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Family : Business : Environment

Code G

Governance Guide for Families and their Businesses

: Growing the family business

CONTINUUM
Vertraut mit Familienunternehmen.

PRAGER DREIFUSS

Name
Date

Checklist for Good Governance in Family Businesses

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Checklist for Good Governance in Family Businesses

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Good Governance covers the rules and mechanisms for making decisions in families and their businesses. This regulatory framework for management and control is intended to identify the needs and expectations of the family (the internal dimension), the company and important stakeholders (the external dimension) to promote clear and optimal conditions.

This guide helps to determine the power, management and control structure for the family (family governance), the company (corporate governance) and their conduct towards external stakeholders (public governance). Best practice, parallel and open decision making processes within the family first and then the company, as well as transparent communication, reinforce certainty and trust within the family and the company to increase external credibility.

How to manage the family business?

:

A better way to ask this question might be – how to manage the family? The probability is that the business is managing quite well or the issue would not arise. We all know the three generational warning – makes it, keeps it, loses it! But there are families who do better and we can learn from them.

Every business needs management, both for itself and the outside world. The difference with the family business is that it must contend with the family as well. The purpose of this guide is to show how the family can actually be an advantage and to provide some of the tools to help make it so.

After all, the family business enjoys some inherent benefits

- A small base of manager-owners means fast decisions.
- Family shareholders are more likely to take a long-term view than financial investors.
- The family ethos can be realised and shared within the business.
- The business has access to the capital of the family and its members.

The keys to success are consensus and communication within the family. Some members will be managers and some owners, and they need to know the difference. Tensions will inevitably arise with the business or within the family. And those possibilities need to have been anticipated long before they surface.

Structures, however elegant, require understanding and acceptance. Members of the family will have different talents and roles, and it is just as important to know how to be a good beneficiary as it is to have able trustees.

Our equation has three elements – the family, the business, and the environment in which they evolve. All need managing, the family as much as the others. And, whilst never too late, it's never too soon to start planning.

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1
Introduction

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1 A long-term perspective, rapid decision-making processes and the high importance of personal ethical values are characteristics of most family activities and businesses. For them, shareholder value and the interests of the stakeholders are inextricably interwoven. On the other hand, family businesses face additional challenges due to the interaction between the company, the family and its business environment.

2 Normally, family businesses are able to react quickly, as their capital, ownership, values and decision-making are controlled or determined by the family. In order to exploit this management advantage, rules based on communication and consensus are required within the family which lay down a clear framework for the management of the business. Transparent governance (corresponding to the sum total of family, corporate and public governance) reduces internal tensions and increases external credibility. The present guide is a translation of the original German version of this guide and provides Swiss expertise and recommendations on how to meet this threefold challenge: managing the *family* (family governance), managing the *company* (corporate governance) and dealing with the *business environment* (public governance).

3 As a first step, the family must be clear about its own intentions:

- Who are the real members of the family?
- What is the relationship between family members?
- What financial interests is the family pursuing?
- What values do the family members have?
- What role does the company play within the family?
- What role does the family play within the company?
- Do company interests take priority over family interests?
- What are the consequences of either decision?

These basic family decisions constitute the foundations for the strategy of the family business.

4 The guide was conceived by Swiss experts Dr Leonhard Fopp (corporate management) and Dr Tis Prager (legal affairs) – compiled by a small working group led by Julia Bhend-Rutishauser and Dr Julia Szemerédy, Attorneys-at-Law. They wish to thank for the suggestions they have received from a panel of experts with members from the business community, family businesses, academia and trade, all of whom have made valuable contributions to the drafting of the guide.

5 "Code G" stands for a codification of important principles of best practice in family and corporate governance. This guide is intended to show family members and business officers how to use specific measures to increase their professionalism to secure ongoing profits. The recommendations are intended first and foremost for medium-size and large companies run by private shareholders. Code G is valid for all family businesses, whatever their legal form. However, special local legal requirements may have an impact.

6 In the following chapters, our recommendations are highlighted in a box at the start of the corresponding section.

7 The implementation of these recommendations will create a clear ownership structure, trust and identity in the family, the management and the staff. They can therefore form the basis for long-term success.

In the following chapters, the recommendations are always highlighted in a box at the start of the corresponding section.

2 Advice on implementing the recommendations

8 In order to implement the recommendations, you have to know where you are starting from. It makes more sense to work this out at a time

- when family relations and the business are going well,
- and before a change of generation.

On this basis, the planning work can be carried out without time pressure and any necessary structural or legal changes can be implemented at the family's convenience.

A three step procedure

Best governance in family businesses must be implemented in stages.

1 Identify expectations and opportunities, assess the possible consequences

2 Agree on the basis for making plans

3 Carry out changes to the structural and legal conditions

Best governance must be structured from the inside out.
First of all, the "personal/inner dimension" must be clarified, the need of the family and what is actually possible as well as the consideration of the consequences for the family and the business.

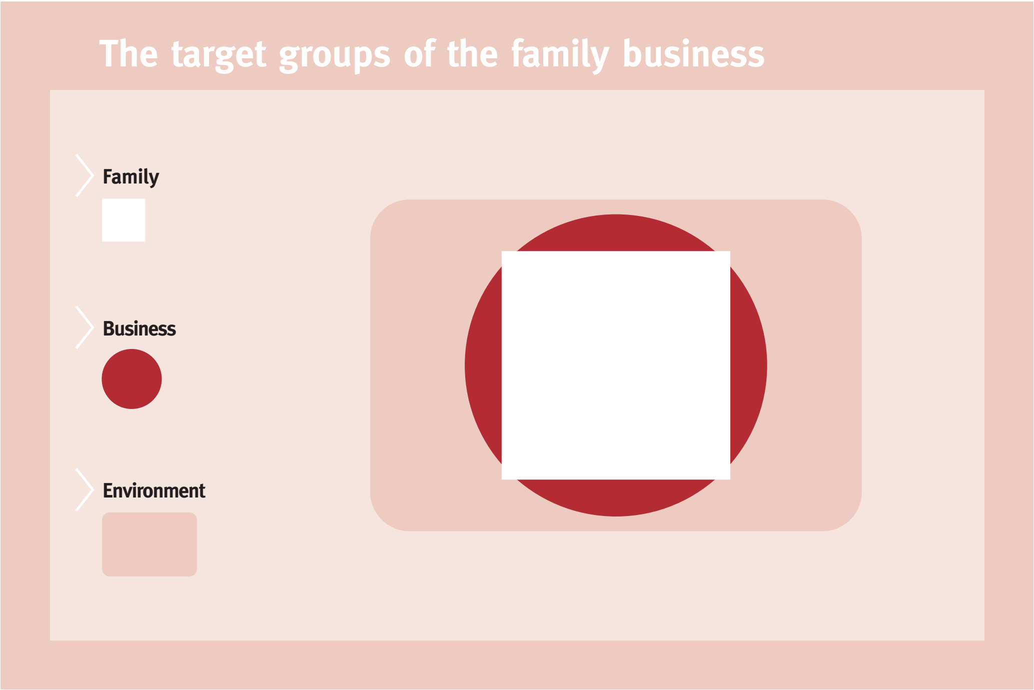
It is important to instrument and document the process of change adequately.

A timetable will show how the range of instruments is being applied in the various target groups.

3
Family businesses and the players involved

9 Family businesses operate in constant tension between the family, the business and their environment. Through the intelligent management of the various expectations, success can be perpetuated and possible conflicts anticipated. This requires clear priorities and a fundamental and honest decision on whether "business first", "family first" or "me first" – an attitude often encountered among company founders – or a compromise between these extremes should apply. When making this decision, the family must be clear as to the consequences for family and company.

10 The guide differentiates between three target groups: the family, the business and the environment.



3.1 The family

11 Depending on function and the possibility of exerting influence, the following family members can be identified:

– family members active in the management of the business;
– family members active in a supervisory role;
– owners or family members having a stake in the business;
– the extended family, which includes persons in addition to the family members who are involved and active in the running of the company, such as their spouses, potential heirs, the generation that has already retired or the generation that will follow.

In practice, family members often have more than one role, for example owners who are both involved in executive management and who have a seat on the board.

3.2 The business

12 The players in the business are the shareholders, the board of directors and the executive management.

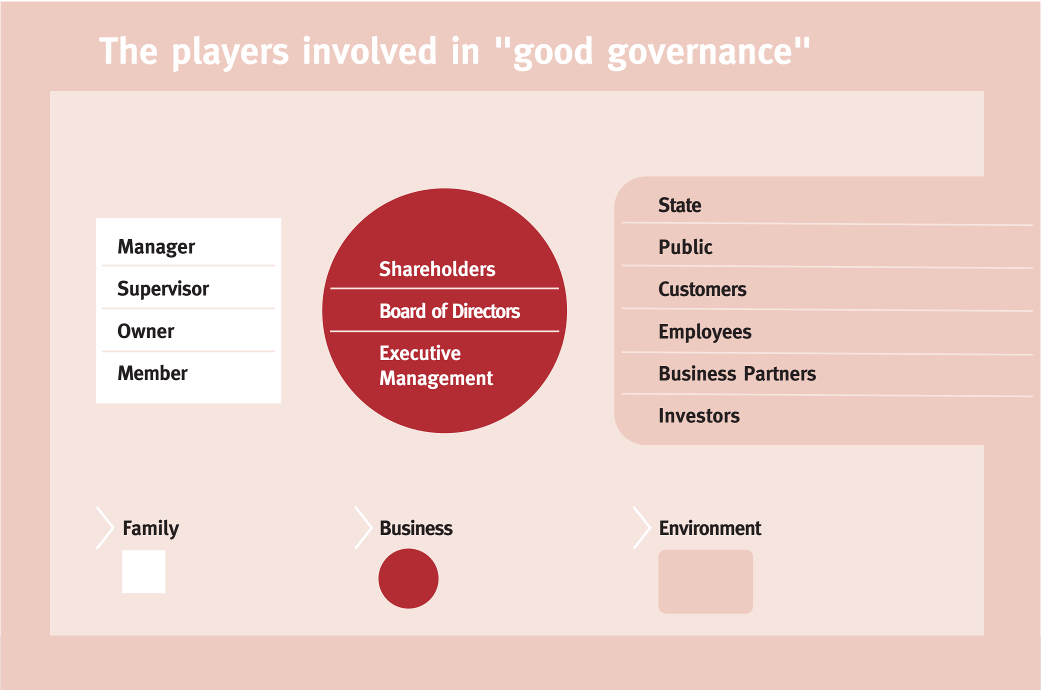
13 Depending on the degree of influence of the family on the business, a general distinction can be made between owner-run, family-run and family-controlled businesses. In addition, there are hybrid forms with external managers. In the event of an overlap of roles and with the increasing size of the family business, the clear distinction between the strategic and the operational management becomes crucial.

3.3 The business environment

14 The third target group includes employees, customers, investors such as banks and financial institutions, business partners, the public and the state. Depending on the situation and the business sector, additional players (or even fewer players) may be relevant. Credible business management takes account of the different interests and is characterised by being client-oriented, financially sound while keeping the interests of the employees, the business and the business environment in mind.

3.4 Overview of the players

15 Here is an overview of the relevant players:



4 Challenges for the family: Family Governance

16 *Family Governance* deals with the control mechanisms within the family. The need for guidance and control mechanisms varies depending on the degree of influence of the family on the business (see Section 13).

17 Clear regulations protect the business against some family members' desire for power and prevent persons outside the family from acquiring family wealth. They ensure the required stability within the business.

4.1 Family charter

The family charter contains the family goals and values as well as the instruments for achieving or implementing these. Principles for dealing with any minority group are an important element of the family charter.

18 Family values, behaviour patterns and preferences are constantly changing and are normally heavily influenced by a small number of persons who are active in the family business. This system of values is laid down in the *family charter*. Depending on the circumstances of the business and the family, it may be a good idea to draw up the family charter in writing. It contains the fundamental decisions that the family has made with regard to the family business:

Family goals:

- What does the family want to achieve? Increasing the value of the business and of the family wealth, realisation of personal ambitions, exploitation of an invention, employment opportunities for family members?
- Who should be actively involved in the business, how, and in which phase? What is the family attitude to the involvement of persons from outside the family (as managers, outside investors as private placements or private equity investors)?
- Who should be eligible to benefit from the success of the company and how?
- What expectations does the family have with regard to the development of the business? What are the expectations regarding financial independence, distribution of dividends, ability and readiness to make further investments, investments in the growth of the business and the development of market shares?
- What role should the family have within the company? Commitment to and participation of the family in the management of the business; dual mandates; criteria for appointing the managers; preference shown to family members? Which body makes which decisions and how?

- What is the family's attitude to the funding of the business? Should private equity or the capital market be used? What is the family's attitude to being dependent on outsiders? What are the consequences of self-financing? What are the consequences of high leverage?
- What role does the family play in the event of partnerships, mergers, takeover bids or in crisis situations?
- How is the financial ownership in the business structured (shares, preference shares, participation certificates, bonds, etc.)?
- What importance do the family businesses have as part of the overall wealth of the family?

Values of the family:

- What are particular sources of pride for the family?
- What values would the family like to uphold in the business?
- Which attitude, "family first" or "business first" applies (see Section 9)?
- What should be the corporate culture?
- What commitment should the family or the family business make towards the general public? Corporate social responsibility; sponsoring, etc.
- What are the quality expectations of the family with regard to service?
- Is quality more important than quantity or vice-versa?

Instruments: How does the family intend to achieve its goals and stick to its values?

- How should the family be organised?
  Composition, organisation and duties of the family meeting and of the family council (see Chapter 4.3); inclusion of the next generation?
- How are decisions made? How can the family charter be changed?
- Who decides on the salaries and other payments made to family members who are active in the company?
- How is information passed on within the family? How is information passed on to the business world (see Chapter 4.4)?
- How should succession be organised (see Chapter 4.5)?
- Is there a "crash" plan, an emergency mechanism, in the event that the person in charge is suddenly unable to lead the business?
- How are disagreements resolved? What happens in the event of an abuse of authority by a family member? Who has the final say? How are stalemate situations resolved?
- How should family members be treated if they are among a minority or want to leave the company?

19 The family charter serves as the basis for the *corporate vision*, which should be drawn up by the executive management and the board of directors of the company (see Chapter 5.1). The family must be aware of the consequences of this fundamental decision.

20 It is important to communicate and discuss the family charter within the family constantly. The family charter should be revised regularly, for example every five years. The family priorities, the history and the roots of the business and its future can in this way be made clear and passed on to the next generation.

4.2 Wealth strategy

A wealth strategy ensures the survival of the family assets and properties. It allocates the family estate to various investment fields. The commercial assets must be kept separate from other assets.
The strategy includes measures which allow individual family members to leave the company (exit strategy).

21 The optimum structuring of the entire family wealth takes account of the personal developments, needs, assets and risk trends of the individuals involved. With a clear *wealth strategy*, a change of generation can be planned and made easier. It allocates the family wealth to a variety of investment fields (companies, financial participations, real estate, securities, residences, art collections) and defines the future policy for each investment field. The family business should suffer as little as possible as a result of the death of family members, matrimonial property disputes or taxes.

22 The chosen individual investment fields should as far as possible remain independent of each other. The family wealth must, where this is feasible, be kept separate from commercial assets: no real estate that is not needed for business operations, salaries paid to working family members must be in line with market rates, no private credit guarantees or letters of comfort in favour of the company, and an independent liquidity management for the company.

23 The wealth strategy will ideally be discussed and approved by the family council (see Chapter 4.3). In order to avoid conflicts between the various interests, the principles should be established as early as possible.

4.3 Family reunions and family council

Transparency fosters trust. The family reunion is a body comprising the entire family, to which regular information on the company and its development is provided. The family council is a committee formed from the family reunion that institutionalises cooperation in large families and forms the link between the family and the business. The family council approves the family charter and the wealth strategy and reviews these periodically. Decisions follow an open discussion and consultation with specialists.

24 In families of a certain size and complexity, the establishment of family reunions and, if need be, a family council is to be recommended. Family reunions and family councils are successfully established if they reflect the natural development of the family without pressure being put on the younger or the older family members.

25 The *family reunion* is the body comprising the entire family. The group making up this family meeting must be specified in the family charter (see Chapter 4.1). Depending on the situation (see Section 11) and family tradition, the reunion will not only involve the direct owners of the business, but also spouses, children and grandchildren and their spouses as well as the generation that has already retired from the business. A decision must also be taken on the age at which children will become part of the family reunion.

26 In this family meeting, information will normally be provided on ongoing business, important events and the future development of the business. The business owner must first of all decide on the extent to which the financial situation and business developments should be disclosed. Here both good and bad news should be delivered. Initially, the meeting can be conducted informally. The early involvement of the future generation will encourage an understanding for and identification with the family businesses.

27 The most important function of the family reunion is to provide a forum where the family charter and wealth strategy may be discussed. Which additional decision-making powers should be accorded to the family reunion must be laid down in the family charter. Rules must also be established on how decisions are to be made.

28 In larger families, it is recommended that a committee be formed from the family reunion – the *family council* –, which will take on the task of organising and running the family reunions. The family charter should specify the exact composition, the duties and the decision-making procedure for the family council.

29 The family council is most sensibly composed of the direct stakeholders in the business and the family members who are actively involved in the management of the business. In addition, it is advisable for the future generation and, depending on age, at least for a certain time the former generation to be represented. The *chair* of the family council should be occupied by an experienced member who is widely trusted within the family and who is a good communicator. In order to encourage an open discussion, this should not be the CEO of the company, particularly, if various generations or family members are involved.

4.4 Information and communication

The family should formulate a communication policy to ensure an honest unbiased exchange of information.
Family policy decisions are communicated while protecting trade secrets internally and externally.
To provide the family business with a positive public image, additional issues must be defined and actively communicated, but nonetheless safeguard the family's privacy.

30 The basis for good family governance is active and honest information about important events and changes in the three target groups. In smaller families, this communication may well take place at the dinner table. In larger families, family letters or regular family meetings, for example, may also make good sense.

31 Informal and formal forms of communication should complement each other. It is important that family members deal openly with each other and potential conflicts are discussed as early as possible. This applies in particular to differences of opinion within the family, in the case of imminent decisions on succession or when there is a change in the person in charge of the business.

32 The family members should try to take account of differing opinions, criticism and new ideas in the decision-making process. In the case of serious conflicts in complex situations, meetings can be chaired by an external chairperson or mediator. This allows differences of opinion within the family to be discussed fully, without them coming to the attention of the general public.

33 The family businesses should maintain a positive coherent image in public. By communicating major decisions by the family to the public, the business increases its credibility and wins the trust of the general public. Examples of major family decisions include discussions on shares being held by outsiders or the sale of the business, or the planning and implementation of succession.

4.5 Bringing successors into the business and the handover of the business

Possible successors from within the family must be actively included in the development of the business.
Candidates from within the family are subject to the same requirements as external applicants. It is preferable if they gain experience outside the family business.
The owner of the business should hand over responsibility to the next generation in good time: the successor will then be able to prove whether he or she is ready to take on the task of management.
An emergency plan regulates the responsibilities and decision-making processes in the event that the owner of the business is suddenly unable to lead the business.

34 Guaranteeing succession requires a great deal of care and must be tackled at an early stage in order to prevent unpleasant surprises and the need for unstructured emergency solutions.

35 The family should create the prerequisites for the active involvement of the next generation through upbringing and education. By setting an example, parents can engender a positive attitude to the family business among their children. By familiarising them with the history of the business and talking openly about current developments, parents reinforce identification with the family business.

36 In order to become part of the family business management, the same requirements apply to family members as to external applicants. The applicants must be qualified for their position. In the family charter (see Chapter 4.1), clear rules must also be laid down for a situation in which two or more family members hold the required qualifications and want to take over.

37 Contracts of employment with family members should not differ from those with external employees. If the work done is inadequate, the standard mechanisms should come into play. It is recommended that an age limit be specified at which family members are required to stand down from management positions or from the board.

38 In the family charter (see Chapter 4.1), the principles should be laid down as part of the succession planning on who may become or remain involved in the running of the business and how shareholder interests and management responsibilities may be combined. The ownership of the business should not become fragmented if at all possible. The business is easier to run if responsibility and ownership are combined. But even then, adequate control mechanisms and the access to external expertise and practical experience of business management remain important, and can be achieved, for example, by appointing independent members to the board.

39 Clear agreements (e.g. shareholder agreements) are important in order to regulate dealings between the majority and the minority. It must be decided when and how family members can exit as shareholders and how the company is to be valued. This is of special importance in the case of the distribution of the estate of a deceased family member or in the event of divorce. It is sensible to ensure that prenuptial agreements and agreements on succession are in place and that wills are made.

40 The family should have a plan for the event that the head of the business is suddenly incapacitated: who takes over in the short and medium term? Which body makes the decisions? How should the succession process be designed in specific terms? If no internal successor can immediately be found, could an experienced member of the board take over the running of the company temporarily?

5
Challenges for business management:
Corporate Governance

41 Family businesses should certainly be in a healthy and vital condition. An important contribution to this is made by the carefully planned appointment and renewal of the executive management and the board of directors, the adaptation of the business strategy, the structuring of the business to future requirements (holding company, corporate units, operating companies), and taking advice from experienced specialists. To achieve this, far-reaching decisions are often required, such as those on the following questions: what business activities should be suspended? Should investment be made in an international operation? Must another business be bought for this purpose? Is a holding company needed? What are its benefits? What is the future logic of the business processes? What should be outsourced to third parties? How should the growth of the business be financed? Should an active board of directors with external members be appointed? These complex questions often give rise to conflicts. They have to be discussed openly, while weighing up all the consequences.

42 It is possible that a conflict between family interests and corporate needs will arise. This may occur, for example, if the family is unable to finance the required growth or no longer wants to run the company independently. In such cases, the family must be prepared to bring in suitable executive management and/or members of the board from outside the family and if need be to accept financial contributions from third parties. In addition to conventional borrowing from banks, in family businesses private equity (private equity capital in the form of shareholders' equity) and special modern forms of finance (e.g. mezzanine, i.e. a mix between own and borrowed capital) are increasingly being used (see Chapter 6.3).

43 The basic decisions on these issues must be incorporated in the family charter (see Chapter 4.1) in order to lay down the general conditions for the business strategy. In emergency situations, reference can be made to these rules. This spares the family stressful and debilitating disputes.

5.1 Vision and strategic orientation

Corporate vision and business strategy specify the priorities of the company. They are based on the family charter and the wealth strategy.
In order to ensure the credibility of the company, independence and autonomy are very important.

44 An actively cultivated, visionary family spirit is the basis for the successful strategic orientation of the business. Well-run businesses build on the family's objectives as set out in the family charter and in the wealth strategy (see Chapter 4.1 and 4.2), and put the family's entrepreneurial vision of the future operational development into specific terms. Key ethical values and operational principles are anchored in a *corporate vision*.

45 Based on the corporate vision, the executive management, in cooperation with the board of directors, develops the *business strategy*. This strategy integrates the business plan, which takes account of the available financial resources and indicates the need for any additional financing. The situation must be reviewed at least once a year. What is important is that the business strategy and the business plan are documented consistently and that they are communicated suitably to the management and staff.

5.2 Structures and bodies

Devising the structure of the business requires special attention.
The organisational regulations should lay down clear responsibilities and decision-making powers.

46 The structure of the business is an important factor in safeguarding and propagating family and corporate values. An intelligently planned business structure can first of all facilitate further further operational growth and it can also prevent a one-sided concentration of wealth. The *organisation concept* and the basic decisions relating to it must be laid down in writing.

47 Rules for decision-making, along with rights to information and the responsibilities of management and other bodies should be stated clearly in a set of *organisational rules*. The aim must be to achieve the equal treatment of those involved in management, whether they are members of the family or not. The organisational rules should be reviewed each year and revised if need be, with clear notice being given of any changes.

5.2.1 Board of directors

The board of directors is actively responsible for the overall management of the company and ensuring a secure future for the company.
The composition of the board of directors depends on the size and complexity of the company and of its structuring. The appointment of members from outside the family to the board ensures that impartial decisions are made.

48 In many family businesses, there is a substantial concentration of power, as in many cases the main shareholder is simultaneously the manager of the business. Accordingly, the role and choice of members of the board has a special significance, especially in phases of growth and when a change of generation is imminent.

49 The duties of the board of directors are mainly regulated by law. The sphere of responsibility of the board encompasses in particular the strategy, structure and organisation of management, the information and control systems, and the appointment and supervision of executive management. The board should also devote serious attention to long-term succession planning at senior management level.

50 The composition of this body is governed by the complexity and structure (holding, distribution, operating or property companies) of the company: as small as possible, as large as necessary. Members who are not at the same time family members but who have key skills that complement the skills of the family members are indispensable in ensuring an impartial decision-making process. The board of directors should regard itself as the sparring partner of the executive management.

51 Ideally, a majority of the board should be non-executive members. If the position of chairperson of the board and CEO cannot be occupied by two persons, or such separation is not desired, effective control mechanisms must be put in place. In smaller companies, a member of the board may also take on executive management duties at operational level.

52 The board of directors should meet regularly. Each member of the board may be entrusted with responsibility for one aspect of management. All the members, however, are jointly responsible for the overall management at all times. In order to improve efficiency, larger boards should form special committees or appoint individual representatives. Depending on the size of the company and complexity of its tasks, special committees or representatives for auditing, strategy, finances and personnel/remuneration issues are common.

53 The *chairperson of the board* is responsible for providing the other members of the board regularly with up-to-date information on business developments and the financial situation of the company. He or she is the contact person for the executive management and the family council. In addition, the chairperson has to ensure that the shareholders receive appropriate information at the right time.

5.2.2 Executive management

The organisational regulations lay down the general conditions for the operational management, which is carried out by a single person or by a team.
The aim must be to treat all managers in the same way, whether they are family members or not.
The family has no authority to issue direct orders to the executive management.

54 The executive management is responsible for the operations of the company. If required due to the size of the company, a team can take on the role of the executive management. The *organisational rules* stipulate the basic areas of responsibility, powers and duties of the members of the executive management, as well as the delineation of its duties and powers from those of the board of directors.

55 The family must not issue direct orders to the executive management. The involvement of the family in the company is based on the general conditions set out in the family charter (see Chapter 4.1). The interests of the family in relation to the development of the company can also be asserted through the family council in the course of its regular meetings with the president of the board.

5.2.3 Shareholders

The board of directors and the family council should actively involve the shareholders.
The board of directors should ensure that the shareholders have all the information they require to make their decisions.
The active and the future generation should agree on the composition of the shareholder group and on conditions for becoming or ceasing to be a shareholder.

56 Shareholders make a long-term commitment to the company and have a keen interest in maintaining and indeed increasing the value of the business. They must be given sufficient information on how the business is going and on the development of the company in order to be able to assert their rights and comply (in the case of listed family companies) with the regulations on insider dealing. There should be a regular exchange of information among shareholders, the board and the executive management. This can take place at official meetings, by means of electronic channels (e.g. e-mail and conference calls) or through written forms of communication.

57 The active and the future generation should agree on the composition of the shareholder group. In this way, they will avoid conflicts and impasses among the owners (for example between two siblings). A clear-sighted structuring of wealth with the help of a shareholder agreement or other measures can help to ensure that the company is free to act and can maintain peace within the family (see Section 38 ff.).

5.3 Management systems and instruments

A strategic and operative reporting system, adapted to the company's needs, is essential for the proper management of the company.
The board of directors should approve clear regulations on the system of remuneration for the executive management and the members of the board of directors.

58 Decisions require systematic preparation. The executive management must guarantee that clear, relevant and up-to-date information is given to all concerned. The most important target groups and their stakeholders must be provided openly with information through regular institutionalised meetings and other information media.

59 The board of directors is responsible for the assessment of risks and, working with the executive management, must conduct a systematic risk assessment at least once a year. This should pinpoint any risks to the company, and proposals for solutions must be discussed. In addition, the company's reputation must be scrutinised and any reputational risks highlighted. Executive management should regularly assess the current risk situation and inform the board of directors of any unexpected changes.

60 Key figures, whether financial or non-financial, should be compiled every month and submitted to the board of directors and the executive management. The reporting system must be adapted to the company's circumstances.

61 The *remuneration systems* for the executive management are approved and supervised by the board of directors so that there is a congruence of goals when it comes to corporate and personal ambitions. In relation to performance-based salary elements, long-term factors should serve as the basis for assessment. As regards the salaries paid to the members of the board, it is advised not to offer short-term incentives and to maintain the independence of external members.

62 The job of supervising compliance with the relevant legal regulations must be assigned to a Compliance Officer who is a member of the executive management. The responsibility for this remains that of the board of directors.

5.4 Corporate culture and motivation

An actively pursued corporate culture makes an essential contribution to the long-term success of the company.

63 The corporate culture can be defined as the totality of the shared values, standards and attitudes that characterise the behaviour of the employees of the family business both within the business and outside the business. In this sense, the corporate culture has the effect of determining how company managers and employees behave and perform, identify with the company and portray it to the business environment.

64 The corporate culture is primarily shaped by the top executives. The principles of leadership set out in the corporate vision (see Section 44 et. seqq.) should be pursued consistently.

65 The company should create structures that enable the advancement of all its employees. Within the company, substantial value should be attached to the constant and concerted pursuit of the best possible performance, to an atmosphere of mutual trust and to irreproachable business ethics. The careful cultivation of a good working atmosphere encourages loyalty and a sense of responsibility among the employees. Satisfied employees perform better. This makes a major contribution to customer satisfaction and thus to the success of the business.

5.5 Requirements for the key people

"Good business management" requires key people who are competent, committed, open, honest and reliable.
The business strategy must be implemented by persons with suitable professional and personal qualifications.

66 The key people must try to satisfy and take appropriate account of the differing expectations of the various persons concerned with the business. Their professional and personal qualifications are decisive in securing the company's future. A preference for family members or compromises made in their favour must be avoided. The mere fact of holding shares in the company should be no guarantee of a management position.

67 Regular assessments of the management staff will identify any weaknesses in the management team. Based on feedback mechanisms, important measures to ensure the future of the business can be introduced in good time, if need be even if they are contrary to the interests of individual family members. The members of the executive management and of the board of directors should attend professional development courses that meet the requirements imposed on them.

5.6 Change of generation

Succession planning must be given a high priority at an early stage.
The internal or external candidates must have the qualifications required to manage the family business and enjoy broad acceptance among the family, the executive management and the employees.
It is important that the successor is allowed the scope at the right time to bring in his or her ideas.

68 A change of generation at the top of the company is often underestimated as regards its importance and complexity. In most cases, it is a time-consuming process that is fraught by emotions. The decision on succession must be taken at the right time and must reconcile the interests of the family and the board of directors. The decision is taken by the board of directors. It bears responsibility for a smooth changeover. An unproblematic succession should be concluded well within a period of five years, from making the decision to handing over the reins to the successor.

69 A change of generation normally involves a change of management style and the introduction of new ways of thinking and proceeding. In planning and implementing the change of generation, the required freedom must be afforded to the following generation. The new head must be allowed to learn the ropes carefully and must be given a great deal of support and training, particularly in the initial phase. Responsibility should be handed over gradually, in order to ascertain whether the successor is up to the job. In this form of takeover process, experienced members of the board must be relied on to provide the required objectivity.

70 The CEO has a decisive influence on the future of the company. When it comes to his or her appointment, therefore, a compromise in favour of a member of the family should be avoided. Based on detailed criteria, the most suitable candidate should be selected (if need be with the assistance of external specialists). Where there are two or more suitable applicants, a family member should be given precedence. What is important is that the successor enjoys the trust of the family, the executive management and the employees.

71 Consideration within the family of possible candidates for a successor cannot begin soon enough (see Chapter 4.5). Allowing the succeeding generation to become informally involved with the company in their youth has shown its value. Successors must prove themselves as managers in other businesses before they may be nominated.

6 Challenges in dealing with the business environment: Public Governance

72 Today, companies rely on close cooperation with the various stakeholders in their field of business. After all, these participants mould the relevant economic development and social climate. As a result, the companies bear a responsibility that goes beyond the confines of the business which covers social and ecological matters in addition to the direct interests of the business.

73 The external commitment of the company (corporate social responsibility) should be defined in an *external environment concept*. Where appropriate, the company's own attitude to the various parties involved should also be included in the family charter, the corporate vision and strategy documents.

6.1 Customers

In the interests of long-term profitable relations with customers, customer satisfaction should be regularly assessed, reviewed and a decision made on any need for action.

74 Customers are the lifeblood and *raison d'être* of any company. It is vital to know your customer and to take especially good care of good customers. The present and future success of the company depends on their satisfaction. Regular surveys or customer forums allow checks to be made on the level of acceptance of the current range of products and services, of changes in what is on offer, in the services provided, in the sales process or in the information provided, and allows decisions to be made on any need for action.

6.2 Employees

A smooth internal line of communication between management and employees ensures the distribution and exchange of relevant information.

75 In smaller businesses, the employees have direct access to the management, and staff and managers normally know each other personally. Once a company reaches a certain size, this is no longer possible and the safeguarding of employee interests must therefore be institutionalised. Depending on the size of the company, the use of suitable forms of communication, such as newsletters (printed or online), company magazines or intranet pages can be recommended. Also proven to have a positive effect are informal information exchanges such as working breakfasts, "Friday drinks" or monthly meetings, where the management makes itself personally available for a discussion and thus increases trust within the firm.

76 Transparent and regular information about the state of the business increases the trust that employees have in the company, the family and the executive management. This creates an atmosphere in which employees can make better use of their skills for the benefit of the company.

6.3 Investors

There should be a basic understanding of the possible benefits of using external financing partners as well as of the consequences of working with such financing partners.
Cooperation with external financing partners requires a conscious decision.
The financing partners should be accepted as suppliers of information, allies in constructive discussion and candidates for participation on management boards.

77 In the case of rapid growth and in times of change, family businesses might need external cash-providers. Here, in addition to traditional funding provided by company members and loans from banks, there is an increasing tendency towards financing by private investors, private equity or special financing.

78 Starting out on any cooperation with external financing partners requires a conscious and fully informed decision that weighs up all the consequences (see Chapter 4.2). With a growing number of financing partners, the need for information increases dramatically.

6.4 Business partners

Family businesses should feel responsible towards suppliers and other business partners and be committed to cooperating with them in a spirit of mutual trust.

79 In our interlinked business world, no company can get by without actively cultivating relations with suppliers and trading partners (distributors). When focusing on the company's own core capabilities, opportunities should be considered for outsourcing activities or for developing additional activities.

6.5 The public

The company must demonstrate an active concern for the public and the environment. Information and reporting on economic, social and ecological performance can boost the long-term success and reputation of the company.

80 The company should always take care to safeguard its good reputation. For the general public, the company's overall image is important. In addition to the company's economic performance, its social and ecological performance is of interest. If health and safety measures in the workplace are encouraged, people with disabilities integrated, the continued professional development of employees made possible, flexible methods of working introduced, the environmental impact reduced, attention paid to the ecologically sensible use of resources throughout the value creation chain, or investment made in sponsorships and other contributions to the public good, such measures should be published through special reporting. They have a long-term positive influence on the success of the company.

81 For charitable or special community services outside the company, it may make sense to set up a special organisation (in particular a trust) that is independent of the firm.

82 The transparent communication of the most important economic, ecological and social goals and results – when times are good and also when they are not so good – increases the trustworthiness of the company. As a result, transparent companies normally have a better standing, not only with external financing partners and with clients who are aware of their circumstances, but also when it comes to recruiting suitable employees, not to mention with the media, professional associations and government authorities. If applicable, specialist support from external advisors should be obtained.

83 Consideration must be given to the fact that information provided by the company also amounts to information about the family; this is especially a challenge if the company name contains the family name.

6.6 State/Associations/Professional organisations

Family businesses should safeguard their own and overriding interests by means of political commitment, memberships, as well as active lobbying in professional associations and trade federations.

84 Legislation and regulations limit the space that companies have to manoeuvre. It is preferable for family businesses to safeguard their interests vis-à-vis the responsible politicians and authorities via relevant associations and trade federations as well as through direct contact in specific cases. Those with an interest and suitably qualified employees can participate actively in professional associations and political bodies.

85 Export-oriented businesses must respect the rights of the countries from which their products originate or to which they are supplied as well as the economic areas of their trading partners. They can also safeguard their interests via suitable organisations. Family businesses need adequate insurance cover to protect themselves against the growing complexity of corporate activity and the resultant increase in the risk of liability claims.

Glossary

Board of directors	Is actively responsible for the overall management of the company and ensuring a secure future of the company.
"Business first" **"Family first"** **"Me first"**	The attitude "business first" means that the interests of the company take precedence over the interests of the family; with "family first", the opposite is the case. The attitude "me first" places the interests of the person concerned solely at the forefront.
Compliance officer	Member of the executive management who supervises compliance with the relevant legal regulations.
Corporate social responsibility	Corporate social responsibility (CSR) is defined as corporate actions that are in the interests of the public and which go beyond the actual business operations of a company. Normally this involves the activities and commitments of the company that relate to the environment, culture, social projects, sponsorship, charitable donations, etc.
Corporate vision	The corporate vision specifies the strategic priorities of the company. It is based on the family charter.
Executive management	Is responsible for the operational management of the company.
External funding	External funding methods are for example loans from banks, private placements, private equity and modern special financing (e.g. mezzanine, i.e., combinations of the company's own and borrowed capital).
Family business	Family businesses refer to companies in which the family is the controlling shareholder and/or exercises a decisive influence over the executive management or the board of directors with regard to the strategic and/or operational management of the company. *Code G* also applies to private companies whose shares are held by a limited number of shareholders.
Family charter	Contains the family goals and values as well as the instruments for achieving or implementing these.

Family-controlled company	Company in which persons from outside the family hold the top management positions and the family controls the development of the company from within the board of directors.
Family council	Is a committee formed from the family reunion that institutionalises cooperation in large families and is the link between the family and the business
Family governance	Family governance concerns the organisation and the control mechanisms in the entrepreneurial family.
Family reunion	A body embracing the entire family, to which information on ongoing business, important events and future developments is provided.
Family-run company	Company in which a team of various family members runs the business.
Owner-run company	Company in which one person (the owner) has control or is solely responsible for the management.
Public governance	Public governance in this guide covers the mechanisms to control the interaction between family, company and those in the business environment/ general public.
Shareholder agreement	A shareholder agreement regulates relations among shareholders. It sets out rights to purchase and rights of pre-emption, takeover rights, how shareholders are admitted to and leave the company, voting and proxy regulations and the valuation of the company in the event that a member leaves.
Stakeholders	The concept of *stakeholders* takes into account the legitimate interests of third parties (such as suppliers, customers and employees) accepting the associated cost in favour of sustainable profits.
Wealth strategy	Enables the growth of all the family assets and properties. It allocates the family estate to various investment fields and separates commercial assets from other assets.

The firms responsible for this project

CONTINUUM AG helps families in complex situations to sort out their specific difficulties and supports larger family businesses in their long-term development. As their sparring partner and method specialist, it helps them with the structuring and implementation of complex change processes. CONTINUUM partners are experts for increasing the firms' profits. They think and act like entrepreneurs.

As specialists in family businesses, the partners have the knowledge required to manage and support projects involving business change (strategic reorientation, structural renewal, management systems, talent development, performance improvement programs) as well as the required empathy with the company leader and his or her family.

They place the emphasis on systematic planning and prefer a "down-to-earth" execution. They assess the personal and operational challenges and devise the best suited solutions. If need be, they support corporate change by means of suitable project management, training and coaching.

Special services provided by CONTINUUM include the management of successions as well as drawing up family charter and setting up family councils.

PRAGER DREIFUSS is an integrated law firm, which provides its services through offices in Zurich and Bern as well as a branch in Brussels. The firm regards independence as one of the basic requirements for acting as a legal advisor and it therefore works with various specialised law firms in all the important markets. It offers its clients comprehensive and innovative solutions that are adapted to the legal and economic circumstances.

The 35 lawyers at PRAGER DREIFUSS advise and represent Swiss and international companies of all sizes in relation to every aspect of commercial law, as well as private individuals and families in personal and property matters. They support their clients as advisors or take over the coordination and the implementation of business ideas or transactions as the project manager for their clients.

Some of its lawyers have proven experience on the boards of Swiss companies. Others regularly conduct complex proceedings before the courts and administrative authorities, act as arbitrators or representatives in national and international arbitration cases or produce expert legal opinions. They also serve as trustees on the boards of important family settlements and foundations.

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