



PLOWING AHEAD: FAMILY BUSINESSES

By **Patricia M. Angus**

The Year of Governance

A dominating theme on the global, national and family levels

Some years, it's difficult to look back across 12 months and find a common theme. The year 2016 wasn't one of those years. Instead, there's one word that defines 2016—not only for family businesses, but also for the larger world as well—and that word is “governance.” From beginning to end, 2016 was the year of governance in all its good, bad and ugly forms. Governance was the key issue for families, family businesses, nations and the global community. And, while in some years, there's a nice ending to the year's story by Dec. 31, the story of governance doesn't have an end in sight. A timeless issue, the recent challenges raised with respect to governance at all levels may not be resolved for a long time, if at all. I'd like to shed light on just a few of the many stories in which governance dominated during 2016.

Global Governance

Starting from a global perspective, in 2016 individuals and nation states grappled with what, if any, form of governance will provide a safe, secure and sustainable world for all. The international treaties and governing mechanisms that arose and/or were strengthened after World War II came under attack on several fronts. The U.K. vote to leave the European Union (Brexit) raised questions about whether and how the ties that bind Europe together will last. Donald J. Trump's campaign and ascendancy as President-elect of the United States involved a similar rebuke to the international trade

treaties and immigration norms that had been developed over more than half a century. In both cases, governance itself was the key underlying question, and local elections had impacts far beyond national borders.

National Governance

In the United States, local and national elections raised fundamental questions of governance from voters' rights to social issues, as well as the role of the political parties in leading the process. The rise of independents and cross-party voting reflects a deeper shift in affiliation and expectations across all demographic groups. In Europe, right wing movements, exemplified by neo-Nazi demonstrations in Dresden, Germany and Stockholm and the rise of Marine LePen in France, are just some examples of challenges to post WWII governance expectations. These movements reveal challenges to long-established norms embodied in the principles of liberty, justice and freedom for all. One must now ask anew what these ideals mean, in practice and theory.

Family Governance

More than two decades since the term was coined in the field,¹ “family governance” has grown into a topic that's now an accepted area of study and a practice that's recommended, even if without consistent meaning, by practitioners worldwide. The United States continues to lead the way, and the number of conferences, white papers and books on the topic has exploded in the past few years. One data point worth noting is the fact that The Family Business Council—Gulf has issued a Gulf Cooperation Council Family Business Governance Code to provide guidance in the Gulf States region.² The idea that the family itself, in addition to any businesses it owns or controls, must address its own governance is now accepted across the globe.

Patricia M. Angus is a family enterprise consultant in Washington, D.C. and an adjunct professor and director of the Family Business Program at Columbia Business School in New York City





Family Business Governance

In 2016, there were plenty of stories for family drama voyeurs, as well as business historians and political scientists alike. There was something for everyone, and it all hinged on family business governance. The Volkswagen scandal of fraudulently tampered emissions went all the way to the boardroom, and eventually fingers were pointed at the family behind the scenes. Business culture, and governance, starts at the top of any organization or group, and the company's woes may very well have been created by the way in which the family governed itself and the business it controls. In India, the Tata Group ousted its chairman, Cyrus Mistry, who responded with claims that family insiders had run roughshod over corporate governance. Closer to home, Sumner Redstone and his family's handling of the business and family governance behind a media conglomerate worth more than \$40 billion showed how fragile the alliances holding governance in place can be in practice. At this writing, it seemed clear that the Redstone family, and the interests it controls through a trust for the benefit of Sumner's grandchildren, will prevail in controlling the governance of its underlying holdings. Independent board members found themselves in a multi-generational tug of war that at times made any attempt to govern objectively seem impossible. Many other boardrooms, and family businesses, go through such governance challenges on a daily basis.

Governance Questions at Stake


On every level, governance questions were at stake, including:

- What principles will guide decisions made by or for the group?
- Who has the power to represent the interests of all or part of the collectivity?
- How can diverse voices be heard and taken into account?
- What process will be used?
- How can those in charge be held accountable to stakeholders?
- How can the power of "insiders" (whether politicians, family members or groups with greater financial resources) be balanced with the rights of "outsiders?"
- When has an individual, or group, gone too far in a direction that isn't aligned with the needs or interests of others?

Looked at in this light, it's clear that governance dominated 2016. Yet, it must be noted that despite all this governance-related activity, it's also the case that there's in fact little agreement about the term itself or the ways in which it ought to be practiced. The Western world's sense of governance, derived from Greco-Roman philosophy, adapted by the ideas of the Enlightenment and translated into national form through the French and American revolutions, rests primarily on an agreed-on set of principles that are put into place through policies implemented and enforced by a government with checks and balances. Protecting and perpetuating the ideals of life, liberty and the pursuit of happiness are at the core of this view of the purpose of governance.

Further, the role of governance, which by etymology is meant to guide or steer, seems little understood and often not respected. In the realm of family governance, much of the conversation is dominated by discussions of family dynamics and communication—which aren't governance per se. Further, joint decision making, alone, isn't governance though that's widely considered to be the case. Decisions must have a direction in which they're headed and must be held together by a guiding set of principles. The characterization of family constitutions, councils and the like as akin to "products" to be bought and consumed by clients only adds to the confusion.

What We Learned

The events of 2016 showed us that the process of governing, and governance, profoundly impact the direction that a group—family, nation or global community—is heading. For family businesses, the result of uncertainty as to direction can lead to business, financial and emotional challenges that can either bring families closer together or rend them (and their businesses) apart. As we look ahead, one can only hope that family businesses, as well as the larger groups in which they operate, can enter 2017 by explicitly revisiting the fundamental questions—what is governance, by whom, for whom and for what purpose? We sorely need to explore those questions and help all parties find a way forward that's less tumultuous than 2016 has been. 

Endnotes

1. See Patricia M. Angus, "The Family Governance Pyramid: from Principles to Practice," Institutional Investor, *Journal of Wealth Management* Volume 8, No. 1 (Summer 2005), <http://angusadvisorygroup.com/resources/>.
2. See <http://fbngcc.org/>.