the ownership group (e.g., developing a family constitution), families benefit most when they leverage the process by fostering an atmosphere that encourages participants to candidly voice their opinions and concerns. Any process that focuses on execution without inclusion or consultation is a missed opportunity, and likely produces formal outcomes that offer the family little long-term value. The principle of fair process refers to a process that relies on engagement, explanation, and expectation; clarity yields stronger participant buy-in and higher levels of voluntary cooperation than traditional, top-down processes that rely on hierarchical pressure and financial incentives.[76] In other words, asking individuals for their opinions (going as far as encouraging refutation) and making sure that everyone involved and affected understands the process and outcome, including the consequences of the decision, greatly increases the changes of compliance.

Figure 15. Fair Process of Family Governance



In the context of family governance, fair process means ensuring that family members understand the why and what of the process and feel that they can make their voice heard. By involving the family in the process of designing or revising the family governance system, the family manage to secure their buy-in upfront, versus having to lobby for a solution that they were never involved in ex post. Figure 15 above (inspired by INSEAD's INVOLVE toolkit) summarizes the elements of fair process in the context of family governance.[77]

Engaged communication, transparent and clear expectations, and consistency and authenticity throughout the governance process make it more likely the family will design and implement a sustainable and purposeful family governance system. What does such a process look like?

In a first step, the family decides who should have a voice in the process: current shareholders and/or beneficiaries only? All blood-related family members, even those without ownership, or beneficiary status? What about the next generation, and should spouses or significant others be included? This decision hinges on *who is considered part of the family.* There is some evidence from prior research that inclusiveness aids sustainability (so long as it does not violate Family-Practice Fit), since inclusion tends to generate goodwill across generations. A simple example is the spouse that married into the family and is excluded from communication about the business – will he or she go on and encourage their children to become a part of the family enterprise? How about if the blood family member divorces said spouse? Will the spouse still support the family and business with their children, or will the children be turned against the family? Once a family has decided whom to include, they should explain the why and how of the process and arrange a way for everyone to make their opinions and concerns heard. As evidenced in the cases, such a process need not be rushed.

A good approach for these discussions is listening with the intent to understand, rather than the intent to reply. It is important to encourage candour, and to not take criticism personally – or as Oenone Scott from the Scott family put it: *"Don't ask for feedback unless you want it."*

In a next step, based on a family's particular objectives and constraints, different alternatives can be evaluated, and the one that best fits the family's needs and context is identified. The choice is explained to everyone involved and affected, as are the consequences tied to said choice: this is essential in clarifying expectations for the future. For example, if this is the shareholder policy that the family agrees on today, what are the options in adjusting in the future, and how does that affect future children's ability to transfer and sell shares? Once the family has implemented the governance mechanisms, it is important to regularly revise them, not just because of the growing family group (this includes spouses and committed life partners joining), but also because of changing circumstances: regulatory, societal, personal (this also requires a mechanism to collect and reflect on family members' feedback). A governance system that is too rigid or lacks agility is likely to fail.

PRINCIPLE 6: INVOLVING AND EDUCATING THE RISING GENERATIONS

The sustainability of any family enterprise system depends on the willingness and ability of future generations to become and remain engaged, competent, and responsible stewards of the family's assets. Educating current and future generations of owners and stewards is therefore not a choice, but a requirement for any family with a transgenerational vision. Not only are uneducated owners less likely to have high levels of commitment to business sustainability – an owner's ability to make sound, informed decisions hinges on their understanding of the business and family context. A failure to educate the family on critical issues pertaining to the business and the family endangers the long-term prosperity and unity of both.[78]

This is evidenced by the findings from the survey: in addition to higher levels of family maturity, family learning is a strong driver of family governance. Families that engage in self-organized or external learning (e.g., attending family business conferences or peer group exchanges) are more likely to have formal and informal family governance mechanisms in place. They are also more likely to use qualification criteria and training for family directors and for family members joining the business as employees. This sends a positive signal to independent directors and non-family employees, and also boosts board performance by strengthening the contribution of individual family directors.

Encouraging members of rising generations to become active participants in family governance is an effective way to both educate them about the business and the family and empower them to take ownership of how decisions are made in the family. Such participation can happen both in terms of designing new governance structures and mechanisms, as well as revising the ones already in place. Engaging multiple generations in family governance is a powerful way to fuel family connectivity. On the one hand, multiple generations work together in the context of living the family governance, learning from each other about how they view the family and the business, thus better understanding the rationale for decisions being made for both. On the other hand, members of the same generation learn to work together as they address challenges facing the family enterprise system, which strengthens their connectivity and trust, and thus their ability to make decisions together in the future. Actively involving rising generation(s) creates opportunities for them to understand how governance works, to play an active role in developing the legacy of the family, and to reinvigorate the governance system by helping it adapt to the future.

The Scott family is a powerful example: by giving the rising generation an active voice in the family's governance structures and processes, the family has recognized the need to revisit its investment strategy, to align more closely with the future shareholders' values and needs.

7. CONCLUSIONS AND RECOMMENDATIONS

In this section, the most important take-aways from the research are synthesized into reflection questions for three distinct groups, namely enterprising families, their advisors, and the academics who carry out research and educate them.

7.1 KEY TAKE-AWAYS FOR ENTERPRISING FAMILIES

The following recommendations for business families are rooted in the findings from the literature review and are informed by the learnings from the quantitative survey and the qualitative case studies.

For families that are in the process of developing, evaluating, or reworking their family governance systems, the reflection questions after each take-away might be helpful in sparking meaningful conversations.

7.1.1 Identify Your Objective(s)

What is the primary purpose of your family governance? Do you want to become and remain transparent, and to hold each other accountable for what has been agreed upon? Do you want to build and protect the transgenerational legacy of the family and the business, and ensure that the family stays in business together in the long run? Or do you want to assure that the family group remains able to make decisions and take action – or all three of these goals?

Clarity and alignment around the family goals is an important first step in designing a holistic, sustainable family governance system that fits the family's needs. The equally important second step is to think about what progress and success would look like in each goal dimension, and to continually monitor if the governance mechanisms put in place serve their purpose. Some useful questions that can help the business family start this conversation include:

- What event or development prompted us, as a family, to put in place mechanisms to govern and coordinate the family?
- Are we reacting to current events or planning for future ones?
- What objectives do we pursue through our family governance?
- Have we made any progress in attaining these goals?
- How do we measure success in terms of the outcomes of our family governance?
- Did we 'inherit' governance mechanisms that no longer serve us? What would a good process to update these mechanisms look like?
- How flexible is our family governance system? How often do we revisit certain mechanisms? Who is involved in this process?

7.1.2 Make It Holistic

An effective and sustainable family governance system goes far beyond managing and coordinating the family with formal and contractual agreements: it is holistic. A holistic family governance system is rooted in a solid foundation of shared values and goals; it dedicates attention and resources to ensuring family cohesion and alignment; it systematically equips family members with the competences necessary to make informed decisions that benefit business and family; and it continually brings the family's core values to life. A holistic family governance system relies on sensible means of formal family governance that align with and build on the overall family governance system. To better understand whether a family's governance system is holistic, families can ask themselves the following questions:

- Do we have an overarching purpose that excites family members across branches and generations?
- Have we identified a set of values that is widely shared within the family? Are these values upheld in decisions and actions? What do we do to nurture these values among members of the next generation?
- How well do we communicate with one another, and how easily can we make decisions together (even under duress)?
- What do we do to remain unified and aligned? How do we foster family cohesion?
- How do we make sure that current and future owners (or family members in general) are equipped to make good decisions for the family and the business?
- What elements of family governance do we prioritize, and why (e.g., values and goals, cohesion, ownership competence, or formal and informal governance mechanisms)?

7.1.3 Refrain from Using Structural Solutions for Emotional Issues

Families sometimes try to calm their anxiety with formal governance structures. They believe that by putting in place these formal agreements they can prevent family conflict from happening or mitigating conflict that is already occurring. However, putting in place formal, structural solutions to address emotional issues is not a sustainable strategy. Unless the family members understand what truly drives individual actions, they risk rigidifying emotional issues through a structural solution that exacerbates underlying problems. Unless underlying reasons for the conflict are recognized, a structural solution is at best temporary. Families can use the questions below to better understand the relationship between their family governance system and their approach to handling conflict:

- Have we ever put formal means of family governance in place to prevent or mitigate family conflict? Did we identify and address the underlying issues in the process?
- Do we currently rely on any formal means of family governance that continually lead to conflict or contentious discussions in the family?

7.1.4 Assure Fit

For any family governance system to be effective and sustainable, it needs to be aligned with the family's value and goal foundation as well as its level of family maturity. Inconsistencies, or a lack of fit between the three dimensions causes conflict over time, while alignment leads to the three dimensions mutually reinforcing one another, thereby strengthening family functionality and continuity. Families can assess this alignment by discussing the following questions:

- Do our formal and informal family governance structures, principles, and documents align with our values (e.g., inclusion, meritocracy, fairness) and support our family objectives (e.g., family participation in the business, philanthropy)? Are there any inconsistencies and, if so, do they lead to conflict?
- Does our family governance support us becoming and remaining a mature family group by reinforcing our family functionality, developing our ownership competence, and strengthening our family sustainability? How do we measure progress?
- Is the family mature enough to handle the outcomes of our family governance mechanisms, such as increased communication demands or conflict, or disenfranchisement of family members?
- Who is considered family, and how does this affect these individuals' access to information (i.e., about family and business matters), interaction (e.g., participation in family gatherings), and resources (e.g., funding, education)?
    - Is the way we include or exclude family members aligned with our family's values, and does it support our overarching purpose and goals?
    - How might our choice to include or exclude certain family members (e.g., people who married into the family) affect our family in the long run?
- How well-aligned are the trustees and the beneficiaries? Do we make sure that family beneficiaries understand how and why decisions are made?

7.1.5 Leverage the Process

Effective family governance processes hinge on the family's willingness and ability to include its key stakeholders. Making sure everyone feels their voice is heard, and everyone understands what it is that we are doing and why, is a prerequisite for a sustainable and effective family governance system. By involving the family in the process of designing or revising the family governance system, we manage to secure their buy-in upfront, versus having to lobby for a solution that they were never involved in. Families can assess whether they are leveraging the governance process by discussing the following questions:

- Are our family processes inclusive or exclusive? If we tend to exclude people, why might that be the case? Are we avoiding conflict? Have we always done it that way? Are we just interested in getting this done? Are we trying to have secrecy of family values?
- Do your family members feel like they have a voice in the decisions regarding the family and the business?
- Do we leverage our family members' individual background and experiences to find the best possible solutions?
- Once we have a solution, do we tend to go back and revise it regularly?
- What generally causes us to make changes in the way our family does things?
- Do we regularly revise our family governance instruments, and do we give all family members a voice in this process?
- How do we deal with conflict or disagreements within our family in general? Do we allow for controversial discussions, and do we value diversity of opinions in our conversations? Is dissent encouraged?

7.1.6 Involve and Educate the Rising Generation

The sustainability of any family enterprise system depends on the willingness and ability of future generations to become and remain engaged, competent, and responsible stewards of family assets. Systematically educating current and future generations of owners and stewards is a requirement for families with a transgenerational vision. Families can use the questions below as a starting point to assess their current practices in involving and educating the next generation:

- What do we do to ensure family members understand the context of our business(es) and our family?
- What opportunities (e.g., internships, summer jobs) do we offer to engage family members in the business, and to prepare them for a future in the family enterprise?
- How do we make sure that family shareholders, family employees, and family directors are qualified to successfully perform their roles?
- Are the qualifying criteria we have in place for family employees or family directors sensible, and aligned with our family's values and goals?
- Do we make sure that our trustees have the necessary competences to successfully perform their role? How do we develop future family trustees?
- Does the family have mechanisms to capture the ideas of the Next generation regarding the connection between the family and the business?
- How do the next generations learn about our family governance?
- What are the current opportunities for future generations to participate in family governance?
- What do we do to motivate the rising generations to play an active role in the family governance?

7.2 KEY TAKE-AWAYS FOR FAMILY BUSINESS ADVISORS

As stated before, many families gravitate towards structural solutions to calm their anxieties and deal with family conflict. They hire an experienced advisor to develop a family constitution, a code of conduct, a family employment policy, or a family shareholder agreement with them (and sometimes, for them). In this scenario, the family believes that putting in place formal processes and structures that most family members either agree with, or do not oppose, will protect their ability to make decisions and work together. And while sensible formal and structural solutions can be powerful instruments to facilitate decision-making in growing groups, they also have the potential to rigidify, leading to more conflict down the road, instead of preventing or mitigating it.

A deep understanding of the family dynamics and relationships, the communication style, the way in which the family deals with conflict, how the family relates to the business, and how its identity is tied to the family is the foundation upon which an effective and sustainable family governance system can be built. Some of the ways that family business advisors can support families in their governance journey include:

- Redirect impulses to resolve emotional issues with structural solution: when a family suggests putting in place a formal agreement to solve an ongoing emotional conflict, engage them in conversation around the benefits and downsides of rigidifying this issue by formalizing it. Putting a lid on an emotional issue, rather than identifying the true roots of a disagreement, will merely cause the issue to pop up elsewhere. Putting in place elaborate dividend policies because of an angry shareholder will not quell their anger. This conflict will come up elsewhere. Families rarely fight about what they think they fight about – there is often an underlying issue that goes unaddressed unless recognized and broached directly. Putting in in place formal, structural solutions to address emotional issues is not sustainable. Unless the underlying issue is recognized, a structural solution is but temporary band-aid on a laceration (on a patient with a bleeding disorder).
- Normalize conflict: families benefit from understanding that conflict is a natural by-product of group interaction, and that it is nothing to be afraid or ashamed of. You can support families in evaluating their own conflict management patterns: do they view conflict as healthy, as something that should be avoided, or as dangerous? Do they tend to push back, or do they invite diverse viewpoints and allow for controversial discussions? Does the family have a history of excluding people if they cause trouble?
- Balance their view of conflict: once conflict is normalized, you can support the family in developing a more balanced and systematic understanding of conflict. Similar to the balanced view of risk in the business, the family greatly benefits from having a balanced view of conflict in it, which means rating conflicts in terms of the probability with which they occur, and the severity of the outcome associated with the conflict. What conflicts are

likely to occur, and how harmful are they? How can the family prepare for them, and what happens if they erupt? This way, families learn to work more effectively through conflicts they consider as relatively minor (knowing that the consequences are not dire), rather than avoiding them, or letting chaos erupt.

- Encourage learning from others: while best practice examples are great illustrations of what worked well for another family, it does not mean that they will be valuable in another context. Best practice solutions, when used to invite a family to learn from the experiences of others, can be powerful instruments to help a family grow. However, if the family does not make it their own by making sure the solution fits with their unique context, their values, needs, goals, and their family maturity, the solution likely will not stick.
- Encourage transparency and consistency: transparency and consistency work hand in hand in nurturing trust in the family system.[79] Consistent and transparent behaviours from others allow family members to build confidence and trust in the family system. For example, if there is a system in place to select and elect family members to the council, the criteria for eligibility are transparent and understandable, and the family adheres to the process for every single election, the process becomes reliable and, therefore, trustworthy.
- No shortcuts: there is no shortcut in family work – even if involving all (or most) family members makes the process longer. If the family fails to leverage the process, giving family members an opportunity to participate and make their voices heard, securing buy-in after the fact will be much harder.

Reflection Questions for Advisors

- In your experience, what characterizes a family culture rooted in trust? What are the benefits of a trust-based family culture? What can families do to actively nurture trust?
- Do you work with families that try to rush the governance process? Why do they seek to speed up the process, what do they sacrifice by rushing it, and how can you keep them on task and slow them down enough to leverage the process?
- How much attention do families pay to align their governance system with their values, objectives, and their level of family maturity?

7.3 KEY TAKE-AWAYS FOR FAMILY BUSINESS RESEARCHERS

While not often front and centre of academic effort, practice-oriented research has the potential to bring a greater depth of insights to both academics and practitioners. For our work as family business researchers and educators, practice-oriented research can teach us about the challenges that family enterprises and enterprising families struggle with. These insights can help us ask meaningful research questions, and design research projects that practitioners are motivated to participate in; projects which facilitate data collection.

Applying a rigorous methodological process and gathering reliable data provides us with information upon which we can deduct meaningful recommendations for action – while abstaining from generalizing past the population to which it is applicable. It allows us to go beyond anecdotal evidence and best practice solutions that lack sufficient context to prescribe under which circumstances they add value, and why. Finally, it also provides important insights regarding theory development.

Reflection Questions for Researchers

Below, and based on based on the lessons learned from this research project, meaningful research questions for both academia and practice are outlined:

- A more nuanced understanding (beyond easily observable proxies, such as number of generations in business) and a reliable measure of business family heterogeneity might help explain inconsistent research findings (e.g., do family CEOs or family directors lead to superior or inferior performance? Do family members on the board lead to higher or lower employee turnover?).
- Based on a more robust classification of business families (i.e., a deeper-level characteristics), how do family governance systems differ between different types of enterprising families? How do family characteristics affect the design and adoption of family governance mechanisms? What family characteristics can explain why certain family governance mechanisms succeed in some families, but fail in others?
- What factors or circumstances encourage a business family to begin designing, implementing, or revising their family governance?

- What modes of cohesion do the different business families featured in their case studies nurture among their family shareholders and stewards?
- What does ownership competence development look like in different multigenerational business families?
- How do business families balance formal and informal means of governance? What does an imbalance of the two look like, and lead to?
- What does effective and engaging family governance look like for family enterprises held in trust(s)?

7.4 Concluding Thoughts

What constitutes good family governance for an enterprising family with a multigenerational vision? The answer to this question is not as simple as one could assume. Prior research as well as anecdotal evidence suggest that what works well for one family might be ineffective or even detrimental for another. Unfortunately, our understanding of what makes certain practices valuable – versus harmful – in different contexts remains limited.

This research report attempted to address this shortcoming by identifying general practices related to the process of designing and implementing family governance that are applicable to all business families alike, regardless of their unique circumstances.

We found that gaining clarity around the family's governance goals, balancing formal and informal governance mechanisms, and remaining attentive to the underlying dynamics that shape the governance system are helpful practices on the family's journey to an effective and sustainable governance system. Fit between any governance practice and the family's values, needs, objectives, and their level of maturity strengthens family unity and facilitates decision-making. Leveraging the process – that is, giving everyone involved a voice in the process – helps to secure family member's buy-in. And lastly, engaging and educating current and future generations fosters continuity and sustainability.

Combined, these six principles of good family governance can help make the governance process more deliberate, and the resulting family governance system more effective and sustainable by encouraging the family to consider purpose, alignment, inclusion throughout the various stages of the governance journey.

As always, more research is needed to fully understand the drivers and constraints of family governance, and the ways in which it can affect both the family as well as the enterprise. We hope that this report encourages academics to take a closer look at this exciting area of research, and that it inspires meaningful conversations amongst enterprising families and their advisors.

APPENDICES

APPENDIX A: OVERVIEW OF FAMILY GOVERNANCE ELEMENTS INCLUDED IN SURVEY

This section provides a description of formal and informal family governance mechanisms that we assessed in our survey.

Formal Elements of the Family Governance System

Formal Mechanisms	Definition[80]
Family Governance Structures	
Board of Directors/Advisors	The board of directors is a governing body within an organization that represents the interests of the shareholders. The board provides oversight and holds management accountable for achieving the strategic goals of the corporation. A board without fiduciary responsibility is generally referred to as a board of advisors, and it provides non-binding strategic advice to the management and owners of a corporation.
Family Council	Family councils are family leadership and governance forums that support enterprising families in achieving their family objectives in alignment with their family values. To that end, they are concerned with key matters impacting the family and its relationship to the business; similar to the board on the business side, the family council is concerned with policy and planning issues for the family.
Family Assembly/Meetings	Gathering of a family group with the intent of helping the family members connect, with clear educational and social goals in mind, often annual or bi-annual. They help the family group foster trust with one another, educate family members, and enhance the communication within and between generations.
Family Shareholder/ Beneficiary Meeting	The beneficiary meeting is a gathering of all family members who are shareholders/ beneficiaries of the family business. The purpose of these typically annual meetings is to discuss the financial performance of the family business(es) and to discuss other critical issues such executive compensation or ownership structure of the business.
Employment Committee	The employment committee is composed of family members and/or external advisors. Its purpose is to set and review the personnel decisions regarding all employed family members, and any employee that is related to the family. The employment committee can serve in an advisory capacity, or it can have a decision-making role.
Family Foundation	A family foundation provides a vehicle for charitable giving that is funded by family assets. It often employs family members and helps preserve the family wealth across generations. Family foundations can also provide a space for family members to work together to pursue their shared goals, creating an opportunity to serve as a vehicle for a family to have a purpose together and foster family unity.
Family Office	A family office is an entity created by the family to manage their financial investments and take care of the wealth management needs of a family. They can also help with other family matters such as education of next generation, management of trusts, and other financial issues. In families that do not have a foundation the family office can also assist with philanthropic projects.
Family Governance Documents	
Family Protocol/ Constitution and/or Charter	Articulates the family's values, objectives, and mission, and sometimes the larger ownership strategy and policies that guide the relationship between family, ownership, and business roles within a family business. The family constitution formalizes and makes explicit the values and culture of the family, the rules of engagement between the family and the business, and the obligations and requirements for participation in the ownership and management of the family business.
Dividend Policy	Outlines how the family business will pay out its dividends to family shareholders.
Family Employment Policy	Outlines the process and procedures for attracting, selecting, hiring, developing, promoting, and firing family members.
Shareholder Agreement	Describe the rights and responsibilities of shareholders, and the regulations for the sale or transfer of shares.
Family Code of Conduct	Outlines the agreed-upon rules, expectations, and understandings that a family creates to make a safe, comfortable, and positive setting for family interactions.
Estate Plan	Outlines the plan that protects the assets and personal property of an individual, and outlines their wishes upon death or if they are otherwise incapacitated.
Family Compensation Policy	Outlines the processes and procedures for compensating family members within a business.

Informal Elements of the Family Governance System (FGS)

Informal Mechanisms	Definition
Family Gatherings	A social reunion that brings different members of the family and extended family together, usually without an educational component. These gatherings sometimes take place to celebrate special family events such as birthdays or anniversaries.
Family Newsletter	Printed or electronic report that information/news concerning the activities and accomplishments of family.
Family Social Media Group	An online community created by the family to interact virtually through a social networking service.
Living the Values	Exemplifying the agreed-upon and widely shared values in everyday interactions within and outside of the family group and bringing the values to life in decision-making on both the family as well as the business level (see the Victorinox case study, and their decision to reallocate workers rather than letting them go in the time period following 9-11).
Storytelling	Sharing narratives that are widely accepted within the family to exemplify how values have been lived through behaviour and in decision-making. This often involves stories about the founder, or the founding generation.
Virtual Meeting	Gathering of the family through an online environment.

APPENDIX B: SURVEY QUESTIONNAIRE

INTRODUCTION

We appreciate you taking the time to participate in the IFB Research Foundation Family Governance Survey.

The objective of our research is to identify best practices in family governance. With this research, we aim to support business families in improving the way in which they organize themselves and the intersection with the business so that they remain actionable and unified for the long term.

The research results will be made available later this year on the website of the IFB Research Foundation, but we hope that you will find valuable inspiration for your own family from engaging with this survey. The survey covers the following themes: (1) Personal and Business Information, (2) Business Governance Practices, (3) Family Governance Practices, and (4) Family Characteristics.

It should take no longer than 15 minutes to participate. Participation in this study is voluntary. Your answers remain completely confidential, and participation is anonymous.

If you are interested in learning more about the survey or the research project, please reach out to the project team.

Sincerely,
Dr. Claudia Binz Astrachan (Claudia.astrachan@hslu.ch)
Prof. Dr. Isabel Botero (isabel.botero@louisville.edu)

I consent voluntarily to be a participant in this study and understand that I can refuse to answer questions and that I can withdraw from the study at any time, without having to give a reason. (Y/N)

SECTION 1: ABOUT YOURSELF, AND YOUR FAMILY BUSINESS

1. Is your business a family business (by family business, we mean a business organization where one family or several families hold(s) majority of ownership or control over the business)? (Y/N)
2. Are you a member of the owning family, or the owning families? (Y/N)
3. Do you have a formal role in the business? (Y/N)
4. What is your role in the business (check all that apply)? (Board chair, board member, CEO, managerial role, other)
5. Is your family a member of IFB UK? (Y/N/IDK)
6. Is your family of member of any other FBN Chapter globally? (Y/N/IDK)
7. What year was your company founded?
8. Where is your company headquartered?
9. How many full-time employees does your company employ?
10. Which one is your most important industry sector?
11. To what extent is your business diversified? (Not diversified at all, moderately, highly diversified)
12. Is your family business publicly listed? (Y/N/IDK)
13. Does your family own several businesses under a holding structure? (Y/N/IDK)
14. Is your business, or are any of your businesses held in a trust, or trusts? (Y/N)
15. What type of ownership and/or beneficiary (through trust) roles does your family have? (Family shareholders, no family beneficiaries, both, no family shareholders, only family beneficiaries)
16. What percentage of your business' ownership is held in a trust, or in several trusts?
17. For the trust, or the series of trusts that control(s) the majority of shares, are the trustees family members or professional trustees? (Family only, mostly family, equal, mostly professional trustees, only professional trustees)
18. How aligned do you consider the trustees and beneficiaries to be for the trust (or series of trusts) that control(s) the most ownership? By alignment, we mean the level of agreement on key issues. (Not aligned at all, moderately, highly, IDK)
19. For how many generations has your family owned the business?
20. Is your current CEO a family member? (Y/N)
21. How many family shareholders/beneficiaries do you currently have?
22. Are there family members permitted to work in the business? (Y/N)
23. Currently, are there any members of the family working in the business? (Y/N)
24. How many members are working in the business?

25. What roles do they play? (Non-managerial role, low-level / middle / top management, other)
26. Do you use qualifying requirements for family members? (none, some, strict requirements)

SECTION 2: YOUR BUSINESS GOVERNANCE PRACTICES

27. Does your family business have a Board of Directors (e.g., a holding company board, operating company board(s), shareholder board etc.)? (Y/N)

If your family business has a holding company as well as operating company boards, please consider the holding company board in your reply. If you have several operating company boards, consider the company your family identifies the most with when filling in the appropriate numbers.

28. How many members does your Board have?
29. How many of the Board members are family members?
30. How many of the Board members are independent (i.e., not current or former employees, family, or business associates)?
31. How many of the Board members are female?

Questions 32–38 used a 5-item Likert Scale with items ranging from strongly disagree to strongly agree.

32. In our business, we hold each other accountable (i.e., we accept responsibility for our actions).
33. In our business, we dedicate significant resources and effort in relation to risk management.
34. In our business, we monitor succession for key roles (e.g., CEO, top management, Board of Directors, etc.).
35. In our business, we sanction misconduct that violates our code of conduct.
36. In our business, the roles and responsibilities of management and Board are clearly defined and respected.
37. In our business, we use qualification criteria for family members who serve on the Board (e.g., age, ownership, prior Board experience, level of education).
38. In our business, family Board members receive training to successfully perform their Board role.
39. Does your business release an annual report to the public? (Y/N)
40. Does your business produce annual reports for your shareholders and/or beneficiaries that are different from those released to the public? (Y/N)

SECTION 3: YOUR FAMILY GOVERNANCE PRACTICES

41. Does your family have a family constitution? You may use other terms such as family charter or family protocol, all of which describe a list of policies that define the family's interactions with the business, and the values, culture, and goals upon which they are based. (Y/N)
42. How many years ago did you create your family constitution?
43. Has the document been revised since its creation? (No and not planning to, no but planning to, revise it occasionally, revise it continuously)
44. Which of the following is discussed in the constitution? (Family mission, family values, family goals, family history, family legacy, owner rights and responsibility, other)
45. Who receives a copy of the document? (Family shareholders/beneficiaries only, all family members, IDK, other)
46. Which other family governance instruments and policies is your family currently using? Please select all that apply. (Family employment policy, shareholder agreement, dividend policy, family compensation policy, code of conduct, estate plan, none of the above, other)
47. Which of these family governance instruments and/or policies does your family find most valuable, and why?
48. Which family governance instruments and/or policies is your family considering putting in place in the future, but not currently using? Please select all that apply. (Family employment policy, shareholder agreement, dividend policy, family compensation policy, code of conduct, estate plan, none of the above, other)
49. Does your family have a family council? (Y/N)
50. Does your family have a family assembly? (Y/N)
51. How often does the family council meet? (Once a month, few times a year, once a year, other)
52. How often does the family assembly meet? (Once a month, few times a year, once a year, other)
53. Does your family hold regular meetings with family shareholders? (Y/N)
54. Does your family hold regular meetings with beneficiaries? (Y/N)
55. Does your family hold regular meetings with trustees? (Y/N)
56. Do family shareholders and/or beneficiaries receive information about the business through the Office of Shareholder Relations / through the Board of Directors / through the family council / through the trust / informally from other

family members / Other? Check all that apply.
57. Does your family have an employment committee to monitor and coordinate the employment of family members working in the family business? (Y/N/IDK)
58. Does your family (rather than you personally) have a family office? (Y/N/IDK)
59. Does your family have a family foundation? (Y/N/IDK)

Questions 60–66 used a 5-item Likert Scale with items ranging from never to all the time.
60. How often does your family hold (not business-related) social family gatherings?
61. How often does your family meet virtually or online (e.g., Zoom, Skype, or other platforms)?
62. How often does your family use a family WhatsApp (or similar apps) group?
63. How often does your family produce a family newsletter?
64. How often does your family celebrate special events (e.g., birthdays, anniversaries, milestones)?
65. How often does your family organize educational events for family members (e.g., to learning about our business)?
66. How often does your family participate in family business learning (e.g., family business networks, university-based centres, webinars)?
67. Does your family use any of the practices listed below? Internships in the family business for family members / Summer jobs in the family business for family members / Mentors and coaches for family members / Family business advisors (currently or in the past) / None of the above? Please check all that apply.

SECTION 4: ABOUT YOUR FAMILY

Questions 68–77 used a 5-item Likert Scale with items ranging from strongly disagree to strongly agree.
68. In our family, we agree on our central values.
69. In our family, we agree on our overarching purpose or mission.
70. In our family, we communicate effectively (i.e., we communicate openly, misinterpretations are rare).
71. In our family, we communicate frequently.
72. In our family, we deal with conflict effectively (i.e., once our differences are solved, they no longer affect our behaviour).
73. In our family, we find it easy to make changes when changes are needed.
74. In our family, we are transparent about how decisions are made.
75. In our family, we seek to instil a sense of stewardship and responsibility in current and future generations of owners.
76. In our family, we are willing to sacrifice smaller short-term gains for larger benefits in the long term.
77. In our family, we do not value diversity and independence of thought.

For questions 78–80, respondents were asked to choose one of the following three options: Access limited to family shareholders/beneficiaries, different levels of access for family shareholders / beneficiaries and non-shareholders / beneficiaries, all members of the family have equal access.
78. How does your family handle access to business-related information (e.g., financial reports, M&A decisions) within the family?
79. How does your family handle access to resources (e.g., educational opportunities and funds, venture capital, coaching opportunities, family properties) within the family?
80. How does your family handle access to family events (e.g., family assemblies, family vacations, family celebrations) within the family?
81. What is your family's preference with regard to the size of the shareholder group? (We prefer to keep the shareholder group small, we are comfortable with expanding the shareholder group over time, we prefer to include as many family members as qualify for ownership)
82. Last question! When thinking about the COVID-19 pandemic, how has it affected communication in your family and your family relationships?

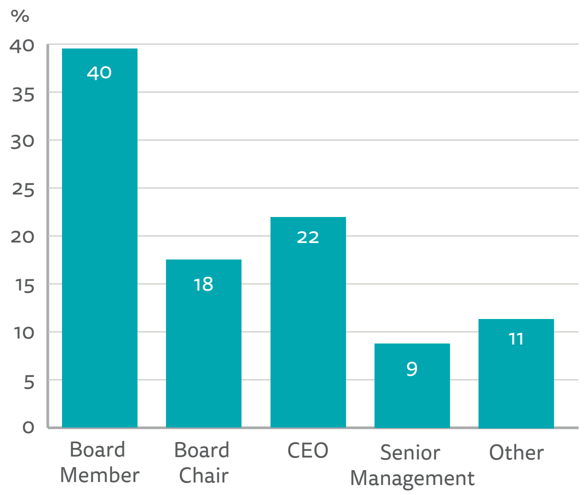
If you have any last comments, please do not hesitate to share them with us!

APPENDIX C: SAMPLE CHARACTERISTICS

Respondent Characteristics

Most of the participants in our sample (82 per cent, N = 114) indicated that they had a formal role in the business.

Figure 16. Respondent's Role in the Family Business



Characteristics of Respondents' Family Firms

Figure 17. Location of Headquarters of Family Businesses

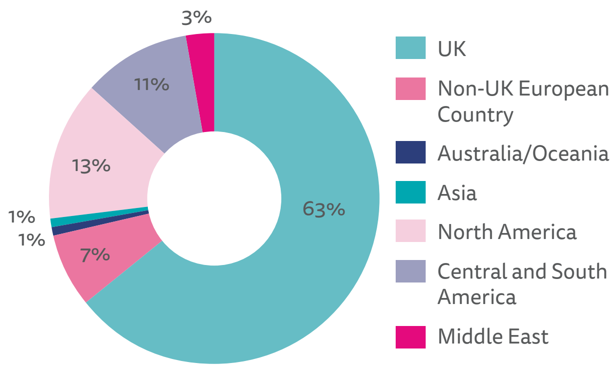


Figure 18. Size of Companies in the Sample based on Number of Employees

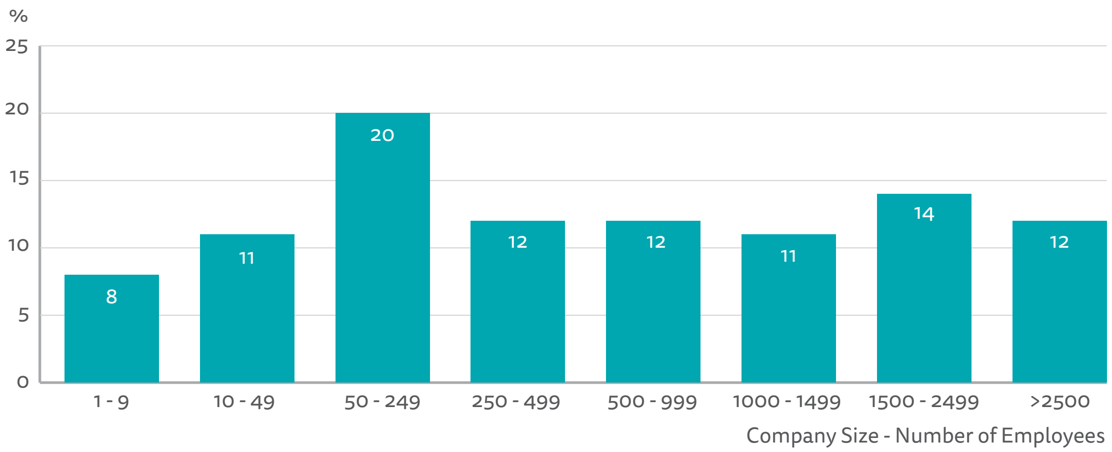
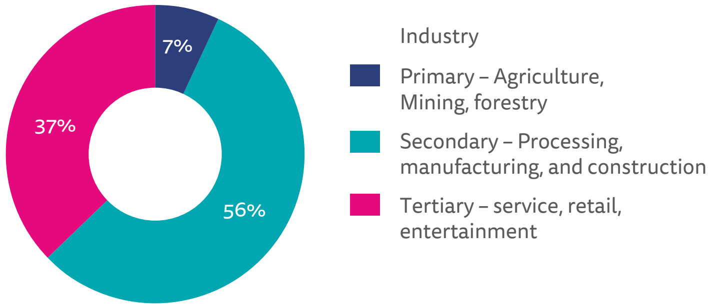


Figure 19. Industry Distribution of Sample



APPENDIX D: DETAILED RESULTS OF STATISTICAL ANALYSES OF SURVEY DATA

Table 5. Bivariate Correlation and Descriptive Information for Survey Variables

	Variables	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
1	Family governance system (See note below)															
2	Formal family structures	.86**														
3	Formal family documents	.78**	.55**													
4	Informal governance	.51**	.33**	.08												
5	IFB member	.05	.13	.15	-.27**											
6	FBN member	-.01	.05	-.06	.23*	-.03										
7	Age of business	.12	.17	.12	-.06	.55**	-.10									
8	Full time EE	.32**	.35**	.20*	-.02	.20*	.06	.10								
9	Holding structure	.34**	.31**	.33**	.08	.01	.04	-.03	.02							
10	Business in trust(s)	.14	.14	.17	.14	-.02	-.05	.04	-.10	.22*						
11	Number of generations family owned	.06	.09	.08	-.40**	.56**	.05	.54**	.239*	-.02	.21*					
12	Family CEO	-.25*	-.30**	-.21*	-.16	-.28**	-.07	-.23*	-.24*	.06	.06	-.15				
13	Number of family members working in the business	-.18	-.09	-.26*	.01	-.04	.01	.17	.07	-.27*	-.14	-.08	.06			
14	Family maturity	.43**	.32**	.39**	.24*	.19	-.08	.20*	.07	.16	-.04	.02	-.08	-.04		
15	Family education	.53**	.51**	.35**	.28**	.21*	.27**	.27**	.29**	.25*	.05	.06	-.32**	.05	.41**	
	M	9.68	3.30	2.81	3.52	0.66	0.39	130.95	4.58	0.73	0.47	3.93	0.51	3.98	3.38	2.52
	SD	4.48	1.65	1.77	1.13	0.53	0.67	94.72	2.18	0.49	0.54	1.78	0.50	2.58	0.75	0.88
	N	110	110	104	95	113	114	109	112	110	110	104	108	84	102	95

Note: Family governance system is the combination of formal family structures, formal family documents, and informal governance. It represents the complete family governance system. * $p < .05$ ** $p < .01$

Hierarchical Regression

Further statistical analysis was done to gain a deeper understanding of the survey results. We used a method called hierarchical regression. This method allows the researcher to enter different groups of variables at different stages to determine how these blocks of variables influence the dependent variable. In this case, the dependent variable was the use of formal and informal family governance mechanisms.

To examine the relationship between business and family factors and the use different components of family governance analyses were conducted based on four dependent variables:

- the use of formal family governance structures – this variable reflects the number of formal family governance structures the responded indicated that their family used.
- the use of formal family governance documents - this variable reflects the number of formal family governance documents the responded indicated that their family used.
- the use of informal family governance - this variable reflects the number of informal family governance mechanisms the responded indicated that their family used.
- the use of the combined governance system – this indicates the total number of family governance tools used by the family. Comes from adding the three variables above.

As can be seen in Tables 6 and 7 below, the independent variables were entered in three blocks. The control block included characteristics that have been shown to drive family governance adoption, such as membership in in family business association such as IFB or FBN and being a publicly listed firm (see model 1 in the tables below). The second block included characteristics of the business shown to influence the practices of the owning family (i.e., age of the business, the size of the business, holding structure, and whether the business is in a trust, shown in model 2). The third block included family factors shown to influence the governance practices of a family (i.e., number of generations, having a family CEO, the number of family members in the business, family maturity, and family education, shown in model 3).

The results of the hierarchical regression indicate that there are two business and two family factors that are associated with the number of formal structures that a family is likely to use in their family governance. On the business side, the size of the company ($\beta = .27, p < .05$),[81] and having the company in a trust ($\beta = .28, p < .05$) are both positively related to the number of formal governance structures in place. That is, having larger family business and having the businesses in a trust increases the likelihood that more formal family governance structures will be used. On the family side, the higher the maturity of the family, the more likely they are to use formal family governance structures ($\beta = .37, p < .01$). Interestingly, family enterprises with a family CEO reported using fewer formal family governance structures ($\beta = -.26, p < .05$). Tables for the complete regression results are presented below.

In terms of the use of formal governance documents – not structures – the analysis suggests that two factors are related to the use of family governance documents. Being a publicly listed firm was negatively related to the use of formal family governance documents ($\beta = -.36, p < .01$), while family maturity was positively related ($\beta = .51, p < .01$).

In terms of informal family governance, the use of this type of family governance was related to having a business in a trust ($\beta = .24, p < .05$) and by the number of generations the family had owned the business ($\beta = -.44, p < .01$). According to the data, families that had ownership of a family business in trust(s) were more likely to use informal family governance. However, families who had been in business for a greater number of generations were less likely to use informal family governance approaches.

Lastly, and to better understand the family governance system as a whole, a variable was created that combined all the family governance tools that each respondent reported using; we labelled this "Family Governance System". We created this to better understand which family and business factors were related to the use of a wider set of family governance tools. The results indicate that having a business in a trust ($\beta = .36, p < .01$) and having a higher degree of family maturity ($\beta = .55, p < .01$) was associated with greater use of family governance mechanisms. However, respondents whose family firms had a family CEO ($\beta = -.28, p < .01$) made use of fewer governance mechanisms.

Table 6. Results for OLS Regression Analysis for Formal Governance

	Formal Family Gov. Structures			Formal Family Gov. Documents		
Variable	Model 1	Model 2	Model 3	Model 1	Model 2	Model 3
Control Variables						
IFB member	.22	.03	.05	.24*	.06	.02
FBN member	.14	.11	.16	-.01	-.05	.01
Publicly Listed Firm	-.06	-.17	-.20	-.22	-.29*	-.36**
Business Factors						
Age of the Business		.20	.13		.21	.13
Size – Number of employees		.27*	.21		.18	.13
Holding Structure		.08	.05		.11	.02
Business in a Trust		.28*	.32**		.12	.11
Family Factors						
Number of generations as family owned			-.11			.01
Having a family CEO			-.26*			-.20
Number of family in the business			.05			-.07
Family maturity			.37**			.51**
Family education			-.06			-.02
R2	.07	.26	.45	.12	.22	.51
Adjusted R2	.03	.18	.33	.08	.13	.41
F	1.78			3.09*		
F Change		4.10**	3.88*		1.96	6.98**

* $p < .05$ ** $p < .01$

Table 7. Results for OLS Regression Analysis for Informal Governance and Total Instruments Used

	Informal Family Governance			Family Governance System		
Variable	Model 1	Model 2	Model 3	Model 1	Model 2	Model 3
Control Variables						
IFB member	-.25*	-.19	-.06	.19	.04	.04
FBN member	.23	.19	.24	.11	.09	.16
Publicly Listed Firm	.05	.01	.02	-.09	-.18	-.23*
Business Factors						
Age of the Business		-.17	-.12		.14	.05
Size – number of employees		.17	.10		.24	.15
Holding Structure		-.04	-.11		.13	.03
Business in a Trust		.14	.24*		.33**	.36**
Family Factors						
Number of generations as family owned			-.44**			-.12
Having a family CEO			-.20			-.28**
Number of family in the business			-.09			-.03
Family maturity			.16			.55**
Family education			-.06			-.01
R2	.13	.18	.43	.06	.26	.66
Adjusted R2	.08	.08	.31	.02	.17	.59
F	3.23*			1.47		
F Change		1.00	5.01*		4.18**	13.58**

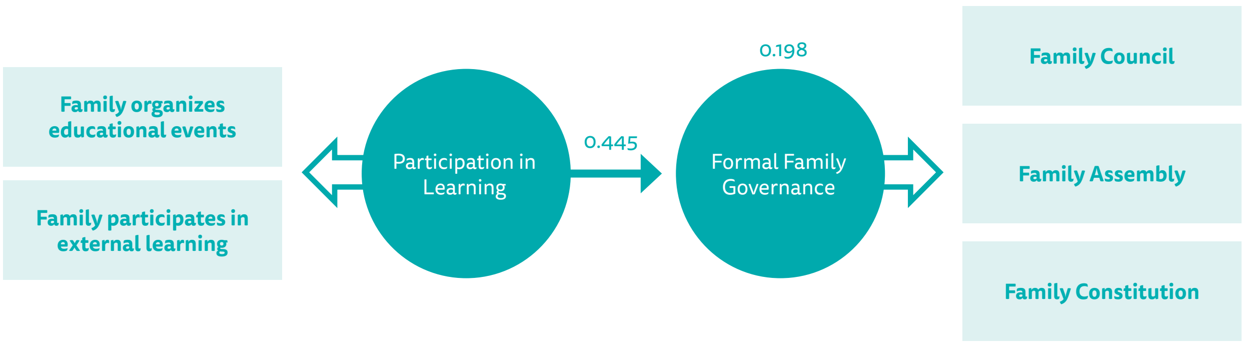
* $p < .05$ ** $p < .01$

Structural Equation Modelling

To better understand what type of family uses which mechanisms to govern itself, a statistical method called Structural Equation Modelling (SEM) was used. This approach allows the researcher to investigate hypothesized relationships between different concepts, thereby identifying what factors drive which behaviours.[82] Subsequently, the most informative models are presented. Potential implications of the relationships identified are discussed.

Figure 20 below shows the relationship or 'path' (as visualized by the long arrow) between two variables, namely the relationship between participation in learning activities (on the left) and the likelihood that the family adopts formal family governance, namely having a family assembly, a family council, or a family constitution (on the right).

Figure 20. Relationship between Participation in Learning and Formal Family Governance

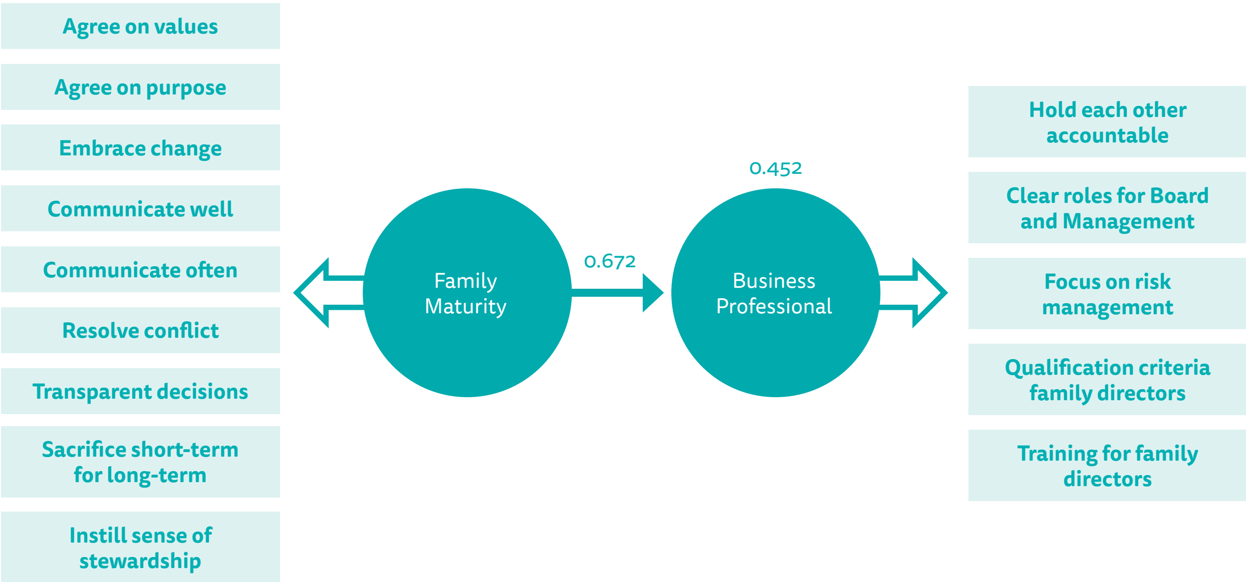


The light blue boxes represent the variables associated with the questions asked in the survey; e.g., the family assembly item is based on the question "Does your family have a family assembly", which was a yes/no question. For the question "How often does your family organize educational events for family members?", a Likert scale was used to capture the responses; respondents were asked to rate their families on a scale ranging from never, rarely, occasionally, frequently, to all the time. The model shows a statistically significant relationship between the two variables (the blue circles) with a value of .445 (values between 0 and 1 are possible). This shows that the families of respondents that are more likely to participate in learning are also more likely to have formal governance mechanisms.

The value of .198 in the blue circle on the right shows that the variable on the left – participation in learning – accounts for almost 20 per cent of the variance in formal family governance. These results indicate that there is a strong relationship between the desire to continually educate its family members and adopting formal means of governance.

The next model (Figure 21 below) focuses on the relationship between family maturity and the level of professionalization in the business. Respondents who said families had a mature family culture reported higher alignment on values and purpose, lower resistance to change, and higher satisfaction with family communication and conflict management, among others (i.e., higher family maturity). These mature families were much more likely to adhere to strict criteria for family member participation in the business and on the board, and they also scored high in terms of their willingness to hold each other accountable, their focus on risk management, and the presence of clear roles and scope of responsibilities (hence, boundaries) for the board and management.

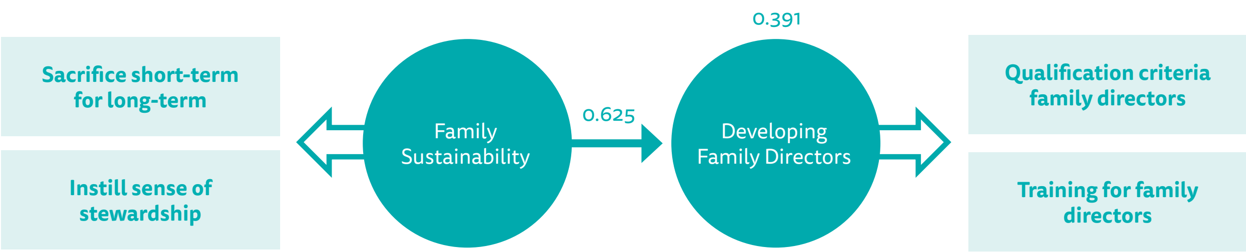
Figure 21. Family Maturity and Business Professionalism



Here, a high level of family maturity accounts for almost half the indicators used for business professionalism (45.2 per cent). This could either indicate that families that invest in developing their family maturity will likely also foster a higher level of accountability on the business side – or it could simply be that these two conditions coexist. Since the data do not allow us to make any interpretations related to temporality, it is not possible to determine what is the causal relationship between family maturity and business professionalism.

The last model (figure 22 below) shows an interesting relationship, even if perhaps not entirely surprising. Respondents that indicated that their families scored higher on family sustainability were more likely to develop their family directors.

Figure 22. Family Sustainability and Family Director Standards



Here as well, the family's future orientation accounts for almost 40 per cent of presence of qualification criteria and training programmes for family directors, which will, in turn – through strengthening the contribution of these family directors in the boardroom – reinforce the sustainability of the family enterprise.

In summary, the path models featured in this section provide an indication of what might drive or hinder the adoption of family governance mechanisms, and how characteristics of the family (e.g., the effectiveness of its communication or its conflict management skills) are associated with outcomes on both the family and the business level.

One of the most powerful outcomes of the SEM-analysis was the lever that family education and learning represents, and the variety of outcomes are related to both family and business factors. Families that seek to continually educate their family members adopt formal means of family business governance to a higher degree, as do families that are larger, older, and that own a larger business.

APPENDIX E: INFORMATION ABOUT THE BUSINESS FAMILY CASES INCLUDED IN OUR STUDY

Case	Description
Estafeta	Location: Mexico City (MEX) Number of Employees (FTE): 12,000 Annual Revenue: $350m Number of Family Branches: 4 Founding Year: 1979 Number of Generations: 3 Industry: Logistics This case highlights the importance of identifying and aligning around a strong family foundation (i.e., shared goals, family unity, and the ability to work together), and the need to build a family governance system that is rooted in this foundation. Additionally, it highlights some of the challenges the family faced as they learned to work together as an ownership group, and the steps they took to overcome them.
Victorinox	Location: Ibach, Canton of Schwyz, Switzerland Number of Employees: 2,100 Annual Revenue: CHF 480mn Number of Family Members: 11 family Branches Founding Year: 1884 Generations: 4+ Industry: Consumer Goods The case discusses the importance of a shared purpose within a growing business family, and how this purpose drives decision-making at the intersection of family and business.
Applerigg Holding Company	Location: London, UK Number of Family Members: 120 Number of Family Branches: 5 Founding Year: 1903 Generations: 5 Industry: Financial Services The case highlights the different tiers of family governance that are in place and how they interact. It also shows the importance of leveraging the governance process to help develop strong trust-based relationships between family members, and to continually reinforce shared values and a common purpose in the family.
Brown-Forman	Location: Headquartered in Louisville, Kentucky (US) Revenue: $3.08 B Number of Family Members: 150+ Founding Year: 1870 Number of Generations: 7 Industry: Spirits and Wine Business This case highlights how the family has learned from their experience as a publicly traded company to create a set of formal and informal family governance mechanisms that help connect the family to one another and to the business, and the importance of developing strong education programs for rising generations.
Merck	Location: Darmstadt, Germany Revenue: EUR 17.5bn Employees: 58,000 Founding Year: 1668 Generations: 12+ Industry: Healthcare, Life Sciences, Performance Materials The case outlines how the family actively develops spaces and opportunities for all family members, but particularly those of the rising generation, for learning about how to act as responsible owners. The case also highlights ways of engaging younger generations in the business.

NOTES

1. Cadbury Committee (1992), Section 2.5
2. Gallo & Kenyon-Rouvinez, 2005
3. Howorth & Kemp, 2019
4. Binz Astrachan *et al.*, 2020
5. Binz Astrachan *et al.*, 2021
6. Schnackenberg & Tomlinson, 2016
7. Baus, 2016; Pieper, 2007; Binz Astrachan *et al.*, 2020
8. Baus, 2016
9. i.e., the desire to pull together rather than pull apart; Sherif, 1961
10. Olson, Russell, & Sprenkle, 1980
11. Pieper, 2007
12. Pieper, 2007
13. Adams *et al.*, 2004
14. That is, unless the family decides to purposefully keep dividends low, and to continually reinvest in the business, which many do.
15. Adams *et al.*, 2004
16. Baus, 2016; Pieper, 2007
17. Daily, Dalton, & Cannella, 2003
18. Howorth & Kemp, 2019, p. 46
19. Dekker *et al.*, 2015; Stewart & Hitt, 2012
20. Gersick *et al.*, 1999
21. e.g., the family defines the dividend policy, which affects the company's ability to reinvest; conversely, business leadership proposes a large acquisition the family approves through the shareholder assembly.
22. Miller & Le Breton-Miller, 2006.
23. Mustakallio, Autio, & Zahra, 2002; Olson *et al.*, 2003
24. Suáre & Santana-Martín, 2004
25. Gallo & Kenyon-Rouvinez, 2005; Suess, 2014.
26. Arteaga & Menéndez-Requejo, 2017; Berent-Braun & Uhlaner, 2012; Miller & Le Breton-Miller, 2006; Suess-Reyes, 2017.
27. Berent-Braun & Uhlaner, 2012; Gersick *et al.*, 1997; Pieper & Astrachan, 2008.
28. Berent-Braun & Uhlaner, 2012; Montemerlo & Ward, 2011; Mustakallio, Autio, & Zahra, 2002; Suáre & Santana-Martín, 2004.
29. Gersick *et al.*, 1997; Neubauer & Lank, 1998; Suess, 2014
30. Brenes, Madrigal, & Requena, 2011; Habbershon & Astrachan, 1997; Mustakallio, Autio, & Zahra, 2002.
31. Even though enterprising families rely on both formal and informal means of family governance, most research focuses on formal mechanisms to manage and oversee the family group; see Mustakallio, Autio, & Zahra, 2002; Suare & Santana-Martin, 2003; Suess, 2014
32. Suess, 2014
33. Astrachan & Kolenko, 1994; Berent-Braun & Uhlaner, 2012
34. Brenes, Madrigal, & Requena, 2011; Mustakallio, Autio, & Zahra 2002; Peterson & Distelberg, 2011
35. Blumentritt, 2006; Chittoor & Das, 2007; Craig & Moores, 2002; Umans *et al.*, 2020.
36. Martin, 2001; Suess, 2014
37. Habbershon & Astrachan, 1997; Martin, 2001
38. Brenes, Madrigal, & Requena, 2011; Mustakallio, Autio, & Zahra, 2002
39. Brenes, Madrigal, & Requena, 2011; Kellermanns & Eddleston, 2007
40. Martin, 2001; Poza, Hanlon, & Kishida, 2004
41. Stewart & Hitt, 2012; Waldkirch, Melin, & Nordqvist, 2017
42. Waldkirch, Melin, & Nordqvist, 2017, p. 5
43. Binz Astrachan *et al.*, 2020; Williams, 2015
44. Binz Astrachan *et al.*, 2020

45. Binz Astrachan *et al.*, 2021
46. Binz Astrachan *et al.*, 2021
47. Practice refers to any *"agreements, structures, entities, governance and adjudication bodies, decision making groups, plans and actions that families design and implement in order to manage the relationships within the family, as well as the relationships and intersection between family and business"*, Binz Astrachan *et al.*, 2021, p. 6
48. Jaskiewicz & Dyer 2017, p. 111
49. Binz Astrachan *et al.*, 2017
50. Binz Astrachan *et al.*, 2021
51. Blondel, Carlock, & Van der Heyden, 2001
52. Correlation between firm age and having a constitution is $r = .20$, $p < .05$. Correlation between company size and having a constitution is $r = .29$, $p < .01$.
53. Informal family governance mechanisms are the self-enforcing interactions and symbols used by a business family to nurture family relationships and manage expectations; Bloemen-Bekx *et al.*, 2021
54. See Suess, 2014 for a comprehensive review of the literature.
55. Appendix C provides the results of hierarchical regression.
56. Applerigg Holding Company, www.applerigg.com
57. McQueen, 2020
58. Stangenberg-Haverkamp, 2019a
59. Stangenberg-Haverkamp, 2019b
60. Stangenberg-Haverkamp, 2019b
61. Personal communication with Prof. Dr. Tom Rüsen, Witten/Herdecke University, Germany in June of 2021.
62. Stangenberg-Haverkamp, 2019b
63. McQueen, 2020
64. Personal communication with Prof. Dr. Tom Rüsen, Witten/Herdecke University, Germany in June of 2021.
65. www.intes.de
66. For exemplary articles, see https://cmgpartners.ca/mercks-commitment-to-family-governance/, https://www.tharawat-magazine.com/triumph-family-business-governance/, https://isbinsight.isb.edu/350-years-of-family-business-lessons-from-merck/
67. Our heartfelt thanks go out to Prof. Dr. Tom Rüsen, Witten/Herdecke University (Germany) for sharing his profound insights about the Merck family with us.
68. Kellermanns & Eddleston, 2007
69. Binz Astrachan *et al.*, 2020
70. Waldkirch, Melin, & Nordqvist, 2017
71. Binz Astrachan *et al.*, 2020
72. Howorth & Kemp, 2019
73. Kaye, 1991
74. Gersick & Feliu, 2014
75. Binz Astrachan *et al.*, 2021
76. Kim & Mauborgne, 2003
77. Van der Heyden, 2016
78. Rüsen & Heider, 2020
79. One area where transparency is crucial is the selection and election of family members for formal governance roles, both in the family and the business, as this tends to be a decision that balances desire for representation, fairness, meritocracy, and family politics. It sometimes happens that family members are appointed to governance roles as consolation prizes – disengaged family members are given a role to keep the peace, to keep them quiet. Because they are deemed unqualified to work for the business, they get a role in the family governance instead. Instead of addressing the root cause for family dissatisfaction, the family finds a workaround. This usually does not last long, as disengagement cannot be fixed without addressing what causes it. Instead, these individuals now not only have a platform to voice their frustration, but also a megaphone. Thinking back to the idea of Family-Practice Fit, the "how" of selecting and electing family representatives matters, as the criteria used to do so (as well as the process) is a direct reflection of one's understanding of family, and the family culture.
80. The definitions provided were developed by the authors of this report based on what they teach in the classroom.
81. The β sign denotes the standardized beta coefficients from the OLS regression.
82. The book by Hair *et al.* (2021) provides a comprehensive overview of structural equation modelling.

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ABOUT THE AUTHORS

Dr. Claudia Binz Astrachan is a researcher and lecturer at Lucerne University of Applied Sciences and Arts (HSLU) in Switzerland. In her role as the head of the Family & Business programme she has been working closely with Swiss family businesses for the last decade. In addition to her role at HSLU, she acts as the head of the governance practice at Generation6 Family Enterprise Advisors, a US-based family business consulting company. She is a board member of the International Family Enterprise Research Academy (IFERA), and a former chair of the Special Interest Group 'Family Business Research' at the European Academy of Management (EURAM). Her scientific contributions have been published in several peer-reviewed journals, and she has (co-)authored various practice-oriented articles and research reports for the family business community (i.e., on business family professionalization, family business branding, longevity, shared leadership).

Prof. Dr. Isabel Botero is an associate professor of entrepreneurship at the University of Louisville. She is a Fellow for the Family Firm Institute, is an Advanced Certificate in Family Wealth Advising and a Certified Exit Planning Advisor. She is also a past Scholar in Residence at the Family Owned Business Institute at the Seidman College of Business. She serves as an associate editor for the *Journal of Family Business Strategy* and has over 40 publications in journals such as *Family Business Review*, *Journal of Family Business Strategy*, *Journal of Family Business Management*, *Journal of Management Studies*, and *Management Communication Quarterly*. Her research focuses on strategic processes and next-generation issues in family enterprises.

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22-24 Buckingham Palace Road
London SW1W 0QP

020 7630 6250

ifb.org.uk/ifb-research-foundation
research@ifb.org.uk