KEY ISSUES IN FAMILY COUNCILS: INSIGHTS FROM THE SPANISH EXPERIENCE

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Abstract

As successful families in business grow in family size and number of shareholders, they commonly develop a particular kind of family organization, often referred to as the family council. This family organization usually becomes the family’s central governing body. Although family councils are very common among highly complex multigenerational family-owned businesses, implementing them appears to be a challenging task, as each family has its own idea and this idea is likely to evolve over time. With the aim of helping families in business reflect upon or review their family governance system, the present study aims at learning from the experience of 16 Spanish family-owned businesses by analyzing different areas of interest such as the different types of family councils, their key features, the reasons for starting a family council, the objectives of creating a family council, the stages of a family council and the characteristics of other governance structures connected to the family council. Investigating these issues can help multigenerational family-owned businesses to succeed as well-structured organizations that keep the family connected and committed towards a common mission, vision and values. Limitations and future research are also discussed.

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I. Introduction

Family-owned businesses are continuously evolving from one generation to the next, and they commonly seek to maintain a shared family control of its often increasingly diversified financial and business assets. As a result, families all over the world continuously develop a complex web of structures, committees, agreements, and councils to manage their ownership and their wealth across generations. In studying multigenerational family businesses around the world, scholars have found that the successful transmission of business ownership and sustaining family cohesion depends on a highly creative and flexible web of family governance structures (e.g., Basco, Pérez-Rodríguez, 2009; Craig and Moores, 2002; Jaffe and Lane, 2004; Koiranen, 2002; Martin, 2001; Steier, 2001; Ward, 2004). The present article focuses on the family governance structures that we have identified in Spanish family-owned businesses.

A family that owns one or several businesses and investments lies at the intersection of several complex systems and serves a multitude of purposes, needs and interests (Lansberg, 1999). Family-owned firms are continuously being affected by the changes happening in business and family contexts; in order to succeed, families in business must develop a clear infrastructure to manage the interrelations between family members, the business and the family investments. They must develop the appropriate governance structures to accommodate the different needs, interests and concerns of the many family members in many different ways (Corbetta and Salvato, 2004). As the family business grows over generations, it becomes an ever more complex structure with several family branches, diverse interests and stakeholders, and maintaining family connection and collaboration becomes a critical challenge for most families in business. In addition, as business grows and also becomes more complex and international, its governance requires better practices. To compete in capital markets, faraway places, and to develop robust business strategies and organizations, companies turn to their board of directors to carry out these tasks at a higher level. They look for the best talent available and implement good corporate governance principles. Failing to improve corporate governance practices is associated with lower business performance in family controlled business as well (Anderson and Reed, 2004). This article presents a description of the different models and practices for how Spanish family-owned firms develop a governance infrastructure as they grow into
multigenerational family-owned businesses and as their companies grow in size and complexity. The article also points towards some of the key challenges that Spanish family-owned firms are currently facing as they advance into becoming family dynasties managing increasingly global firms. Furthermore, the article will emphasize the different governance infrastructures that make up effective family and business governance and some of the most relevant agreements that allow multigenerational families in business to thrive. Identifying common and successful practices and trends can help organize future research regarding effectiveness and best practices in family-owned firms. This effort can help multigenerational family-owned businesses to thrive across generations as well-organized entities that keep the family connected and committed towards the common purpose of preserving and growing its heritage.

**Sustaining a Multigenerational Family-Owned Business: The Complementary Role of Family Governance and Business Governance**

The challenges to maintain multiple family branches sharing control and ownership of the business becomes more difficult as family-owned businesses become more complex in terms of number of generations coexisting in the family project. If the family is successful in maintaining and developing the family business over generations, the value of its business and other investments is likely to grow and multiply over generations. Several authors call this a multigenerational family-owned firm (e.g., Jaffe and Lane, 2004; Lambrecht, 2005). When there are family branches involved in the business, each of them has different needs, agendas, capabilities, levels of commitment, family history, family culture and traditions. This complex makeup of attributes makes it very challenging for families in business to stay united and maintain a shared ownership (Khanin, Turel and Mahto, 2012). Nevertheless, many families in business hope they can stay united and transmit their legacy from one generation to the next. What do families in business need to keep their many diverse family members connected as a family, aligned and passionate about the vision, mission, values and strategy of the family business?

To thrive, families in business must be proactive; in other words, they must be stewards and responsible owners in making important decisions regarding the management of their assets (Carlson, 2001; Martin, 2001). This includes the establishment of good business governance practices. Creating formal structures and processes to optimize the relationships between the family and the business is known as family governance (Lambrecht, 2005). Governance structures and agreements that integrate the voices of all family owners appear to be crucial if a multigenerational family-owned firm wishes to succeed over time (Eckrich and Mcclure, 2012). Governance structures provide clarity regarding the values, the mission and the vision that are guiding the business project. Likewise, they can guide and educate family owners regarding their rights and responsibilities so they can become responsible and committed owners. They can also help to sustain family connection (Jaffe and Lane, 2004).

It has been shown that governance structures are not static, but rather they represent a dynamic process that evolves over time and adapts to the needs of each generation (Basco, Pérez-Rodriguez, 2009). It is often found that in families that have created effective governance mechanisms for one generation, these same mechanisms may not be as effective for the next generation (Eckrich and Mcclure, 2012). In this sense, it is almost impossible to create governance structures that can fully anticipate all the possible changes that might occur in the family and in the business contexts throughout the lifetime of a family-owned business (Eckrich and Mcclure, 2012). Hence, it is very important that these structures are flexible enough so they can accommodate the business and family needs that will likely emerge over time.
Due to the fact that governance structures are highly dynamic and are in continuous change and evolution, scholars often find that the manner in which each family organizes itself is unique (Corbetta and Salvatto, 2004). Studies that have looked at family governance structures around the globe have found that each family works with a specific web of structures, agreements, councils, and forms of accountability to manage their assets (e.g., Jaffe and Lane, 2004). This is not surprising if we consider that nowadays families are characterized by their increasing diversity in terms of structure, culture and life cycle patterns (Walsh, 1998). Families in business are influenced by their unique family culture and family climate creating in each case a peculiar dynamic system that necessitates a specific web of governance structures to accommodate its needs (Björnbergand Nicholson, 2007, 2012). In this sense, we are talking about a highly-heterogeneous domain of study. Nevertheless, there is a specific governance structure that within the last decade has emerged as a trend and a common tool, which often helps families in business to thrive across generations: the family council (Eckrich and Mcclure, 2012). In addition, the corporate governance best practices movement, is converging towards a common set of principles and norms. At present, these best practices are expected and demanded by the investment community and regulatory authorities in public and private corporations across the world (OCDE, 2004).

The Family Council: A Key Governance Structure

Effective governance in multigenerational family-owned firms is a blend of effective interactions between the family and the business structures. When a family business becomes a multigenerational entity, its purpose can no longer be informal (Eckrich and Mcclure, 2012). Many family-owned firms struggle because the tools they have to organize the complex interaction between the family and the business are based on legal devices or ambiguous agreements that many times are unsuited for present realities (Jaffe and Lane, 2004). The issues that concern the family often relate to family values, purpose, family relationships and understanding about the roles of individual family members. In this sense, in multigenerational family-owned businesses the board of directors often becomes insufficient to deal with both business and family endeavors. Hence, there comes a degree of complexity in which the family must organize itself more formally to express its voice and needs, as an adjunct governance body to the role of the board of directors (Eckrich and Mcclure, 2012).

A structure that has been used in many family-owned firms around the globe with the aim of organizing the family voice and establishing a line of communication between the family and the business is the family council (Eckrich and Mcclure, 2012). According to Eckrich and Mcclure (2012), a family council is a governance structure commonly formed by a group of family members that represents the special interests of the family. Strong family councils often engage the entire family, allowing important voices to be heard, contribute to the family unit, increase effective communication, and concentrate the influence of a family on its company. Likewise, the aforementioned authors remark that this group is also responsible for communicating to the board of directors the broadly-stated wishes of the owning family.

Similarly, Ward (2004) suggests that there are three main functions of the family council. The first function involves providing meaning and purpose that serve to engage and motivate family members to get involved in the family-owned business project. The second function relates to the education and development of family members. The third function involves leadership and effective decision-making processes for the family to develop a unified voice and provide the leadership for the continuity of the family’s interests. The author states that the
above functions are essential to the long-term continuity of the family-owned business, and therefore he encourages families in business to take action and invest time and effort in the organization of the family council, as this practice of formally organizing the family will bring goodwill to the family business over generations.

The family council grows and evolves as the family grows (Jaffe and Lane, 2004). It might start as a very simple council of siblings, meeting with the leaders of the family to discuss issues of succession and the involvement of the next generation, among other topics. As the number of family members grows and the complexity increases, the family council often grows to the point where it becomes representative; so it evolves into a more formal governance structure (Jaffe and Lane, 2004). It is important to emphasize that each family seems to have its own way of organizing its family council and giving voice to the family-oriented concerns; hence it is not surprising that scholars often find different forms of family councils around the world (Eckrich and McClure, 2012). For instance, it is common to find that large multigenerational family-owned firms create different task forces through branches under the family council umbrella (Jaffe and Lane, 2004). They are often called family commissions or family council committees, and can include a group of family members focusing on issues such as family communication, next generation development, family education, or running the annual meeting (Eckrich and McClure, 2012).

Overall, managing family and business dynamics is always challenging and therefore families in business must organize themselves to deal with this complex intertwining of systems that gives rise to an ever more complex dynamic system. As we have discussed earlier, scholars have found that there is not a model that fits everyone, however, the family council has become popular over recent years and appears to be progressing as families change and evolve. It is important to emphasize that at its core, each family has a purpose to discover or rediscover and organize around it. Families in business can flourish together as long as they are able to agree on a common purpose and believe that staying together offers the best opportunity to achieve such a purpose. Thriving families in business often realize that it is enthusiasm and passion that keeps them united and energized, not legal contracts or perceived obligation. An organized family can create different forums where each of its members can accomplish their personal goals and dreams, offering opportunities to achieve great things with people that are closely related and feel they are in secure relationships. Belief in the importance of the family council as a tool that can help families in business to connect to their most unifying purposes and have a positive impact on the world inspired the six research questions driving this research study:

1. Is there a single type of family council?
2. Which are the key features of family councils?
3. What are the reasons for starting a family council?
4. What is the objective of creating a family council?
5. What are the stages of family businesses and types of family councils?
6. What are the characteristics of other governance structures connected to the family council used by family-owned firms?
II. Method

Relevant family members from large Spanish family-owned companies at different generational stages were contacted. The study sought participants that came from a sample of heterogeneous family-owned businesses in terms of firm maturity, and type of business activity, as the structure of family governance is often conditioned by the size and maturity of the family firm. More specifically, the sample was composed of 16 members of Spanish family-owned firms (all participants were involved in family governance). The 10 males and six females were part of the 2nd to 4th generations.

The size of the companies is measured in terms of number of employees and turnover:

<table>
<thead>
<tr>
<th></th>
<th>Number of employees</th>
<th>Turnover (€ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Median</td>
<td>4,200</td>
<td>1,200</td>
</tr>
<tr>
<td>Average</td>
<td>8,619</td>
<td>2,211</td>
</tr>
<tr>
<td>Min</td>
<td>2,000</td>
<td>650</td>
</tr>
<tr>
<td>Max</td>
<td>33,000</td>
<td>12,000</td>
</tr>
</tbody>
</table>

In total, these companies have a turnover of €35 billion and employ 138,000 people. Hence, they can be considered as significant contributors to the Spanish economy.

In terms of their main sector of activity they are distributed as follows:

<table>
<thead>
<tr>
<th></th>
<th>Consumer</th>
<th>Industrial</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Services</td>
<td>3</td>
<td>2</td>
<td>5</td>
</tr>
<tr>
<td>Products</td>
<td>4</td>
<td>7</td>
<td>11</td>
</tr>
<tr>
<td>Total</td>
<td>7</td>
<td>9</td>
<td>16</td>
</tr>
</tbody>
</table>

In terms of the family generational stage the distribution is as follows:

<table>
<thead>
<tr>
<th>Generational Stage</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td>G1/G2</td>
<td>2</td>
</tr>
<tr>
<td>G2</td>
<td>5</td>
</tr>
<tr>
<td>G2/G3</td>
<td>4</td>
</tr>
<tr>
<td>G3</td>
<td>2</td>
</tr>
<tr>
<td>G3/G4</td>
<td>1</td>
</tr>
<tr>
<td>G4</td>
<td>2</td>
</tr>
<tr>
<td>Total</td>
<td>16</td>
</tr>
</tbody>
</table>

In terms of control over resource/management of the main business, the sample is evenly split; eight are run by a sibling partnership and eight by a cousin consortium.
Procedure

A Methodological Note

Research on family business has substantially increased over the past few decades; however, if we look at the publications in specialized journals, we find that the field is still dominated by quantitative research drawing on large samples (Dyer and Sánchez, 1998; Sharma, 2004). Qualitative approaches and case studies make up the minority. However, qualitative, inductive research seems to be equally important in the family business field, since various processes and experiences can only be tackled at the micro level (often subjective) experiences of the family business members (Hall, Nordqvist and Melin, 2009). In this case, the principal aim is to take a snapshot of the experience of members of family councils and see how families in business use family governance as a tool for dealing with the complex interaction between the family and the business systems. Since this area of research is still very young, explorative research is needed. Therefore, a qualitative approach seems to be the most appropriate as we are seeking to achieve a deep understanding of the way families in business organize themselves and deal with the complexities of becoming a family dynasty.

Following the reasoning above, semi-structured interviews were conducted by the first two authors with each participant. Semi-structured interviews were used because the method provides the researcher with flexibility, allows the collection of rich data and it can be used for interpretative phenomenological (Smith and Osborn, 2003) and ethnographic (Altheide, 1987) analyses. The interviews lasted between 60 and 90 minutes. The interviews were divided into three parts: introduction, rapport building, main questions and wrap-up. During the introduction, participants received an explanation of the objectives of the study and the level of confidentiality they could rely on.

Participants were initially questioned about the history and traditions of their family, and the most important milestones that contributed to the creation of governance systems. Likewise, participants were asked to discuss through which mechanisms they fostered family unity and the pride of belonging to the family business. Participants were also asked how the relationships between the family and the business were regulated. Participants were asked to describe the characteristics of their family council (e.g., membership criteria, council structure, leadership style, decision-making style, different commissions of the family council, meeting agenda, etc.). They were also asked if they had other governance structures adjunct to the family council in place (e.g., family office, board of directors). Finally, participants were asked if they felt satisfied with the contribution of their family governance structures to the family business success.

Data Analysis

The data analysis was conducted following the Interpretive Phenomenological Analysis (IPA) procedure suggested by Smith, Jaraman and Osborn (1999). This type of analysis begins with a detailed analysis of one specific transcript prior to focus on the remaining transcripts. The first reading of the transcript is carried out to identify significant, salient or interesting elements of the participant’s narrative. Then a second reading of the transcript is carried out with the aim of identifying and recording emerging themes. To organize the information, theme titles are developed and noted throughout the transcript whenever similar themes emerge and superordinate themes are also detected. Finally, the researcher proceeds to order the themes.
According to theoretical assumptions or his/her own expectations, before this process of analysis is carried out for all the remaining transcripts. All the remaining interviews were then transcribed. Furthermore, the ethnographic content analysis (ECA) approach (Altheide, 1987) was used to complement the IPA approach. It focused on documenting and understanding the meaning behind the participants’ transcripts. ECA can provide the researcher with a systematic and analytic approach that allows him or her to recognize variables that initially guided the study, yet remains flexible to other variables that are allowed and expected to emerge as the researcher goes into depth in each of the transcripts.

**Reliability**

In order to ensure the reliability of the study, the procedure adopted by Harris, Daniels and Briner (2001) was incorporated. The qualitative data was coded by at least two researchers and was analyzed for consistency. An inter-coder reliability measure suggested by Miles and Huberman (1994) was used to calculate the level of agreement between the two researchers. The authors suggest that the measure should yield over 70% inter-coder reliability. To confirm reliability further, disagreement between researchers was settled through an exchange of views.

**III. Results and Discussion**

The results of the study are presented in seven sections, following the research objectives of this study outlined in the introduction section. For some cases, transcribed quotes from the interviews are provided in order to illustrate the emergent themes of the study.

**1. Is There a Single Type of Family Council?**

In the present study we found two main types of family governance structures. Both were referred to as family councils by the 16 family members who participated in the study, yet we found great variation in their functions and organization. The first type of family council, which we call type A family council, appears to be simultaneously representing all shareholders. (In our sample within the small family-owned businesses all shareholders were physically present.) This type of family council has all the main attributes of what is known elsewhere as the owner's council (e.g., Eckrich and Mcclure, 2012). The main singularity of this type of family council is that it deals with business AND family matters. Its main objective seems to be overseeing the business on behalf of the owners.

The second type of family council (type B: B₁ and B₂) is a more canonical type; it is primarily focused on preserving the family legacy and fostering the cohesion and well-being of the family members. As opposed to type A family council, type B family council has no decision-making authority over business issues, neither over the administration of the family wealth, especially when a family office is in place. Business and family wealth topics are often dealt with by an existing and independent owner's council. If this is not the case, these issues are directly managed through the shareholders meeting with the support of the company board of directors. The main objectives of this type of family council are to work with family values, purpose, communication, education and family relationships, as well as understanding the roles of individual family members.
In our sample, out of 16 family-owned businesses, 13 had established their family council: 6 of them had a type A family council, 3 had a type B1 family council, and 4 had a type B2 family council. In three cases there was no family council of any type in place, although two of them were planning to implement one in the near future. In the first case, the protocol specified that when the third generation reached a specific age, the family council would be created. In the second case, despite the large size of the company and the family, the founder was still in charge of everything, working hand in hand with his eldest son who managed the daily operation of the business. The rest of the family was completely absent from any decision-making process. In the third case, the family-owned firm had a board of directors and a yearly shareholders meeting. However, the family didn’t have a family council that dealt with family issues such as family cohesion, family values and next generation development. In the above three cases, participants were not satisfied with the way in which the family was governing itself and all three participants saw the urgent necessity to become proactive and create a formal governance structure for the family.

Interestingly, regardless of the size of the company, most type A family councils (four out of six) were relatively small, containing 10 or fewer shareholders (in the 2nd generation or in the transition to the 3rd generation). In contrast, type B family councils tended to be larger families and they were often run by cousin consortiums. In terms of being satisfied with the governance structure in place at the moment of the interviews, those families that were the most satisfied were the ones having a B1 or B2 type of family councils, as this type of family council dealt specifically with family issues and therefore they felt that the family had an organized voice. Contrastingly, the least satisfied families were those who did not have a family council in place and they could see the need to have a family governance structure that dealt directly with family issues.

2. What Are the Key Features of Family Councils?

*Developing the Family Council Rules*

Most families in business had written rules explaining the family council purpose and how it should function. This is a description of the constituency, where there is an account of the functions, the rules about the functions, authority and responsibility that the family assigns to the family council, as well as the membership to the family council. This written description of the rules that govern the family council often contained a set of instructions and guidelines for running the family council that helped family members to have a clear view of the purpose and functions of the family council. The most successful family council rules were written by the family for the family; more specifically, a group of family members had worked together on
the development of the family council rules. In most cases, the ones in charge were members of the next generation, and they were continuously working with the more senior generations, until everyone agreed on the family council rules. Contrastingly, those families in business who had delegated the task of developing and writing the family council rules to consultants or advisors without having the family involved in the process, were the ones in which the family council description was forgotten and left on the shelf. According to our findings, it is vital that the family is committed to the task of writing the family council rules. Families in business can be benefited from consultants and advisors at the start of the writing process and from time to time to help on challenging issues; however for the most part, the family council rules, according to our sample, should be written by the family for the family.

**Family Council Meetings**

According to our sample, family council meetings are most of the time quite formal, with regular meetings pre-scheduled a long time in advance and with a set agenda for each meeting. More specifically, 3 out of the 16 families in businesses meet annually, 3 meet quarterly, and 7 have family council meetings bimonthly or more frequently. Interestingly, those family-owned businesses who meet annually expressed the least degree of satisfaction in relation to their family governance system, and they explained their necessity to hold family council meetings more regularly. Contrastingly, the families who had more regular family council meetings (bimonthly meetings) were the ones that were most satisfied with the governance mechanisms they had in place. Hence, according to our findings, the most successful family councils were the ones that had family council meetings bimonthly or more frequently.

**Family Council Composition, Tenure and Compensation**

Most family councils in our sample had a chair and a secretary. The role of the chair, in most cases, was to build support and commitment for the family council initiatives by encouraging input and participation from all family council members and also from the broader family. More specifically, the chair aimed to develop goals, maintain focus, coordinate the family council work and act as a spokesperson for the family council with the board of directors, the shareholders and other constituent family members. Likewise, the role of the secretary was generally to give support to the chair in several administrative tasks and also to provide experience to young family members who are interested in getting involved in the family council by occupying the secretary position.

Regarding tenure, we found that especially in large multigenerational families (three out of seven), family council members’ terms of service were limited to two or three years of service. However, most family councils did not have a limited tenure and the departure from the council appeared to be very flexible. Likewise, we observed that whereas some families were advocates of merit and qualification as considerations for membership on the family council, other families supported the idea of commitment and enthusiasm towards the family business project as main requisites for being a member of the family council. Regarding incompatibilities, in most cases we found that members of the family council were free to occupy other positions within the management and the ownership structures. Only in two cases did we find an incompatibility of roles established in the family council rules, such that the members of the family council were not allowed to have any other position in the family management or ownership structures.
In general, we observed from our sample that being a member of the family council does not have any kind of remuneration, despite the amount of work that the members of the family council devote to organizing and running activities. However, in one case, the family had the philosophy that the family council was critical to the business’ long term success and therefore they offered a full-time paid position for a family member who wished to serve as the secretary of the family council. This way the secretary could devote all his or her working time to the running of the family council.

Regarding the composition, although almost all families recognized having started the family council with one or two non-family permanent members, and continue to use external advisors as needed, as the council matures, the family feels more comfortable without non-family council members. Out of our entire sample, only two family councils had permanent external members sitting in the family council.

In terms of assessing the performance of the family council, in most cases family councils did not evaluate the effectiveness of the family council. Only in two cases did we observe feedback mechanisms for making improvements and adjustments to the family cases. In these two cases, members of the family council recognized and appreciated the contributions and effectiveness of the family council functions. In this sense, a relevant observation is that in these two cases, individual members of the family council were not evaluated directly, rather the members evaluated the family council as a function. If there were concerns about the performance of an individual or specific individuals, these matters were handled in a more discrete manner. In this sense, for most cases it was the chair of the family council who privately had a conversation with the problematic individual and asked for cooperation or abandonment of the family council. Those family councils that supported the practice of evaluating the family council were very satisfied with the contribution of the council to the family business success. Hence, from these findings, we could emphasize the importance of regularly evaluating the function of the family council so its members can appreciate the success of the council and consider the potential value of adjustments.

**Family Council Committees**

We found that for most of the cases, the committees were an important part of the family council, especially for the most sophisticated and large multigenerational families. In these cases the family council organized committees devoted to various areas such as the development of the next generation, in other words, committees for and of the junior generations with the aim of addressing their integration into the family governance and giving them support in their professional and personal development. There were also other family councils that organized committees on the topic of education; for these committees, the main objective was to coordinate the education of family members in relation to the family business, and some education committees also coordinated different workshops targeted at developing, for example, communication and problem-solving skills. Other family councils had a special committee devoted to philanthropy, and their main objective was to provide the family with information regarding the philanthropic projects they were involved in as a family and also to coordinate the interests and needs in relation to philanthropy within the family. Likewise, we also found committees in charge of planning and organizing the family assembly meetings that were usually held once a year, in the form of family trips or family retreats that could last for several days. Finally, we found that some family councils established committees devoted to develop and maintain family communication through the use of a family website or a family
newsletter. Overall, those family councils that organized different committees serving different purposes viewed this practice as extremely useful to fulfill the family councils’ objectives efficiently.

3. What Are the Reasons for Starting a Family Council?

What motivates families in business to create a family council? We found that family councils are usually started for reasons related to: a) disruptive events concerning family history, b) the focus of the generation in charge changes from only business success to also the sense of legacy; and c) the evolution of family members.

Disruptive Events Concerning Family and Business History

We found that disruptive events in the history of the family or the business often contain important triggers or crises that make families in business realize the need to develop new governing structures and processes. These events are not necessarily bad or harmful and usually represent opportunities to reorganize old patterns and create new dynamics that will give a fresh perspective to the family and the business. In some of the family businesses we examined we could see that after a crisis, families tend to feel like a person after a health problem. They are ready to make behavior changes and reconsider the priorities of the family or seek advice from external experts. Families in business are more ready to use preventative or proactive measures to avoid another crisis. These events trigger the need to look ahead and into the future of the family and the business and reflect on how the family sees itself organized and ready to cope with future challenges.

Developing a family council appears to be a natural form of preventing further crises by providing an instrument to foster open communication and finding alternative solutions to family issues. It appears that after a crisis, a family is much more ready to seriously consider and commit to the effort needed to organize itself and create governance structures to enhance family unity and commitment as well as to provide effective communication channels between the family and the business. For instance, one of the companies we studied created a holding company in the first generation when the company sold half of the shares of the main business and decided to invest the proceeds in other business. The holding company created a board of directors for the first time with all family members participating as well as some executives. Soon after, the family saw the need to create a family council that supported the board of directors by dealing with family issues not related to the business.

In another case, when the family suddenly received the proceeds from a major divestiture, the members of the third generation were forced to think about whether they really wanted to continue investing together through a family office or split the heritage and manage their wealth independently. Events such as the ones explained in the former cases, clearly put the need on the table to separate the governance of the family from the governance of the business.
The Focus of the Generation in Charge Changes From Only Business Success to the Sense of Legacy As Well

In many cases we found that there comes a point in time when senior family business leaders start thinking about the legacy they want to leave to the next generation. Whether it is a crisis of identity, a realization that the legacy needs attention, or a health issue, we found a common pattern among senior leaders. Several have accomplished many of their business goals, however, they lack reflection on the legacy they want to transmit to the next generation. At this point, several reflections start to emerge, such as one expressed by a participant: “If I die tomorrow, my children will lack a governance structure that helps them continue working in the business harmoniously. I would be leaving a mess regarding family governance.” In this sense, senior leaders feel they need to prepare the next generation for this big step and they start realizing that the family needs to organize itself and start developing governance structures to accommodate the needs and interests of all family members.

The Evolution of Family Members

Another important reason to start a family council is the maturation of the family. Once the offspring of a nuclear family begin to create their own households, the potential for conflict and misalignments begins to grow. For instance, personal financial needs grow bigger and family ties begin to experiment strain. Junior family members who have received training on the topic of family businesses through seminars on family governance grow impatient and start to ask for a formal setting to deal with family and ownership issues that go beyond the management of the company and the informal gatherings of the family. In one case, we could observe that the creation of the family council came during the transition from the first to the second generation. The first generation had created a board of directors, and it worked well until the second generation reached maturity and tensions between siblings and the senior generation started to emerge. At this point, junior family members were eager to start organizing the family to provide effective communication channels between the family and the business, and from this point, a formal family council that meets each month was created.

In another case, the pursuit of excellence that the family sought restlessly regarding the management of the business pushed them to the development of a family governance structure. This family strived to adapt the family governance to its evolving needs, and has never been afraid to experiment with new concepts. The fact that its structures change over time is perceived as a sign of a healthy and resilient system. It is also recognized that doing so requires a lot of effort and some wear in maintaining a good communication flow between the family and the business. In this case new structures are continuously created, and therefore functions of the family council are being constantly expanded and the usefulness of the family council appears to be increasingly evident to the family.
4. What is the Objective of Creating a Family Council?

At the initial stage, the objective is to establish a formal venue of communication for the family. However, we observed that probably the most important objective is to write and review the rules by which the family governs itself in the format of a family constitution or a family protocol. Usually a special task force for this purpose is set up under the supervision of the family council or the owner’s council.

The development of the mission statement and corporate/family values is often mentioned as a primordial role of the family council. Nevertheless, we observed that the mission statement is not always present, and even in one of the cases it was developed in order to present it publicly and it would have been embarrassing not to have it. At any rate, the mission statement and the family values are usually written in the family constitution or protocol and seldom are changed or reviewed.

As the family council evolves, a mechanism for family cohesion is developed. One of the families we studied expressed this in the following way: “We do a lot of fun things like organizing annual reunions for all family members, establishing various interest groups like, for example, running or producing an annual book with family photos and their activities.” If a family assembly exists, the family council is in charge of organizing it.

Another important objective is to serve as a conduit of regulated information from the business and the family itself to the family members. On business matters, usually the information is given by the executives that are running the firm (family or non-family members) and coordinated by the family council during the family assembly. If the firm is a publicly quoted company, this is done at the shareholders general meeting, which is open to all shareholders. Regarding family matters, the information is often captured, edited, and distributed by the family council itself in different formats: a family website with different degrees of sophistication, regular (usually quarterly) hard copy newsletters, family albums/books, and others.

A third major objective for some of the family councils we studied is to provide means for the education of family members on the family business by visits to company locations, speeches of business leaders or specific courses regarding business-related matters. Some families also organize seminars on topics such as communication, interpersonal skills, and others.

When family members’ career development is taken as a priority, it is the family council that is in charge of spotting talented family members who can serve on business boards, advising on education, coaching the next generation, or providing the means for university or graduate studies. It is usually carried out through a specifically dedicated committee with outside experts serving on them.
5. What Are the Stages of Family Businesses and Types of Family Councils?

In the following table we outline what we observed in our sample regarding the natural evolution of family business governing structures:

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<th>Family Governance Stages of Development</th>
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During its initial stages, when the family finds compelling reasons to start thinking about its future, often an external advisor who acts as facilitator and guide for setting up the family constitution and the governing bodies of the family is hired. Once the family starts thinking about setting up a family governance structure, the type of the main external advisor is an expert in family business and the family leader mindset is crucial in determining the sort of relationships that will be established in the family council.
If the advisor focuses on legally straightening out the situation at hand, and the attitude is mainly mercantile, the preferred approach is to develop a legally binding family protocol with hard rules. The advantages of this approach are many: immediate, visible results and a solution for many important issues that were unsolved or avoided. If the legal expert is skillful and experienced enough, this more legal approach also has the advantage of predicting and preventing other potentially harmful future issues.

The disadvantages of this more legal approach are also worth mentioning: 1) there is an over reliance on a rigid framework that in the end might not be enforceable: 2) difficulties and resistance to changing agreements and evolving into new structures according to the changing circumstances may emerge; 3) family forums are devoted to negotiations and continuous haggling. Majority vote decision making is common. In general, families who use this approach disregard more "soft" socio-emotional issues and often serious conflicts escalate easily.

On the other hand, if the family business consultant focuses on building and strengthening family relations, and foster positive family dynamics and fair processes, the preferred approach is to develop family forums or committees that will eventually develop into shareholder agreements, a family constitution or protocols, as needed. The advantages of this approach are as follows: 1) there is a more organic approach with a longer term perspective of the evolution of the family; 2) the ability of the family to adapt more easily to changing circumstances (within the family and the business) is enhanced; 3) the development of "soft" links of trust, love, pride and belonging are likely to emerge; 4) family forums deal with "hard" matters, but also with "soft" matters related to family communication and cohesion, and therefore, conflicts between family members can be successfully managed within the family.

We also observed some disadvantages: 1) it takes a longer time to build and implement the family council (years instead of months); 2) some difficulties from particular family members in accepting the approach can emerge and therefore a prominent champion supporting the process is needed; 3) the results of the process of implementing a family council are more intangible, difficult to assess and subject to personal interpretations; and finally, 4) plenty of time and effort from many family members and a good budget to support family activities is needed, which may at times feel superfluous for some family members at the start, but this feeling is likely to change once the family council starts functioning.

We observed that very often type B family councils are initially implemented almost as an experiment. For instance, in one case, a member of the 3rd generation was asked by the family leader to take the presidency of the newly-formed family council and start the process and see how it worked. Another family expressed this sense of experiment in the following way:

"Initially it may seem a bit superficial, but as time passes, its usefulness becomes more and more obvious to the family and it gets easier to keep it together."

In one of the companies we studied, a highly-developed family business in its 4th generation with around 100 shareholders, the two main objectives of the family council were the following: 1) personal interaction and knowledge between shareholders and family members, and 2) educating the family regarding the activities and products of the company. Initially, a complicated structure with the help of advisors was implemented. Later, it was decided to simplify the governance structure significantly. Currently, all that is left is the shareholders general assembly, the family council, and the board of directors. The family council committees and the family constitution were eliminated.
6. What are the Characteristics of Other Governance Structures Connected to the Family Council Used by Family-Owned Firms?

We could observe that for some cases the limits among the boards, councils, assemblies, and informal gatherings with different roles in the governance of the family and/or the family business were blurry and in need of clarification. This is particularly true when changes in the surrounding circumstances of the family or the business precede the necessary adjustments of these decision-making forums. A significant finding is that the pre-existence of shareholders agreements and regulations in the form of family protocols (without an established and functioning forum where the family can have constructive discussions, instead of facilitating the adaption to the new circumstances) triggers an avoidance behavior towards the difficult conversations and potentially contentious issues. However, as time passes by, the rules become more and more obsolete and useless, leaving the family without a framework to deal with conflict and family evolution. In these situations, it is the business that takes over and precedes all considerations, enlarging the separation between those family members involved in the management of the business and the rest of the family members.

Contrastingly, if the family has a consolidated governance structure with an implemented family council and a board of directors with responsibilities clearly defined, the likelihood of being able to cope successfully with unforeseen crises is greatly enhanced and therefore the family and the business become more resilient.

7. Special Cases: When There Is no Family Council in Place

In this section we will present three cases, which in our view are worth commenting separately due to their special circumstances. What these cases have in common is that they do not have formal family governance structures. They are large family businesses and they are currently facing the challenge of how they are going to pass the ownership and the management of the company to the junior generations. All three cases think of an IPO as a possible solution, but market circumstances at the time of the interviews (2012) have prevented them from taking this path.

One of these cases was a very difficult situation in which the business leader became seriously ill and left the company without any formal mechanism of family governance in place. This situation forced the family to suddenly enter into a cousin consortium phase and to create a board of directors that could give continuity to the company. The board of directors currently has four family members, three of whom also work in the company, four independent directors, and two executives of the company who are not family members. This solution worked fine until problems began to emerge regarding the request of some family members to become full-time employees of the company. The business lacked a mechanism to deal with this sort of request and soon disputes between family members developed and escalated. In view of this situation, the family opted for a legal type of intervention by creating a legally-binding family protocol. At this time, no other family cohesion mechanism had been developed and the family was quite unsatisfied with the current situation as they worried about the break-off of some family relations.

The protocol established a formal family meeting for all the shareholders of the company, however, and because there are two branches with very different educational and training characteristics, the family meeting has become the forum where disputes are settled. Consequently, the family only reconvenes once a year. Likewise, the family meeting also appoints the representatives of the family to the board of directors. The board has a nominating committee that oversees the suitability of the candidates that have been identified by the family. In this case
the balance of power has clearly shifted from the family to the business. The question that emerges from this case is the following: how will this family transition from the third generation to the fourth generation relying only on legally-binding obligations for shareholders?

The second significant special case is a sibling partnership in the fourth generation that has been operating under unwritten traditions of passing shares on only to male offspring, and who have also developed their entire professional career in the family business. As a result, the number of family members involved in the business is small and there is no perceived need for a specific forum to deal with family matters.

For this case, the family council operates like an owner’s council formed by the parents, siblings and the members of the fifth generation who are over 21 years old (without a vote, participating only for educational purposes). In this case, the main objective of the family council is the supervision of the holding company and the writing and amendment of the family protocol which is clearly focused on regulating shareholders agreements. No other family matters are contemplated in the family council meetings.

The protocol has been developed to a large extent and it is almost finished. However, it is kept and forgotten in a drawer. Its value is recognized for the future, but at the time of interview, it was perceived as useless. The family tends to rely more on the deeply-rooted family traditions; however, some of these traditions are recognized as obsolete. For example, the “male only” rule that excludes women from the ownership and the management of the family business, as well as the rule of only being able to have a leading position in the company if one has developed all his career in the company, are both rules which are clearly out-dated.

To complicate the situation even more, the company has merged with another family-owned company in the same sector due to current economic circumstances. How will they be able to start developing new functional structures to keep both families together, review old rules and develop new ones? This seems like a very challenging task, despite the small number of family members involved in the business. The straight jacket of the legal framework they have in place has clearly become an important obstacle for this family-owned business.

The third special case relates to a family-owned company involving three founding families, over 100 shareholders, and more than 180 family members. It does not have a family council as such, yet it has developed a highly-functional family and business governance structure. Everything depends on the board of directors of the family holding company. It not only supervises the company, but also develops two key tasks for the family through ad hoc committees: 1) “hard matters” related to valuation of the company, rules for working in the company, mediation among shareholders and similar matters related to dividends policy, nomination of key positions, and others; 2) family cohesion practices related to engagement, information, sense of belonging, and commitment towards the family business project. This very original and highly-successful way of organization is the result of hard work and dedication, as the main architect explained to us,

“It has not come out all at once, but little by little it has been built; it is a compendium, the result of experience. You need to put more time and effort in to take care of shareholders than a regular publicly quoted company takes care of theirs.”

The main worry of this family is that too much of all that is functioning relies on one family member, the CEO. Hence, for this case, the following question emerges: Who will take the lead in family matters when the CEO retires? This is certainly a constant concern for this family.
IV. Limitations and Future Research

The limitations of the present research study should help guide future research. Although our study represents an advancement in the understanding of the objectives, structure and functions of family councils, given the explorative nature of the research, further studies are needed that involve larger samples. For future research, it may be interesting to establish a control sample and identify and test hypotheses. In particular, it may be worthwhile to operationalize the dimensions identified in our study: the different types of family councils (Type A, B¹ and B²), key features of family councils, reasons for starting a family council, the stages of family business and types of family councils, and the characteristics of other governance structures connected to the family council. Once we have operationalized these dimensions, we could adopt a quantitative methodology that should help us by testing what we have observed in this study. Finally, our study is among the first to examine family councils in Spanish family-owned firms. Looking at the cultural features that affect the genesis and the evolution of family councils is beyond the main objectives of this study. It should undoubtedly be included, however, in the agenda for future research. In this sense, the culture literature (e.g., Hofstede, 1991; Schwartz, 1990) may be of great interest for future research in the area of family governance.
V. References


