

# Corporate Governance for Family Businesses

## Why does governance matter?

Each family business aims to preserve its own unique culture but the larger the business grows, the more important it becomes to have a clear governance framework.

A good governance system can help to:

- **promote family harmony:** by involving all family stakeholders and providing clear channels of communication;
- **minimise conflict:** by establishing a fair and transparent rules covering issues which could be contentious for the family;
- **address family needs:** by recognising the needs and expectations of stakeholders and ensuring that shareholders can realise the value of their shares if they wish to do so;
- **promote business success:** by ensuring that there are clear areas of responsibility enabling quick and effective decision making.

## No one-size-fits-all approach

As every family business is unique, its governance system must be appropriate to the size of the family, the complexity of the business structure and the long-term goals of both business and family.

For example, a family business with few family members involved and a straightforward business structure may choose to formalise procedures at management and shareholder level through its articles of association and a simple shareholder's agreement.

On the other hand, larger multi-generational family businesses may benefit from a more detailed governance



structure, which may include a family charter, assembly and council to create effective communication channels and balance the interests of owners, family members and management.

## Common structures for large multi-generational family businesses

Some of the principal structural components of family governance that can help families separate family and business issues include:

**Family Constitution/Charter:** a family charter is a non-enforceable document which records the family's conclusions about their values, long-term vision of the business and the relationship they want to have with the business. More formal, legally binding, documents such as a shareholders' agreement and articles of association, can

be used to complement a family charter, giving legal force to some of the more important agreed procedures (e.g. sale of shares).

**Family Assembly:** the family assembly is a forum through which family are informed about the business and can meet and discuss family and business issues. This may involve annual social events and conferences or presentations about business activities. Regular meetings of the family assembly helps to maintain strong family relationships, establish common values and encourage communication.

**Family Council:** the family council is the executive committee of the family assembly which communicates the family's interests and concerns to the board of directors. To gain one of the council seats a member must typically hold (or represent the holders of) a specified percentage of shares. The process of setting out the role of the Council and its communication with the board can be helpful for both the family and the directors in understanding the role of the owners of the business and the delegation of business decisions to the board.

**Family Office:** the family office is an administrative centre for the whole family which is established to manage estate planning, investments, banking and accounting for the extended family, potentially far beyond matters connected to the business but often paid for by the business.

## What governance structures are right for me and my family?

Not all multi-generational family businesses adopt each of the governance components discussed above. A family charter/constitution can be a useful tool for second generation family businesses and beyond. For larger/older family businesses, particularly where the management of the business has been partly or wholly 'professionalised' so that the family plays a less active role in the day to day running of the business, a family assembly and family council may also be useful.

Burges Salmon can help you to shape governance arrangements to match your family business' unique requirements and stage of development.

Reviewing and implementing new governance arrangements is often something which is put off because of more immediate priorities. However, the aim of these arrangements is to promote a common purpose, ensure the business is well managed and avoid family conflict, which should be a priority for all family businesses.

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