

## Family Charters

### *A Guiding Light for Managing Family Businesses and Other Property*

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#### Key Takeaways:

- A family charter can help guide family members through challenging business situations.
- Having a charter often results in stronger family relationships and improved communication.
- Charters can also be beneficial for non-business issues like the sharing of a family vacation home or the transition of wealth.

Unique challenges arise when a family owns a business. Which family member(s) will lead it? How will profit distributions be decided? How can individuals sell their ownership stakes? These issues are best handled in advance and through many discussions. It may also be helpful to create a *family charter (also known as family constitution)* to embody some of the answers, and most importantly, the mechanisms to address questions as they arise in the future. As challenging or potentially beneficial situations present themselves, having a formal document in place can help facilitate family communications and maintain harmony.

#### **A Framework for Business Decisions**

There are many ways to write a family charter; the approach you take should reflect your unique family and business needs. Some people choose to create a comprehensive document that provides specific guidance on fundamental business issues and serves as an example for future generations. Others prefer to write a broader, more general charter that focuses primarily on communications and voting rights to help the family avoid or resolve a potential situation.

Below are some of the topics typically included in a family charter:

Topic	Key Points
Board Makeup	<ul style="list-style-type: none"> <li>• How many and which family members will sit on the board</li> <li>• The inclusion of independent directors and the selection process</li> <li>• The representation of non-family members such as management, current and former employees, or an employee stock ownership plan (ESOP)</li> <li>• Board committees and whether they will include family members</li> </ul>
Family Hiring	<ul style="list-style-type: none"> <li>• Under what conditions can family members be employed</li> <li>• How will they be managed and compensated</li> </ul>
Succession	<ul style="list-style-type: none"> <li>• The replacement process when senior managers, including the CEO, retire (particularly when family members fill such roles)</li> </ul>
Profit Distribution	<ul style="list-style-type: none"> <li>• When and how profits are distributed</li> <li>• Under what conditions the business can retain profits to fuel growth</li> <li>• How, if at all, differing cash flow needs among family members will be addressed</li> </ul>
Shareholder Liquidity and Family Exit Rights	<ul style="list-style-type: none"> <li>• When and how family members can sell a portion of their shares</li> <li>• Under what conditions can they sell all their shares and/or exit ownership of the company</li> </ul>
Family Meetings	<ul style="list-style-type: none"> <li>• The frequency of meetings, their content and structure</li> <li>• The business questions that will be addressed by the entire family</li> </ul>

Once written and agreed to, don't let your charter languish in a drawer or on a bookshelf: take it out regularly, maybe annually, and review it for current relevance. A "living" charter that evolves over time with your family, business and the world is likely to be more effective. It may also improve communications and help prevent mistrust among family members.

### Strengthening Family Bonds

Possibly the greatest lasting value derived from a family charter is the opportunity for better communication, driven in part by regular meetings (as noted above). The key is to be transparent and involve everyone in discussions about the company and the family-business intersection. For instance, you might use your family meetings to talk through business activities such as increased or decreased profits, top-level hiring decisions, core business strategy, mergers and acquisitions, or large investments.

Be sure to include spouses in the meetings. Poor communication can engender a lack of trust between individuals and between branches of your family tree. You might even go as far as to include language in your charter that guides future generations to bring new spouses into the discussions early on. Your charter might also recommend pre-nuptial agreements, or that spousal codicils are written in parallel to internal family agreements and trusts. That way spouses have at least some voice for themselves and their branch of future descendants.

And don't forget the younger generations, especially if they're expected to have a role in the business someday. Your charter can create mechanisms whereby younger family members are made aware of the document and how it works. These communications might start when the individuals reach their mid- or late-teens—although, how and when to start may be a decision best left to parents.

## Not Only for Businesses

A charter can be beneficial even if you don't own a family business; perhaps there are other assets your family jointly owns like a vacation home. Additionally, planning for the control and transition of wealth of any type can be challenging. A family charter and good communication practices can make the process easier. This is especially true when you realize that "wealth" is not just money— it's the values, principles, traditions, stories and challenges that have made your family what it is today.

For these reasons, you might use your family charter to:

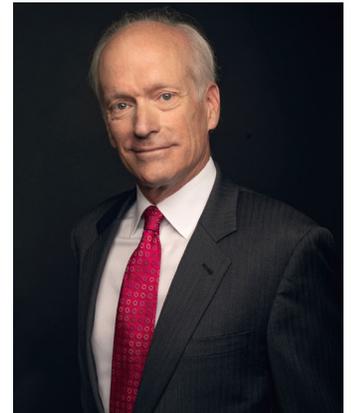
- Create traditions and rituals, such as a regular family party or reunion
- Craft documents that record the history of the family and the business
- Preserve artifacts that have been instrumental to the family's success

These topics can be helpful for instilling the family's principles and values in future generations and motivating them to build happy and productive lives that similarly pass-on good principles to even more generations.

## Let's Talk

The list of topics above is a good starting point for creating your own family charter, but you'll likely want to include other issues specific to your situation. Consider reaching out to peers who have family businesses to learn what they have done. Our team of wealth management advisors can also help you create a charter suitable for your family and business. Contact Cerity Partners to learn more.

Pierre is a Partner in our New York office and has more than twenty-five years of experience founding, investing in and providing strategic growth advice to early-stage and middle-market companies. In addition to mentoring executives, Pierre has advised business-owning individuals and families regarding their ownership stakes, their family dynamics and their personal wealth and inheritance plans.



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