

“A family constitution is a formal document of the family, designed and agreed by the family and for the family”



The success or failure of generational change in a family business depends not only on the business performance but also on the family issues.

As families and family businesses grow, relationships also grow in complexity. Relationships can be complicated within the same or different generations between the members and its wealth structure – family businesses, family offices, family trustees, etc. It is essential to create a mutual understanding of rights, roles, and responsibilities between all people who are associated with family wealth management.

The governance of the family and business is fundamental for creating a legacy while living happily. Family governance documents such as Family Constitution, and Family By-Laws, are important for creating a good family governance system. They are like the Constitution of any country.

The family members make laws in the form of policies and agreements through streamlined processes defined in their constitutions. In short, family policies are the rules, by which all family members need to abide.

Families through years of togetherness have their own set of rules, which are informal and not documented. Arising business complexities of business ownership, business management, and wealth management can be tedious to handle. Therefore, through participation, and discussions, the informal family rules need to be understood, agreed upon, and documented.

Decision-making, especially in unforeseen circumstances, becomes quite challenging. The family constitution serves as a tool for fair and quick decision-making as a family. The decision-making tool – the family constitution, helps the family to stay aligned, happy, and wealthy for generations.

A family constitution is, therefore, a document, which articulates, the family mission, vision, culture, and value systems and the important fundamental principles of togetherness and managing the family firm. Family Constitution, also called the family protocol, documents the family heritage and the aspirations for success with a sound action plan for how to achieve, it within the specified period of time.

It is a framework, which ensures the involvement and participation of all those related to the family and the business: family members, family offices, family offices, family investment companies, and family trusts. The family constitution defines their roles, responsibilities, accountability, and authority for smooth governance, by avoiding any damage in unforeseen circumstances, which can arise during the life of the business and destroy family wealth.

The family constitution incorporates broad principles and policies in various areas, which may affect the family such as education, expenditures, the role of external professional advisors, family offices, family trusts, investments, employment in the family business, marital issues, non-performance by family members, and so on.

The family constitution may also incorporate the composition and role of the family council – a family representative body, with clear guidelines as to how it can make decisions. In some countries, it is the older generation's involvement and is also called the committee of the family elders.

To conclude, the family constitution is an agreement and commitment, in a form of a document, prepared with deep knowledge and understanding of the family structure, the relationships, the dynamics, and the family's core concerns, generation, protection, and enhancement of family wealth.

Purpose of making a Family Constitution:

With hardly 30% of the family businesses passing on to the second generation and only 10% of those to the third generation, building the constitution is the most important process to be followed for any family in a business.

The family constitution design helps the family businesses in the following ways:

- Bonds the family together through an emotional connect
- Encourages involvement and participation of family members
- Avoid conflicts and tensions between family members through proper communication
- Provides a common platform for sharing their concerns and future plans
- Setting out a clear mission for the business

- Nullify the risk of public disputes over family wealth
- Developing plans to deal with unexpected events in the family
- Addressing concerns swiftly and harmoniously
- Ensures family Succession planning by addressing the existing capabilities of the next generation and the new skill sets to be acquired
- Defines the roles and responsibilities of all family members, by keeping a clear
- The distinction between family, business, and ownership and their respective issues

Why is a written Family Constitution so important?

“Once written is better than a thousand times spoken”

Most family businesses have an unwritten understanding among the members about how to manage the family and the business.

The family patriarch ensures the members abide by the undocumented understandings till he is able to govern and control the family and the business. The challenges arise during generational transitions, the sudden demise of a family member, and non-participation of a few family members, and unmanageable business dynamics.

Instead of going through the lengthy and damaging processes of heated family debates, and public litigations leading to unresolvable acrimony within the family and maintaining the status quo in the business, it is highly advised to have a formal well documented, and written family constitution.

The written family constitution helps benefit the family as follows:

- Avoiding conflicts, through meetings and communication
- Providing a platform for raising concerns
- Clarifying roles and responsibilities and avoiding overlaps and intrusions
- Taking the toughest decisions swiftly by having a conflict resolution process in place
- Keeping the family united and in harmony through commitment and ownership

The written and agreed Family Constitution should be treated as a holy family scripture upholding the family values and business goals for successful business continuity.

How to create a Family Constitution?

Each and every Business, family, relationship, and dynamic being unique, the design of the family constitution is quite challenging. It is highly important to engage a professional business coach and an experienced life coach who can work in synchronization, listen with empathy, and thoroughly diagnose and analyze the needs of the family and the business for building the family constitution.

The role of the coaches is to facilitate the agreement of the family principles.

Building the Family Constitution - Family Diagnosis:

Communication is the key to building an effective Constitution.

The Life Coach and the Business Coach conduct interviews one on one basis, in small groups, and even discuss with the family as a whole to understand the family challenges.

Directors, Senior Executives in the business are also interviewed to know the business issues and the business plans.

This fact-finding stage helps the coaches to understand:

- The family culture and the value systems
- Communication systems within the family
- Relationships and dynamics between the members
- Different perspectives on the family and the business
- Aspirations and ambitions of family members
- Family decision-making process
- Issues facing the family
- Business Performance & Business Goals
- A vision of the senior and next generation

During this phase, coaches understand the family legacy, the family tree, business ownership, roles and responsibilities of the family members, the executive committee for the business, the board of directors, and the current business strategic plans.

The governance structures and processes being followed need to be understood and reviewed with transparency.

All concerns should be shared without fear. The external advisors listen to the members, analyze the inputs and visualize the larger goal for the family and the business.

The Life Coach and the Business Coach help the family members understand each other through the discussions; explain the options available before advising the way forward.

This is the most important phase of building the family constitution

Building the Family Constitution - Family Assessment & Feedback:

The concerns shared by the family members during fact-finding, either discreetly or openly; help the coaches have a deeper understanding of the family and the business. The inputs need to be framed together, shared, and discussed to build an effective family constitution.

The Life Coach and the Business coach through their experience and expertise:

- Communicate the feedback to all the members. The senior family members and the next generation are communicated with equal transparency
- Prepare agenda for discussions during family meetings. The agenda helps discussions on the concerns, fears, and expectations of each and every family member
- Facilitate the resolving family issues through discussions and debates to reduce acrimony and ensure smooth conclusions

Building the Family Constitution - Family Committee:

“The process is more important than the result”

A family committee is formed to ensure how and when the family meetings will be conducted, a decision is the process of decision-making.

The Family Committee is a fair mix of the senior generation and the next generation, which is supposed to encourage the involvement and participation of all members.

It helps review and redefine the family value systems, goals, governance structures, succession plans, and building the family constitution.

Building the Family Constitution - Family Constitution Design:

“The pen is mightier than the sword”

The family committee through the meetings and discussions should be able to conclude the contents of the family constitution. They should make their own set of rules and regulations to ensure business growth and family harmony.

Key components of the family constitution:

Mission and Vision: The family vision and mission are clearly defined. The core beliefs are also outlined. These are the family radars that help the family and the business in navigation during all storms faced in the journey

Recruitment: This policy defines how and when the family members can be inducted into the business and their career paths for leading and succeeding in the business. It can the inclusion of members from the extended family

Remuneration: Remuneration policies are framed for the family owners who are managing the business. The expectations of the business are also defined in terms of roles, responsibilities, and performance indicators

Succession Planning: A Skill matrix is prepared, gaps are identified and capacity building program for the next generation, along with timelines is specified

Business Reviews: The family periodically reviews the business performance as mentioned in the constitution

Information & Communication: Family Council, frequency, and agenda of family meetings are agreed upon and specified in the constitution. The constitution states principles for maintaining confidentiality and communication of information within or outside the family

Asset Management: Wealth generation, wealth protection policies along with asset ownership are agreed upon

Dispute Resolution: The process of dispute resolution is charted out to avoid conflicts and damages to the family and the business

Exit: Exit policies for shareholders are framed keeping in mind the business continuity of the family. Finally, the constitution is documented, reviewed, and agreed upon by all the family members. Each and every family constitution is customized and unique.



THE FAMILY CONSTITUTION

The Complete Guide

Building the Family Constitution - Family Constitution Execution:

“Let’s walk the journey together”

After the design and documentation of the Family Constitution, it is important to once again share the Constitution with all family members in detail and start the implementation of the agreed principles.

Execution is an ongoing process done through scheduling family council and ownership council meetings at frequent intervals.

Building the Family Constitution - Family Constitution Review:

Annual meetings are held by the family council to review:

- Progress on the agreed action plans for the family and the business
- Effectiveness of the governance structures
- Succession Plans
- Career growth paths of family members
- Wealth enhancement and protection plans
- Family Constitution amendments for adapting global best practices

Reviews are an ongoing process for creating a successful business empire and a legacy.

ADDVALUE is one of the leading Family Business Advisors assisting members in family businesses to discuss, agree, and document their Family Constitution, under the guidance of expert Family Business Consultants.

FAMILY BUSINESS CONSULTANTS

Mr. Niles Arora and **Dr. Gunjan Arora**, founded ADDVALUE in 1999. Both are very passionate and focused on Family Business Coaching and Life Coaching for family business members. They are the pioneers of **Value-Added Coaching – VAC®** and the **Family Business Continuity Model** for Family Businesses.

NILESH ARORA – FAMILY BUSINESS ADVISOR:



Niles Arora is BTech. (Mech), IIM – Ahmedabad Alumnus, Certified Corporate Director – CCD®, Certified Management Consultant – CMC®, having more than 20 years of global experience in the field of Strategic Management, Family Business Advisory, Operational Excellence, and Business Excellence.

As a Global Family Business Coach and Executive Advisor to many Family-Owned Businesses (FOBs) he has assisted more than 100 families and 250 organizations to date across Africa, the Middle East & Asia (AMEA) in manufacturing as well as the service sector, enhancing their revenues and equity value.

Specialties: Family Business Advisory, Succession Planning, Entrepreneurship, Business Coaching, and Business Excellence

Dr. GUNJAN ARORA – FAMILY COUNSELLOR:



Dr. Gunjan Arora is BSc - Human Relations (Gold Medalist), MSc in Psychological Counselling, MS – Psychotherapy, Ph.D. Counseling, Certified NLP Master Practitioner, and Certified Advanced Life Coach.

As a Life Coach, she has counseled and mentored several CEOs, business families, and the next generation in aligning self, family, ownership, and the business.

Specialties: Life Coaching, Relationship Management, and Family Counselling

Both Niles & Gunjan work together in complete synchronization to help you be clear on what you want, learn what is important to you, and help you create and follow a plan aligned with your core strengths.

ADDVALUE has been recently conferred “**BEST PERFORMING CONSULTING ORGANIZATION**” by the Govt. of India.

For following their passion and being together in Family Business Advisory, Niles & Gunjan are also known as **World’s First Couple Coach (WFCC)** – for Family Businesses.