

# The Overlooked Document That Every Family Business Must Have

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By Sonny Iqbal



Perpetuity is a central objective of every family business. In today's ever-changing world, it is critical for owner families to proactively mitigate risks to achieve that longevity. In our experience, virtually every successful multigenerational family business does so through two practices. The first, which we'll discuss here, is a family charter or constitution that keeps the family together in the face of changes and challenges. (The second, which we will cover in a subsequent post, is to establish an effective governance framework that holds the *business* together through a range of events.) A well-constituted family charter helps avoid disputes that can divide families and divert significant time and energy from managing the business. It also sends a strong signal to current and potential non-family leaders that the business is run with a best-practice orientation.

The family charter usually augments the shareholders' agreement and establishes a set of guidelines that typically encompass the family's relationship with the business. These guidelines include:

- Governance mechanisms
- Succession planning, decision making and the respective roles of family members, non-family members and professionals
- Dispute resolution and communication forums such as a family council
- The family's business mission, vision, values and goals
- Determining the business roles of next-generation and non-blood line family members, and establishing mechanisms for managing their exits
- Investments, incentives and wealth distribution
- Sustainability, philanthropy and other social responsibility issues

## Once you realize you need one, it's often too late.

The strong presence of many founders often provides a false sense of security, leading many family members to think that they do not have to prepare for disagreements or unpleasant scenarios. But family dynamics change over time: children grow and have families of their own; the relationships between family members evolve; each member's professional profile and ambitions becomes more distinct. Having a leader who can definitively rule on or build consensus around issues as they arise is very different from having a comprehensive framework that has been thought out, debated and agreed upon. Establishing a family charter early on helps preserve common ground before vested interests and conflicting priorities diverge and harden. Like insurance, a family charter only is useful if it is in place before it is needed.

# the leadership blog

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When our Family Business Advisory team helps a family put together its charter, we begin by conducting individual interviews with each family member to catalogue the issues, priorities and conflict points that need to be “on the table.” This list can be quite lengthy, given the differences in each member’s priorities and viewpoint.

We then convene a meeting of the family to work through these issues in a structured, systematic way—which is critical, because without a roadmap, the task can seem hopeless. And through a series of iterative conversations, it is almost always possible to end up with agreed-to guidelines or at least a broad consensus. This process can take anywhere from a few months to a year and a half. Logistics plays a part, but more importantly, it is essential to have enough time for debate and reflection because once the charter is agreed upon, it must stand as a guiding document across a range of circumstances. A charter that is frequently altered loses its authenticity, which is why we recommend a charter be reviewed no more than once every five years.

## Elements of success

Creating a family charter is a significant undertaking that requires considerable emotional and political capital from family members. To balance this, the family must be able to work from a foundation of trust and commitment. The charter must be approached in good faith, and participants must allow discussion to surface personal agendas and previously unstated needs. We have seen family charters fail if they are focused primarily on financial matters and performance with little or no recognition of the family’s distinct values and traditions. Finally, while the family charter seeks to institutionalize family governance so that it does not depend solely on the family’s business leader, he or she still needs to be the sponsor and guardian of the charter—and thus must be respected and acknowledged as the center of the family’s “gravity.” Families that try to construct a charter without these prerequisites risk a failure that weakens the family’s trust and confidence, and engenders cynicism.

When done correctly, family charters can be stabilizing bulwarks that contribute significantly to a family business’ longevity. The first step in realizing a charter’s benefits, however, is to commit to undergoing the process.

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